

## **HUD's Multifamily Accelerated Processing or MAP Guide Industry Briefing, Session 1, 1/21/20**

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Our HUD presenters today are as follows: Chris Tawa, Tom Bernaciak, Kevin Han, and David Wilderman. Now I'll go ahead and pass it over to Chris.

Chris Tawa: Thank you. Hello, everyone. I'm going to review first Chapter 2 and only really discuss the changes that were made in the MAP Guide that were different from a previous version. Chapter 2, as everyone knows, is the chapter that addresses lender compliance obligations to HUD, including processes for improving new MAP lenders, MAP underwriters, chief underwriters. And it generally goes into the lender's obligations. Next slide.

To start with Section 2.1.D, new limits have been imposed on new MAP lenders. New MAP lenders that enter the program must have their first three transactions reviewed and approved by HUD. They cannot access the full range of MAP programs until they demonstrate the ability to represent the program. Their initial transactions will be reviewed and, if acceptable, then they will be given the full authority of other MAP lenders. But this allows us a longer monitoring period to assure that the new MAP lenders are representing the program appropriately. Next.

This section allows for termination of MAP lenders for inactivity. A regulation has been in effect for more than 10 years addressing this topic but had not been fully implemented. Starting a year ago, the department did move to implement this and so that any MAP lender that does not submit a new MAP application within a 12-month period may be terminated from the program and then may not apply for reinstatement for 12 months.

We began this process a year ago when at that time there were 92 approved MAP lenders. Today as I speak, there are 69 approved MAP lenders. Having removed the others for the inactivity test, which will be performed after each fiscal year. Next slide.

In this section 2.4.C, we have extended the Identity of Interest, conflict of interest limits that currently apply to MAP lenders to their loan consultants, correspondents and mortgage brokers. This prohibits Identity of Interest side agreements, inducements, kickbacks in the relationship

between the borrower and the consultants, correspondents and brokers. A new written certification of compliance is required.

If otherwise a lender wishes to proceed with a affected consultant or correspondent or broker, they'll have to bring a request into the Counterparty Oversight Branch for review. We believe that this new provision eliminates incentives for misinformation to be brought into the lender, and it preserves the integrity of the MAP program.

2.8.D next. In this section, we now require 30-day advance notice of any lender mergers, acquisitions or license transfers. The lender should submit information to HUD for review at least 30 days before the transaction is consummated or lender sanctions may be imposed. There was a concern that these types of transactions would be consummated. We would learn about this in the industry press and then have to reach out to the lender for information. We're reversing that process, so now lenders must come to HUD first to bring us information before the transaction is consummated. Next.

This change simply eliminates references to underwriter trainings being provided by the MAP program. Those trainings have not been provided for quite some years, especially now after MBA instituted the underwriting program that they offer so that the MAP training, underwriter training provided by HUD was no longer deemed to be necessary. Next.

We have excluded from the slides any discussion of Appendix 2. That's because Appendix 2 was really just a re-editing and clarification. This appendix refers to -- provides further details on quality assurance plans and the requirements for annual review of those plans. We hope that this appendix now is more readable and more easily used by the lenders but otherwise no substantive changes to the appendix.

Now Chapter 15. Chapter 15 addresses lender oversight monitoring and enforcement. The chapter has a number of expansions, which I'll address right now but a word of caution. Some of what I'll describe to you will not be able to be fully implemented until the Counterparty Oversight Branch is better staffed. We are working on that now. But the limited staffing capacity will affect HUD's ability to implement some of what Chapter 15 lays out. The MAP Guide only comes around once every three years. So it's important to get the revisions in, and the implementation will take place as we are more able.

The first Section 15.2.1 clarifies the roles of the Counterparty Oversight Branch within the Multifamily Asset and Counterparty Oversight Division. This is otherwise known as the group that Kerry Clark [ph] leads. And this section simply clarifies the roles, responsibilities, and authorities for the Counterparty Oversight Branch. Next.

At 15.2.2 lists the types of data and reports. There had never been any formalization of the data and reports that was necessary by the Oversight Branch to be used for the review of lenders. We have now clarified that, and the information comes from other agencies and divisions from within HUD. Next.

15.2.3 sets forth in more specifics what will be the annual schedule for limited or full lender monitoring reviews. The intent is to notify lenders at the start of each fiscal year, which will be subject to a limited or full monitoring review during that time. And as stated, our ability to implement the fuller monitoring will be affected by the staffing and capacity of this branch within the Housing Division. Next.

This section clarifies who is in charge and who is responsible for issuing MAP sanctions or for referring lenders for an enforcement action. The previous guide was not clear on this. And now what we have stated clearly is that only the Counterparty Oversight Branch and the DAS are authorized to issue MAP sanctions. There's a -- the section provides more detail for how lenders are referred internally for an enforcement action and clarifies that only the director of the Office of Multifamily Production may refer lenders for investigation for an enforcement action. Next.

We now go into more details about the sanction enforcement measures. We have identified a new type of enforcement action, which is called the Letter of Caution. And Letters of Caution may be issued for relatively minor lender compliance violations or loan processing requirements that are not being met. These are intended to be corrective. So violations can be corrected without the need for an enforcement action. So this is our lowest level of violation and lowest level of notice. Next.

Our next level, and one which folks are more commonly aware of, is the Warning Letter. The Warning Letter is the notice of a enforcement action that has more serious consequences and may result in actual sanctions such as suspension or referral to Mortgagee Review Board. We have created a new section here with new enforcement tools that can be imposed along with the Warning Letter.

We have called those targeted enforcement measures. They can be imposed with the Warning Letter. It does not exclude or suspend the lender from the MAP program, but it may limit the lender's access to certain MAP programs. It may impose additional processing steps and reviews, may suspend some of the lender delegations that have been included with the MAP program over the past few years. And these measures may be imposed until the issues that resulted in the issuance of the Warning Letter have been resolved. Next.

This, again, is the complement to the reference that I made in Chapter 2 pertaining to lender termination due to lack of MAP program activity. Next.

We've clarified the criteria and responsibility for issuing suspension, debarment or Limited Denial of Participation of firms or individuals involved in the MAP program. Up to now, this could only have been imposed by the Departmental Enforcement Center, known as the DEC, unless certain delegations of authority were conferred. We have since the MAP Guide was published in the Federal Register those delegations, so now the Multifamily DAS has authority for imposing suspension, debarment or LDP sanctions without the DEC. Next.

This section now specifically describes the standard to be met for referral of a lender to the Mortgagee Review Board. The standard is taken from the language of the REG [??]. There is adequate evidence of serious violations of HUD requirements by a MAP lender. Referral to the

Mortgagee Review Board is obviously restricted to very serious cases and could result in suspension or removal from the MAP program. Next.

So that concludes Chapter 15 of some important new materials. And now I want to discuss briefly Appendix 15. This is all new material that was added to the guide. And Appendix 15 is our effort to create a taxonomy or rules of the road for MAP lender compliance, loan underwriting and application processing deficiencies. It's the first time the department has provided clear guidance about which compliance and underwriting and processing deficiencies may result in a sanctions or enforcement action under Chapter 15. And it's our effort to add transparency and accountability to the enforcement actions so that actions will not be seen to be subjective or ad hoc. Next.

In the first Section A.15.2, it discusses lender compliance deficiencies, primarily related to the obligations in Chapter 2 that are either of low or high severity for which a Letter of Caution or a Warning Letter may be issued, and sanctions may be imposed. And it attempts to categorize within either the low or high severity categories which actions might result in either the Caution or the Warning Letter sanction. Next.

A.15.3 carries the same concept over to the loan underwriting or application processing area in which deficiencies are identified as either low or high severities. And these deficiencies and underwriting are keyed into the five technical disciplines of MAP underwriting, which are listed and discussed in the appendix. Next.

And the last comment I'll offer on this is that all three of the sections, the two chapters and the appendix [inaudible] should be read together so that you can get a full appreciation of the range of important actions that the department may take in the MAP program and some of the new tools that we have included within the guide. Thank you.

Moderator 2: All right. Should we turn this over to Tom? Tom, do you want to get us started on Chapter 3? You might be on mute.

Tom Bernaciak: Can you hear me now?

Moderator 2: Yeah. I can. Yeah. Go ahead.

Tom Bernaciak: Okay. Good. All right. So this is Chapter 3, General Program Requirements. This, as you all know, consists of the general overarching underwriting requirements for all of the programs, and it also includes specific underwriting requirements for each of the SOAs. So let's start with the first slide.

So the first one is -- actually this is the second slide on it, but okay. Fine. There's the first slide, affordable housing. So what we've done is we've added income averaging as part of the LIHTC definition for affordable. This is consistent with our IRS regulations, so it conforms to the regs. This is not new. This is merely a codification of existing policy. Next slide.

This is a larger change actually. So what we've done here, this section speaks to statutory limits in general. And so what we did is we modified this section to permit a cost not attributable to dwelling use to develop the maximum loan amount for Criterion 4 specifically for 223(f) projects. And so you recall the existing policy we limited the use of cost not attributable for 223(f) to grading deals and affordable deals. We decided that this could be expanded to market rate deals and just generally for 223(f) deals overall.

The rationale for the change was that we believe that it was appropriate to recognize the non-residential space that would contribute to either income or to value or to both. So where Criterion 3 and 5 did so, Criterion 4 was limited to the unit limitations. So we think by adding the cost not attributable it's a more realistic idea of the overall evaluation of the property. We believe that we've mitigated the risk. The risk is mitigated by including this because we still have the limitations of Criterion 3 and 5. So we have value. We have income. We think that we can offset that increase in Criterion 4 by the limitations in 3 and 5. The one other aspect of this is we do recognize that for those deals, those projects that were previously insured with, say, 224 that used the high cost factor too in their underwriting, then we would recognize the high cost factor in underwriting those loans on a subsequent refinance of a 223(f) [??]. So that's [inaudible] insured transaction. Okay. Next slide please.

So this is a new section. We've added a definition of sustaining occupancy. It's essentially the payment of all operating expense [inaudible]. So where we didn't have a formal definition before, we do now. And it informs [inaudible] circumstances, therefore example where they see the IOD in a working capital deposit. So that's been a change or an addition. Next slide please.

Scattered sites, so not a huge change here, but what we did do is we added additional criteria to determine when and under what circumstances a project that involves scattered sites is appropriate for mortgage insurance. So we measure distance both in miles, in travel time, political jurisdictions. They're part of the overall evaluation -- physical condition of the project and the construction type of the project. While it was informally included as guidance in terms of how we would evaluate this, it's been, again, codified in this MAP Guide update. Next slide.

So condominium regimes, previously condominium regimes were permitted under New Construction and Substantial Rehabilitation projects. That sentence and that specific permission has been eliminated. And the reason why was because over the past several years, we've had several -- more than several projects actually -- result in very difficult conversations and very difficult discussions in determining whether the zoning presented by the board were as a permission of the condominium would actually permit multifamily apartments either presently or into the future. Some of these discussions have resulted in -- taken an enormous amount of time with OGC. One involved the DAS appeal. So we felt this was problematic.

I will say this, that we will consider a development of condominiums as new construction and sub rehab notwithstanding the elimination of the language in the guide by waiver if we can show that -- or if the lender can show, the bar can show that there is clear permission in the zoning, clear permission in the entitlements that would permit the condominium regime to act as a rental property. So if there's any ambiguity at all, we probably would not approve it. Next slide please.

This is the requirement that lenders use HEROS to submit their environmental application. This should come as no surprise. We've encouraged this for the past year or years to use the HEROS system. Most of you have, and we thank you for that. It is formalized now that we require that. So it's no longer optional. Next slide please.

A codification existing guidance relative to the existence of opportunity zones and the reduction of application fees to the extent that a deal is in an opportunity zone. Next slide please.

So this is also a articulation of existing guidance. Our longstanding policy is that low income tax credit deals with greater than 90 percent PBRA and use interim income during construction in lieu of the 2 percent Working Capital as long as the interim income is not used as a capital source. We underwrite to that now. That just has been formalized. Next slide please.

This is where we have multiple lenders on a 241. We've had several of these in the past couple of years where you have one lender is of an existing piece with a separate lender adding -- proposing an application for a subsequent loan as a 241. And so this language determines the rights and responsibilities of each lender with regard to Reserve for Replacement accounts with CNA e-Tool updates and so on. So that's -- actually that's interesting. You should take a look at that. Next slide please.

3.7, this is a 223(f) section. And it simply adds the language of Mortgagee Letter 2020-03 on the suspension of the three-year rule. So we've incorporated that mortgagee letter in its entirety in the MAP Guide. Next section please.

Capitalization rates, so this also refers to the section in Chapter 7. What this does is it takes the language out of Chapter 7 with regard to the comparison of cap rates and debt service constants and places it in Chapter 3 as a underwriting mitigant. So we would still look. We still think that that guidance makes perfect sense. It does inform us as to when a deal that is in a fast-moving or frothy market might be overvalued. We will require that comparison to the extent that that would exist. That is the extent that the cap rate is less than the debt service constant. However, that only serves at this point as an underwriting mitigant and is a warning as to the overall underwriting risk of the deal. Next slide please.

So this is, again, on section 223(f) stat limits. This confirms the guidance that state limits won't be increased or criterion for it won't be increased on a cash out transaction. We still view that as a risk. And that is an artificial increase in the loan, so we're not going to increase cash out, so we're not going there. Next slide please.

So this is our large loan risk policy. So there's a couple things going on here. I think this is probably worth reading, and I think it's worth comparing the 2016 MAP Guide with the 2020 guide because there's some important additions. There's also some important deletions. So with regard to the additions and the edits, we revised the entire section for clarity. We removed reference to loan amounts that were not \$75 million or greater. They're not defined as large loans, so they really shouldn't be in this section.

Right off the bat in Section 3.10, there was a language on greater than 90 Percent PBRA projects where that the large loan policies wouldn't apply. And so we could use the 1.15 debt service coverage and then immediately blow instead what large loan policies do apply. So which is which? So we clarified that and essentially settled that if the loans are greater than \$75 million with greater than 90 percent PBRA, we could underwrite then at 1.15 debt service coverage. So we sort of split the baby with the bath water or something. I'm mixing metaphors. But we split something there.

The items that were deleted were the -- there was language in Chapter 3.10 on limitations on the increase in value of projects for land or projects owned less than three years. I'm sure you're all familiar with those limitations on it. So we deleted that. Okay? And this was an important discussion and decision, and it was discussed at length internally. But we think a couple of things. One, we think that with the maturing of the platform and the use of risk-based underwriting, we can rely on our underwriters. We can rely on our appraisers. And we can rely on our lenders to provide an adequate determination of value that's realistic and makes sense and is not an underwriting risk. Okay?

And so we also think -- and this is part of the rationale -- that with increased flexibility, which this is -- we believe to be a very important increase in flexibility for underwriting and for valuation. Right? And so we also think that and we encourage lenders to be judicious in concluding to value if we understand that there will always be -- not always be, but there will be in some cases there will be disagreements in terms of valuation and how we got there and methodologies and so on, and we appreciate that and are willing to listen. But we're not willing to listen endlessly, and we're not going to do back and forth. So while we offering this flexibility, we are also asking that this flexibility be used judiciously and appropriately so that we don't result in endless arguments on value because at the end of the day, we don't have the time and, frankly, nor does the industry.

The tenant relocation -- next slide -- this is a section that deserves its own section for its own topic matter. What it does is it establishes clear standards for relocation for repairs or renovation at market rate projects, distinct from federally assisted projects, Section 8. So this has been because of the number of four percent deals, it involves signification relocation, we think this is an important addition and will provide some guidance so there's no confusion as to where we are in terms of protecting the residents when you all propose relocation. That concludes Chapter 3. So thank you.

Moderator 2: Thanks, Tom. Kevin, do you want to jump into Chapter 5 for us?

Kevin Han: Sure. Hi. Hope you guys are all doing well. So I'll be covering Chapter 5, Appendix 5, and Chapter 12 in that order. So I would say that the bulk of the work on Chapter 5 were moving things around together relating permission and policies that were sort of scattered across the chapter appendix and trying to also clarify some of the existing policies. So hopefully we simplified some of them. [inaudible] one example would be moving the policy on when general contractors required from the old section 5.5 that talked about the construction contracts. And so we've moved that to the new section 5.3 that now talks about all the various requirements per level of construction activities and the sections of the act. So for 223(f), we spell out the

conditions in which a GC is needed. And in Section 5.3, instead of talking about it while we're talking about the condition of contracts, for example. So in addition to the reorg, we did make a few significant policy changes. So I'd like to highlight some of them in the next few slides. So next slide.

Okay. So we've got two criteria for defining when a project should be a sub rehab. One was the total cost threshold, and the second was replacing two building systems. We deleted the two building systems criterion because what constitutes a building system, I think, proved to be less straightforward than we had anticipated. But now the sub rehab would only be defined by the total cost of construction. So simply put you step over the line, you're a sub rehab. If you don't, then you're not a sub rehab. Now, there are some important nuances to estimating your total cost in regards to anticipating the contingency expenditure and change over cost increases that may occur during construction. So please make sure to read our explanation in the footnote on page 5-2. Next slide.

We also removed the gut rehab category as a whole. That was in 5.1.e because the need of it disappeared and the mandatory universal benchmarking requirement got suspended the onset of MAP 2016. The next slide.

Okay. Class of works or classification of work. So we're talking about repairs level one, level two, level three alteration on designations. So this is an example of something that we tried to clarify. So two things I want to mention about this. The first is that the cost of work designation should be applied to individual repair items and not to the entire property or transaction as a whole. So in other words, we wouldn't call the entire property with a bunch of repairs as level two. Rather, your property will have individual repair items identified by class of work designation.

So you may have 5 non-critical repair items that are level 2, 10 critical repair items that are level 1, so on and so forth. And you're going to have to try to kind of sum them all up into one repair like level or class of work, for example. Secondly, we added some more examples of what would be level one versus level two alteration and so forth. So hopefully you'll find that helpful. Okay. Next slide.

So as Tom mentioned, in Chapter 3 we did eliminate the three-year rule. So there was language about that in Chapter 5, so we went in and deleted that. So the Section 5.1.F in the old MAP Guide is now gone. Next slide.

So this is an example that I mentioned at the beginning but I also want to mention it here that we added one more condition in which a GC is required, which is when the work involves more than three contractors or professional trade that need to be coordinated and managed well. So I just wanted to bring that to your attention. Next slide.

I'll just briefly mention a couple things about the Appendix 5. I just want to mention that we tried to have in one place a list of exhibits that are required for [inaudible] and cost analysis, including what should get attached to CNA e-Tool or what should -- what should and should not get attached to CNA e-Tool. So hopefully that's more instructive. Next slide.

5.4 -- sorry. Let me get caught up here. Could you go ahead and move to the next slide? A.5.6, so this section kind of clarifies. This is largely for the HUD staff, but we still have this review form in Appendix 5F that was a little bit outdated. So we cleaned that up. And I think for the external users of the industry, I think this will give you some idea as to what we'll be looking at, for what reason and why during our review. So hopefully that could be of some help to you as well. Okay. Next slide.

Chapter 12, okay. Could you go into the next slide? So similar efforts of reorganizing took place for Chapter 12. So we recognized that there were some obsolete job titles mentioned. So we updated the roles to reflect the post Multifamily Transformation Organization. So there are a couple of roles such as the MAP Coordinator and Construction Manager titles that no longer exist. So we updated our MAP Guide to reflect that. Next slide.

We added a provision for project architects to be able to sign off on Permission to Occupy to avoid delays when a HUD inspector cannot go out to the site on time [inaudible] delays. Next slide.

And we added some guidance on how to deal with change orders for LIHTC deals and also for non-LIHTC deals. We added instruction about not needing to amend the CNA e-Tool and how to do some paperwork around that. Next slide.

Casualty events during construction. So we recommend that that does happen even though we try our best not to. So we added a section talking about a couple of policies regarding that as well. So that's the end for my portion. So I'll hand it over. Thanks.

Moderator 2: Great. Thanks, Kevin. David, do you want to hop in to Chapter 6 for us?

David Wilderman: Yeah. I sure would. But just before I do that since we have a couple minutes, Kevin, would you like to mention or observe where the class of work would be described and who would describe it?

Kevin Han: Class of work, you mean where in the MAP it would be -- oh, I'm sorry. In terms of location, so CNA e-Tool has a field, a box that's now labeled as class of work. And so for any repair items [inaudible] and the lender should identify what that repair item is in class of work. So repair level one, two, three, alteration in that box. So we are asking that in the CNA e-Tool you clearly label a repair item with a class of work so that during our review it is readily visible for us, for HUD staff.

David Wilderman: Of course, that helps all users or all participants to determine what level of documentation is required for that particular loan given the level of work being attempted. So let's move onto Chapter 6. I think most of you know that -- at least if you were around before 2016, you know that Chapter 6 was formally our cost estimating chapter. In the 2016 MAP Guide, we vacated Chapter 6, combining the content with the A&E instruction for Chapter 5. So we left Chapter 6 blank thinking that someday we would probably have a use for it. And sure enough we do.

So let's move onto the first slide or discussion of Chapter 6. It's entirely new material. So as brand new material, anyone who's going to be dealing with green MIP or effort to underwrite cost savings that are achieved by energy conservation measures on a project, you need to read this chapter. You may need to read it twice. Portions of it are dense. It is a technical subject matter in which many of us historically are not very familiar. So what the new chapter does is it consolidates all of our previous energy guidance into a single chapter, and it sets the requirements that are necessary to obtain certain incentives. And there are two incentives, green MIP rates and the ability to underwrite utility savings achieved through repairs. Next slide please.

So in 6.1.1 we, first of all, describe the minimum energy codes for construction programs. This formerly appeared in Appendix 5, Chapter 5 actually, not Chapter 6, but in any event, we relocated it to the chapter here. So it's not an appendix anymore. It's right at the very outset of Chapter 6. So the current minimum energy codes [inaudible] nationally new construction and substantial rehab of the International Energy Conservation Code version 2009. And this applies to all walkup buildings under the four stories or less that have no common spaces. Otherwise, if it's a multifamily property, you are required to use ASHRAE 90.1 version 2007. ASHRAE is the American Society of Heating, Refrigeration, Air conditioning, and air conditioning Engineers. Next slide please.

So 6.1.2 describes the incentives for improved energy efficiency. And there are two, underwriter recognition documented savings. And in general, we will underwrite 75 percent of the documented savings. But if you have a Green Building Certificate applicable to the property, we will underwrite 100 percent of the energy cost savings. Of course, savings relates to a benchmarked previous performance. So this particular benefit is only available to existing buildings being refinanced. Green MIP is a reduced mortgage insurance premium rate, which is applicable to buildings or properties that obtain the Green Building Certification. Next slide please.

So Section 6.3 describes the Green Building Certifications that will qualify for green MIP. And in 6.3.1, we describe or list those that are applicable to construction programs. This includes new construction and most substantial rehabs. Although, I have to point out that HUD's definition of substantial rehab is not the same as the standard keepers of these various certifications. So if you're looking at a rehab, substantial rehab job, or even possibly a heavy F that is close to sub rehab, you want to observe carefully what standards are applicable to that level of work and choose the right one.

Certifications acceptable for refinancing -- that is, this is always existing buildings and always repairs and alterations are described in 6.3.2. And, again, the same borderline that's somewhat vague will exist between a heavy F and sub rehab and which of these lists of certifications you might be able to use. Each certification may not have the same answer. Finally, in 6.3.2, we omit ENERGY STAR for existing buildings. It's no longer a recognized program for certification. It remains a certification that we will use to prove performance or refinance an acquisition loan applications and we'll explain that to you momentarily. Let's move onto Chapter 6.4.

Wait a minute. Back to 6.3.3. Backwards one slide please. There we are. So 6.3.3 explains when and if you can use a certification, Green Building Certification, which we have not identified. And clearly, we don't have the capability to customize our program for every possible Green Building Certification across the country. So we don't intend to use county level or city level or even regional level, metropolitan region level certifications. We will recognize on a case-by-case basis a multistate or national certification program provided that it meets these particular requirements.

It has to require a 25 percent or better improvement over the minimum code or over existing -- or 15 percent improvement over existing benchmark performance. It must have published methods for third party review and verification. That is we don't -- nobody's going to make it up as you go. It has to be established in advance exactly how the certification procedure works. And the certification procedure has to result in documents or evidence. That is written approvals, recognitions and so forth. We're not taking e-mails and phone calls and so forth as evidence. And finally, the project architect has to certify that the selected non-recognized certification program has these features as described. Okay. Now let's move onto Section 6.4.

This includes essentially a laundry list, actually 10 specific items or requirements that are applicable to any green MIP project, whether it's new construction, existing, about to be, or already or so forth. So if you want green MIP, then you have to deal with each of the 10 requirements in this section. And in brief, they cover things like future replacements and the fact that they have to be green or ENERGY STAR rated or high performance items that has to be shown in the capital needs assessment. There are certain HUD required forms and certifications that are required in each case. Every deal has to have a data collection plan. None of those data collection plans can include sampling of data or other unverifiable and administratively difficult future provisions. Ongoing performance is always required or any and all green MIP deals on an annual basis. There are professional qualifications required for the participants who generate the underwriting and construction descriptions and so forth that are related to green MIP. There's information on what modeling techniques are appropriate and what happens if you have change orders. Next slide please.

So 6.5 I think we'll probably have to spend a little bit of time on this, as well as 6.6. 6.5 describes how green MIP may apply to 222(a)(7) applications. Of course, (a)(7) applications, as you all know, are refinancing of loans already insured. So there's only really two ways that an already insured loan can result in a green MIP 223(a)(7) refinancing. Even that existing loan is already green, it already has green MIP or the property must have within the last 15 years obtained loan certifications that we've already identified in 6.3. Of course, that could happen. Somebody could have done a [inaudible] deal as a (d)(4) back in seven years ago or something. And now they come in as an (a)(7). And if that's the case, then they will qualify for the green MIP provided that there's certain other things that any such base would have to show.

If it's a green MIP loan already, then the owner must be able to demonstrate that they've complied regularly and consistently with all the continuing performance requirements. Since this is an ongoing requirement, if they have not been able to comply in the past, that's pretty clear evidence that it's unlikely that they will be consistently able to do so in the future. So that's a no.

If it's not an existing -- well, whether it's an existing green mortgage or not, so it might be one with a seven-year-old certification or something, but with the application for the (a)(7) loan, the property must demonstrate current performance. And that is done by obtaining an ENERGY STAR for existing building certification, which is required with the application to prove performance. The only exception to that is if the data cannot be obtained, the 100 percent data cannot be obtained in order to get that certification, in which case, you'll have an opportunity to provide technology as a repair that will provide 100 percent data. And, of course, you have to prove that you'll actually be able to get that 75 score.

Now, the effect of this is that it eliminates sampling from any existing Data Collection Plan. Some of you may know or may have or seen data collection plans that we approved in June, July, August of 2016 when, frankly, we didn't know a whole lot about what we were doing. And so we approved a lot of things that we later regretted or that they're simply unworkable.

And so this 6.5 is drafted in order to help us correct those things or enable a borrower who is caught in one of those circumstances to be able to cure it and -- cure the problem and still retain it as green MIP. But going forward, we will not have sampling in any Data Collection Plan. And we won't be approving anyone for green MIP if they failed to maintain performance or meet our previously existing requirements for a green MIP loan if they already have. And it also sets a shelf life for the age of a green building certification. So if you got, who knows, some certification 20 years ago, maybe it was the first [inaudible] certification ever given, well, that one's not going to count. It needs to be more recent. It needs to be within 15 years of the application.

Okay. Section 6.6.

Moderator 2: So David, I just wanted to let you know there is about two minutes left. But we don't have that many questions. So if you need to go into the question time, that's probably okay.

David Wilderman: Well, I'm reading 2:54, which means six minutes, but we'll move it on. So if you're doing a 223(f), obviously you could have an existing insured mortgage as the subject, in which case, the same rules apply for that existing insured mortgage being refinanced with a new (f) as for 223(a)(7). And so if it's not an existing green MIP deal, then that means that it hasn't been certified, and you'll need a new certification. So that creates a whole different set of circumstances. And that means you'll have to conduct repairs consistent with the requirements of your selected certification and execute those repairs during the repair period and then, of course, deliver the finished certification.

There is an exception, which applies only to those deals that are newly eligible because of the abolition of the three-year rule. And so if you have a project with a CO issued within three years of the application, you can use the ENERGY STAR for Existing Building Certification to obtain a green MIP provided that you achieve a score of 90. And if you can't deliver the certification because of a data collection problem, you will have an opportunity to cure the data collection problem by installing utility monitoring technology. But after that, you'll have to deliver the certificate. And this exception lasts for only two years, so beginning last December 18. So it expires December 18, 2022. Next slide please.

So in 6.7 we discussed the requirements for new construction and sub rehab, Sections 220, 221, and 231. This is fairly rote. You will have to install ENERGY STAR rated appliances and high performance equipment, notwithstanding whatever energy and Green Building Certification you choose to use. In addition, we expect that the project architect -- and this actually also applies to (f) transactions where a new certification is being obtained.

We expect the project architect to be actively engaged in meeting the Green Building Certification, insisting the owner in selecting the certification, making sure that the drawings and specifications meet all the requirements of that certification, and making sure that the modeling and analysis of the energy results is correct. And the project architect is going to have to certify that that and these items have been added to the project architect's certification required as a condition for doing the deal. 6.8 please. Next slide. Yeah.

Okay. This has the same short discussion for Section 241(a). And the key thing here is that the entire premises must be certified, even if the use of the 241(a) insured funds is only to do an addition. The entire premises for the mortgage, which is, in fact, the entire property, lateralizes both the first and the second lien, and the entire property must comply. Indeed, this is a general principle that the Green Building Certification selected must apply to the same premises that are used as the collateral for our insured mortgage. Otherwise, the whole proposition becomes administratively impossible. And we simply don't intend to go there. So Section 6.9. Next slide. There we go.

There is a discussion here that many of you may find helpful about how to estimate the cost results of changes in energy use. You might imagine that, oh, if we reduce energy use by 30 percent, then our cost will go down by 30 percent. Not true. That rarely, if ever, happens. And, of course, there are a lot of reasons for that, which we explain here. And so if you're trying to forecast your operating expense budget on a green MIP deal, you need to read 6.9. Next slide.

I think we have some summary items here. Next slide. Oh. Okay. Yes. I think I covered this. Next slide please.

Let's move on, if we can, before the Q&A, let's go to the two final slides we have here. So this is the location of the new MAP Guide. You'll notice that with the MAP Guide are a number of other documents, which are pretty important for when you're working with the MAP Guide. These include the HUD RFR Financial Factors Tool, which has been revised to fit the new CNA e-Tool, as well as a new Excel version of the Chapter 4 application checklist and, of course, the Estimated Useful Life Table. That is integral to the CNA e-Tool. Also the Transmittal -- and while we're talking about the Transmittal, let me briefly summarize the transitioning divisions or the MAP Guide.

In general, the MAP Guide is mandatory on March 18th and voluntary until then. That is the 2020 MAP Guide. And so you generally have an option to select when you file an application, either the 2016 or the 2020 version. But you may not mix and match any provision. So you make your choice and live with it. It's either the 2016 MAP Guide or 2020 MAP Guide. Now, there are some exceptions. First of all, if you already filed an application before March 18th, you're using

the 2016 MAP Guide. Don't ask us for any changes. Don't ask us for waivers. There aren't going to be any. If you applied before March -- on March 18th or before, it's the 2016 MAP Guide. We're not going to [inaudible]. And the volume of activity that we have, we simply cannot go back and custom fix or custom underwrite a lot of applications that have already been filed. And they already have been substantially underwritten.

Exceptions to the general transition rule. First of all, Chapters 2 and 15 are already in effect. That is, they went in effect on December 18th. Also, processing efficiencies or processing procedures such, for example, as the requirement [inaudible], those also are already in effect. The provisions of Chapter 19, what used to be the closing guide, now is Chapter 19, those are all effective on February 1st. This is the strong instruction for the OGC, Office of General Counsel. The remaining portions of the MAP Guide, which is most of it, will be mandatory on March 18th, as I've noted or as I indicated. Next slide please.

In the near future, we are going to be announcing something called Ask A Question, which is sort of a virtual help desk. It is a procedure that we adopted -- or a system that we adopted for the early life of the CNA e-Tool.

We think it's going to be much more helpful and effective for the MAP Guide. Basically, we want you to ask your questions through AAQ, and we're going to try to avoid an reduce the extent that you call your favorite HUD staffer and ask them a question about the MAP Guide. Obviously, you can still ask your staffer about your particular application. If you do have a question about, well, does the MAP Guide mean this or does it mean that, we want you to use Ask A Question for that purpose.

We will be preparing and issuing a tutorial on how to do this in the not distant future. It's not complicated. And we really hope that you'll cooperate with us in doing this because this will help us to be a lot more consistent in the answers that we give you. It will also help us keep track of all of our answers so that we don't lose them in multiple e-mails in different staff folders and so forth across the country. And this will help us know better how to write the next MAP Guide. So please help us out on that.

And the other thing that you'll notice about the new MAP Guide is it has some different organizational formatting. It has some additional links, linkages between chapters, between chapters and appendixes. There's a link to an index. There's a go back to where I was procedure at the top, which may require some explanation because it doesn't function the same way in all browsers. But we're going to do a tutorial on all of these formatting, how to use the new guide arrangement as well. And both of these tutorials will be six or seven minutes at most. And we will be publishing those in the next several weeks. And that is the conclusion of our presentation. So we will be happy to answer any questions.

Moderator 2: Great. Thanks, David. The first question I have is for Tom. So Tom, you might want to unmute. The question is will condominium structures be permitted for 202s with mixed financing?

Tom Bernaciak: So the answer is we are doing those now. We were just on a call, and we -- one of the structures is a condominium structure. If the borrower wants to use that and develop the deal as a condominium, he's welcomed to do that. We would all require the normal [inaudible] agreements, [inaudible] agreements, maintenance agreements and so on that we would require in any of our insured deals. So it would be wise to -- if you're contemplating using that sort of structure, you want to discuss specifics with HUD staff NOGs and I would get OGC involved as well.

Moderator 2: Great. Thanks, Tom. David, the next couple questions I have are for you. So the first one is for green MIP 223(f) and 223(a)(7), if a property earned an accepted green certification within the last 15 years but they can't get the ENERGY STAR certification because of the SEP score being below 75, what are some steps they can do to qualify for the green MIP?

David Wilderman: Do repairs and get a new certification. I mean, so admittedly we don't actually state this in the MAP Guide, but if your certification does not result in a score not less than 75, then it's not a workable certification.

Moderator 2: Okay. Thanks. The next question is also for you, David. They're asking about underwriting savings. So they asked do underwriting savings include energy and water? And also please confirm that underwriting savings is only including owner-paid utilities or owner-paid savings.

David Wilderman: Well, second question first. Yes. The savings would only be those that contribute to the buildup of the operating expense budget. So what your tenant saves is nice, and it's a good thing, and it's essential to get certification and presumably will over time yield some rent benefits that will improve values and so forth. But it's not part of operating expense, so it's not counted. Only landlord savings would be counted.

So on the previous question, which was whether only energy or both energy and water savings are included, it's both. If you implement the repairs or changes that reduce any utility consumption, those savings will be underwritten in the proportions described either with or without a green MIP certification, 75 without and 100 percent with. Next question.

Moderator 2: Great. Thanks, David. Let's see. They're asking for a property with an existing green MIP loan refinancing such as a 223(a)(7), does the property need a certification other than ENERGY STAR?

David Wilderman: Not necessarily. Is the premise of the property is already green MIP?

Moderator 2: Yes. An existing green MIP loan and they're trying to refinance it. Yep.

David Wilderman: An existing green MIP loan being refinanced under either (f) or (a)(7) can qualify for an additional or further green MIP mortgage provided it meets those requirements that I specified. First of all, the owner has to be able to show that they have met all the ongoing performance requirements for each of the years intervening since they obtained the green MIP mortgage until the present.

And in addition, they will have to go and obtain an ENERGY STAR for existing building certification and deliver it with the application. If they do that, then they get the green MIP. If, on the other hand, they cannot deliver the green building certification and the reason for that is that they can't collect the data, then the only way they can continue with green MIP is proposed repairs installing the technical capability to monitor utility consumption so that they can then report 100 percent data in Portfolio Manager and obtain the ENERGY STAR for existing building certification. If they're not able to do that, then no go.

Moderator 2: Great. Okay. Another question for you, David. You're the popular one today. This one's in regard to Section 6.8. So they're asking -- they want to confirm if there is a mixed use building that includes retail in the HUD collateral, does that portion need to be certified by green building rating system?

David Wilderman: Yes. The entire premises have to be certified, and the premises that are certified have to match the premises that are the collateral for the loan. Now, there are some circumstances, and these could arise in a mixed use property, and it could conceivably arise in a 241(a) where two separate certifications or portions of the property but where the entirety of the property is the collateral and the entirety of the property is certified and ongoing performance is possible for the entire property, then we would consider the second certification. What would that be?

That would be, for example, a 241(a) with an existing older building and then some brand new building, and the only available certifications that will cover both circumstances are, in fact, two separate certifications. Many of the certifications are quite specific about what they will or won't consider. And those that cover new construction, for example, rarely cover meter repairs and some other -- you know, in other words, with new construction, maybe heavy duty substantial rehab. Less than that, they may not be applicable. So in that kind of a circumstance -- and really only that kind of a circumstance would we consider a dual certification.

Moderator 2: Great. Thank you. That was a popular question. That came in a couple times. I have a question for Chris. So Chris, you might want to unmute. The question for you, Chris, is will HUD provide examples of the new lender certifications that are required, for example, the due diligence certification and the certification mentioned in 2.4(c)?

Chris Tawa: Yes. We will work on those and follow up with some forms as well as the appropriate warning language that appears on these certificates pertaining to false statements. So yes. You can look for that, and we will announce when they're posted.

Moderator 2: Great. Thanks, Chris. That'll make a lot of people happy. The next question I have is for Kevin. So Kevin, you might want to unmute. For waivers of CNA, so 5.10.3, any consideration for projects that were recently completed but may have a CNA e-Tool dated more than three years ago because of a long construction period?

Kevin Han: Okay. That's a very good question. So 5.10.3 that they -- if the CNA is dated more than three years, so now the date there mentioned, I think, it could be the approval date or

submission date. But I think given this particular situation, I think it's definitely worth considering a waiver for.

So I am not going to be able to give you the policy [inaudible] right now, but I think David and I will discuss. But it might be, I guess, a case for that if the construction itself took two and a half years, maybe even three years. Who knows? Right. So yeah. We'll consider it. David, anything you want to add for that one?

Moderator 2: You might need to unmute, David.

David Wilderman: Yeah. I did. And no. I don't have anything to add.

Moderator 2: Okay. Well, you can keep yourself unmuted because the next question is for you, David. Can you please discuss the use of the new MAP Guide for public housing, RAD conversion with respect to the CNA, for example, a public housing notice 2019-23 references a MAP Guide for CNA requirements?

David Wilderman: Well, I hesitate to speak for the Office of Recapitalization. I know that as a general principle, they're attempting to mimic multifamily productions, use of the CNA e-Tool and the ways and means that we use it. So when recap is dealing with a new construction project, then while you will select the correct CNA type and program -- and in this case you would be I think PHA new construction or something like that is the correct program to select -- and then it will look very much like the CNA e-Tool that you see. And the question that are asked will look almost identical to what a 221(d)(4) would look like. And you will answer those questions with the same categories or quantities or qualities of information that you would for a (d)(4).

And I think that is the way in which recap means their instruction to reference the MAP Guide for use of the e-tool. Similarly, if what they were doing was a renovation comparable to a 223(f) with a lot of repairs, then I think they call that asset recapitalization PHA rehab or something to that -- I don't recall the exact terminology. But that would be the CNA type and program that the needs assessor would select. Instead of a lender, there'll be a PHA that's the submitter. And there will be a needs assessor who's preparing this CNA based on documentation provided to them by the PHA. But the actual entries in the CNA e-Tool will look almost exactly like any entry that you would make for a 223(f) application with repairs. I hope that answers your question. I don't think I could go further than that without relying on Office of Recapitalization to address the policy question.

Moderator 2: Sure. I think that's a pretty good answer for a webinar, David. Thank you. The next question is also for you, David. Do properties with green designations have to continue to use ENERGY STAR or green items when they repair or replace items? Specifically, does asset management need to watch for this in the R for R withdrawals?

David Wilderman: The answer to that is yes. One of the specific requirements in 6.4 is that the capital needs assessment for any green MIP deal must specify future replacements as ENERGY STAR items where applicable, for example, for appliances or high performance items if there is no comparable or no ENERGY STAR rating for the product.

So a high performance item might be new windows for which there won't be an ENERGY STAR rating but there are high performance windows, and we know that, and those are the ones you should use as replacements. And that characterization, by the way, should not be a lazy one like use good stuff in the future or use green stuff in the future. It needs to be a specific description of the quality of the product. Otherwise, there's no way that it means anything to someone reading this five years from now.

Moderator 2: Thanks. That's a really helpful clarification. Another question for you, David. I think they're just looking for confirmation when you were talking about the green MIP 241(a). They're saying you noted that the entire premises must be green certified. And so they're asking, does this mean that the entire property will attain the green MIP or solely the 241(a) piece?

David Wilderman: Reading between the lines of that question, I think maybe they mean does that mean that the underlying first mortgage not at that point at issue, would it become green even if it weren't already, and the answer is no. If there's a different meaning to that question, I'm not sure I know what it is. So I would invite the questioner to ask another question, and maybe you can get to it.

Moderator 2: Okay. Great. Thank you. All right. One more for you, David. Has the best practices for describing and managing repairs in Section 223(f) been incorporated into the new MAP Guide?

David Wilderman: Yes.

Kevin Han: Yeah. And I can add to that. So Section 5.3.3.5 talks about construction costs and the best practices that we had issued that's being incorporated there. And also I guess more notably, Appendix 5.12 has that worksheet [inaudible] published as well.

David Wilderman: The big change there is it's no longer best practices. It's required practices.

Kevin Han: Yeah. Correct.

Moderator 2: Good point. The next question I have is for Chris. Chris, when did Chapter 2 officially go into effect?

Chris Tawa: As David said, the chapters that I described with 15 are already in effect right now.

Moderator 2: Great. Thank you. David, I have another question for you. If mixed use property with only residential spaces are included in the loan, do the commercial spaces also need to be included in the certification?

David Wilderman: I'm hard-pressed to understand the real estate where that circumstance would be true other than a condominium regime of some type. So I think we would have to see the specifics of that. I don't know how to answer that [inaudible].

Moderator 2: Okay. Kevin, I have a question for you. They're asking about Section 8.5.6, and it says clarification of HUD review form was trimmed down. Would it assist HUD for lenders to fill out and include this form in our submission?

Kevin Han: No. This is for internal use, so that review form is for HUD staff. [inaudible] as part of their deliverable. It is not to be expected to be filled out by the lenders [inaudible].

Moderator 2: Okay. Thank you, Kevin. The next question is also for you, Kevin. It says please confirm any -- and it says BEM. I don't know if it's BEM or BEM software -- with acceptable for use in modeling building performance. The list of energy modeling software is for consideration but not requiring that they be used. So I guess they're asking about what type of software is acceptable.

Kevin Han: Yeah. That's a Chapter 6 question. But if I would be looking at it, I think BEM software is fine as long as it could do the level of energy usage modeling or consumption modeling that we spell out as a requirement there. David?

David Wilderman: Yeah. There is an Appendix 6, which I did not mention, but it is entirely about modeling and modeling software and where to find software that is most likely to do the job and where you can be certain that it is capable of handling multifamily residential property. And the appendix references a Department of Energy website. Actually I think it used to go to DoE website. I think it's contracted out now. But in any event, that website has a fairly lengthy and robust list of modeling software. And we're going to insist that you name the software that you're using and tell us where it came from and so forth.

So our staff will be trying to look to the validity or the quality of that software, and the first place to go look is on that DoE website. So that's where you should look, too. And having gone there myself, I know that each entry describes some of the features of the software and tells you what type of real estate uses can be handled by the software and whether or not it conforms to ASHRAE 90.1 or to the International Energy Conservation code or both. I hope that answered the question.

Moderator 2: Great. David, I think the next question is for you. Does the energy audit have to specify all improvements needed for certification? Typically improvements are subject to change throughout the green certification process.

David Wilderman: Energy audits are only applicable to existing property. And what we're looking for in the energy audit is a pretty clear cut description of all the utility consumption affecting components of the building. And we want essentially an enumeration of utility conservation measures -- that is replace these windows, replace the hot water heater, do this, do that -- energy conservation measures which will have a simple payback of 10 years or less. So all of those should be enumerated.

It doesn't mean all of them will wind up in the approved list of repairs as part of the capital needs assessment. But the ability to look at the repairs, and the ASHRAE level two energy audit is an essential part of our underwriting task. And so the ASHRAE level two energy audit should not

simply be an evaluation of what the owner has already decided he wants to do without the benefit of the audit.

Moderator 2: Great. I had a follow-up question. I hate to go back. We had a follow-up question when we were talking about the software. And somebody had asked are the softwares required or suggested? When we were talking about the BEM software.

David Wilderman: Right. We're not going to say that you can't use a software that's not named there. But if you choose to use such a software, you're really going to have to prove its [inaudible]. We don't want to find someone inventing their own Excel spreadsheet and telling us that's the modeling software. That's just not going to be acceptable.

Moderator 2: Great. Well, David, that takes us to the end of our time. Do you want to wrap us up, maybe remind people about our next session on the 26th?

David Wilderman: Yes. Unlike our previous practice in 2016, each of these seminars/webinars that we're holding has separate content. So today we covered Chapters essentially 1 through 6 plus some chapters that are strongly associated with 1 through 6.

And next Tuesday, we will cover Chapters 7 and 8, and we will spend more than the usual amount of time on Chapter 9 because there are some fairly significant and complex changes in environmental requirements. So if you are in the business of understanding environmental work, you'll want to ensure you tune in or listen to the recording of the next webinar session.

Webinar Session number 3 is on February 2nd, and it will concern tax [inaudible], Chapter 14 and the new closing chapter, Chapter 19, and then sort of a miscellaneous wrap up of smaller elements of various chapters that we think you ought to know about but which did not warrant a 15-minute discussion of the whole chapter.

And those are the three webinars. They'll all be recorded. We'll be posting those or ICF will be posting those, and we'll be letting everybody know when they're posted so you can download them and save them, look at them again, whatever you want. And we hope this will give everybody a satisfactory introductory to the new MAP Guide. And that's about all I have to say I think. Thank you for attending. Thank you for your questions.

(END)