Using HUD's CNA e-Tool for Project Rental Assistance Contracts, 2-8-18

Jennifer Larson: So welcome, everyone. I'm so glad that you've joined us today to learn about HUD's new CAN e-Tool and how it will work with Project Rental Assistance Contracts, or PRAC projects. I'll be referring to them as PRAC as we go along. You just heard about the webinar logistics, about how to submit questions. Go ahead and do that.

So I'm Jennifer Larson. I'm in the Office of Asset Management and Portfolio Oversight at HUD and I also have with me a colleague, David Wilderman from the Office of Production. So for folks who don't know, this is the -- the e-Tool is an Office of Production tool that they've been using now for several months with new FHA-insured mortgages and we are starting the implementation on the asset management side with PRAC to go forward here.

This is just -- as a first session, this will also be recorded and posted along with additional information and recordings at the link below. So today, we really want to go over the requirements for using HUD's CNA e-Tool, when you might need to use it, which properties are required to use it and then aspects of reviewing and submitting the CNA e-Tool for PRACs having there's no lender involved. That's the biggest difference between PRACs and our FHA-insured property.

We'll talk about the process, how it's going to be unique and different for PRACs and then we'll finish up with some overview of the CNA e-Tool itself and look at the CNA e-Tool and the validation engine and then talk about some resources that are available for you if you need to use the CNA e-Tool.

Relevant guidance. There's a housing notice, a 2016-18 and it's linked in the slides there about the implementation of the CNA e-Tool and in there is a requirement for PRACs to start using it. Also is the MAP guide, which stands for the Multifamily Accelerated Processing guide. Again, that's our guide for FHA-insured mortgages, generally had not applied to PRACs, but it has a lot of direction on CNAs, Capital Needs Assessments and the CNA e-Tool. So it may be a helpful reference for you as you go forward with this process.

Then we also have our housing handbook 4350.1, which is really our asset management servicing handbook. Chapter four talks about reserve for placement accounts and chapter seven talks about budgeted rent increases. So first, I wanted to describe a little bit what's the capital needs assessment for folks who have not been through this before.

Capital needs assessment is a description of the physical condition of the property. It's prepared by a third party independent needs assessor, somebody who comes out to the property, looks at all the different components and -- you know, the roof and the heating system and all -- everything related to that property and looks at what work might need to be done and the estimate period for HUD CNAs is 20 years. So we're really asking this inspector to look and make an accounting of what kind of work will this building need to remain healthy over the next 20 years and summarize that within this CNA report. It divides the repair -- any repairs that the inspector identifies are split into critical, noncritical and future repair or replacements. The CNA report, there's a standard for this CNA.

It'll include an executive summary, an overview of the properly condition, the purpose of the examination and the scope, what was looked at, what maybe wasn't looked at, general description of the site, all these different components. It also may include exhibits -- photographs or other maintenance records or things that the inspector is going to look at to help inform their description of the building and its condition. So that's what you should be seeing as you get the CNA report, which brings us to the CNA e-Tool. So we were getting these CNAs in a variety of formats, usually in paper. They were a little bit hard to -- sometimes hard to read. They're obviously very complex documents.

So the CNA e-Tool was really developed so that HUD could have a uniformed format to receive all of the CNA information and then also to document it so we could reference it going forward as we're performing asset management servicing on these projects. So we're requiring the CNA e-Tool use, beginning February 1, 2018, for PRAC projects only when there's a significant increase to the reserve for replacement account.

So the only PRACs that need to use this are PRACs that know that they have some significant capital needs in the future that they want to plan for and if we're going to be increasing your rent to increase your R4R deposit by a significant amount, we want to make sure that you've done this assessment and that you're ready to address any capital needs that this building might have over the next 20 years.

So we're defining minor R4R increases and Reserve for Replacement is often abbreviated in HUD speak as R4R. Hopefully that's clear to everyone. We're defining a minor R4R increases as something annually less than 5 percent of $500 annually. So if you're increasing by just a little bit to keep up with inflation, if you're requesting a 3 percent rent increase and that includes a 3 percent increase to your reserve for replacement, that's fine, you don't need to submit a CNA for that increase, but if it's larger than 5 percent or larger than $500 for the greater of those two, you do need to submit a CNA e-Tool. That will be completed by a needs assessor so that inspector that I was talking about that comes out and looks at the property, they will complete this spreadsheet for you.

You should look for an assessor with experience doing the HUD CNA e-Tool. And importantly, I wanted to mention that this expense is reimbursable from the R4R account. We know that this is going to be a new thing for folks and it's going to be a little bit costly. So you will be able to get reimbursement for the CNA expense from the R4R account. I just wanted to go through a couple examples of PRAC projects.

We had training for our staff earlier in the week and for over 300 staff. So your HUD account executive should know all about this and know exactly what to do. But they asked for some examples. So talking about Maple Apartments, they have an annual R4R contribution of $3,000. They want to increase their R4R by $400, because they think they're going to replace their common area carpet in the next 3 to 5 years and they want to save up a little bit more.

They don't need to submit a CNA, because even though 5 percent of $3,000 is only $150, that's not very much, but they're asking for $400. It's less than $500. So they do not need to submit a CNA even though it's over 5 percent. Second example is Birch Apartments. They have an annual R4R contribution of $3,000 also. They know that they're going to have to do a roof replacement

and they want to start really building up their fund, because they think it's going to be an expensive repair for them.

They do need to prepare and submit a CNA e-Tool and the reason really is to make sure that there aren't any other major capital expenses that they should be saving for. Maybe they're not aware that their boiler's going to need replacement around the same time and we don't want them to get hit in the future if they stand to replace the roof, but now all the sudden they have to replace the boiler as well and there is a strain on their funds.

So we want to make sure that the planning that's happening is going to incorporate everything that the building needs. So an overview of the CNA e-Tool, there's instructions in the MAP guide, which I linked earlier in the slides about how a CNA should be performed and documented. We'll go through a little bit more of about roles in a minute.

The process for spending a CNA for a non-FHA-insured project or PRAC project to HUD, the owner should first obtain reviews from a qualified assessor and then look at that assessment to make sure that they feel that it's accurate and they've gotten a quality product from this assessor. The owner will spend their CNA e-Tool. It's actually a large Excel spreadsheet is what it is and they'll send that to the appropriate HUD representative with any attachments that need to be sent.

HUD will review and provide some feedback. The assumption with PRAC projects is it will be sent in conjunction with a rent increase request. So they'll just be part of the rent increase package. You will send the CNA e-Tool if you're requesting a significant increase to the R4R. So the owner role, and this training is primarily for owners, but there may be some needs assessors and also maybe a few HUD staff on here also, but just wanted to talk through the roles the different people play through this process.

The owner determines that their property might have unmet future capital needs. So maybe like we talked about with Birch Apartments, they may need to replace the roof in the future, they may need to replace the windows, they may need -- you know, they know that there's something out there large that they're going to have to take care and they don't currently have the funds to take care of that capital needs item.

They would go ahead and hire a qualified assessor to perform a CNA that complies with HUD's CNA e-Tool. You should look for a needs assessor that has done this before. It's okay to ask for examples of someone that they've submitted that HUD has accepted. That would be a good thing to ask for. You can ask for references or see if you can talk to somebody that they have performed work for before.

When they do their assessment and they go through and mark all these things, they'll run their CNA e-Tool through what's called our validation engine, which we'll go over also and that'll mark any flags. So they should review and address any flags before giving that to you. The owner will review, you'll insure that you agree with their findings and that the flags have all been addressed before you send to HUD and then you will submit a request for reimbursement for the CNA expense from the reserve for replacement account.

Looking at the needs assessor role, they're really an independent contractor that's going to look solely at the physical condition of the property. So they're going to look at everything from a third party. They don't have any interest in anything either way. They're going to look at the physical condition of the property, decide what work needs to be done over the next 20 years, they're going to complete the CNA e-Tool and resolve or address any flags that come up.

They are not responsible for the completion of the replace and reserve. Those are there for replacement schedules, but they'll come up with an estimated cost for any work that they see happening over the next 20 years and then it's kind of your job and HUD's job to figure out how that fits into the current reserve for replacement and what kind of increase needs to happen to the reserve for replacement based on the repairs that the needs assessor has identified.

And then looking at the HUD account executive role they'll receive your assessment tool, the flag notes and exhibits, everything from the CNA e-Tool as part of a budget rent increase request. Particular attention, they'll look at whether or not you've explained all of your warning flags. There are different levels of flags and we'll see this as we go over the actual tool, but severe flags are not acceptable.

There can be warning flags that can be explained. There might be good reason why certain things are the way they are and triggers flags that can be explained. If the account executive at HUD doesn't think that everything quite matches up, they may send you some feedback and what needs to be changed or reviewed, but if the CNA is acceptable, they'll issue an approval letter and go from there.

And this is that same process that we just talked through just in more of a chart form to help folks see the flow of information. The owner will -- that's you, will go ahead and hire a third party needs assessor, needs assessor will do their thing, complete the form, complete the e-Tool, send it back to you, the owner, the owner will review the CNA, email it to HUD with your budget-based rent increase request, the regional asset management office receives the file, assigns it to the appropriate person, the HUD account executive will review and see if any feedback is needed and they'll either approve it or they'll return it to you for some questions to be addressed.

And so now I'd like to turn it over if -- I might pause for a moment to see if there's any questions for me on what types of projects need to submit or anything about HUD's process. Otherwise, we can go to David Wilderman who is going to talk about the CNA e-Toolbox for PRACs and go over the actual tool and what happens.

Sean: Hi, Jennifer. This is Sean [ph]. I'm not seeing any questions as of yet.

Jennifer Larson: Thanks, Sean.

David Wilderman: So Jennifer, I have a question. This is David. On the $500 that's part of the threshold for whether you need to use the tool or not or whether you need a CNA or not, I guess, is that $500 a change for the entire year or is that for a month or what?

Jennifer Larson: That's an annual change, yeah. And a lot of our PRACs are smaller properties. So the annual reserve contributions are fairly small, 5 percent, like we saw in the two examples I provided. You know, there's a couple that only had $3,000 in annual contributions. Five percent is only $150. So we wanted to give folks just a little more wiggle room than that -- than 5 percent, but for anyone that is a larger PRAC that may have a larger reserve for replacement deposit, it would be 5 percent.

David Wilderman: Okay. So many of you may be wondering what is the CNA e-Tool thing? And basically, the CNA e-Tool is a name for a series of different things. It's basically the name of a toolbox and in the toolbox are a number of individual pliers, hammers or whatnot, one of which is called the assessment tool, which is an Excel template. It's basically a fancy electronic form organized as an Excel spreadsheet.

The next item, there are actually three more that are part of the system. You only need to know about two of them, which is this assessment tool and the validation engine. The validation engine is a web-based portal that you upload that Excel template to after it's completed and it gives you all the results, calculates the financial schedule, it checks your submission for rule violations or maybe issues that you might want to pay attention to.

These are called flags and you're able to download from any of the panels that you see in a validation report, all of the printed items that you -- or files that you would normally see associated with the CNA, like financial schedule, the list of immediate repairs, the list of critical repairs, the list of future repairs and so on.

So the other two parts that I'll just mention, but not really explain, because they really apply only to FHA mortgagees or lenders are the -- something called the submission portal and then also the reviewer tool, which is something that HUD staff use when they are reviewing a CNA as part of a mortgage application. The next part are instructions. All of these items have instructions that go with them and the URL here that you see is where you would locate all of those instructions.

So I'm not going to click this, but I'm going to go there right now and show you the instructions. This is the CNA e-Tool homepage. So this is where you get to if you click that URL and you'll see here -- wait a minute, I think I need to share my screen. There, now I think everyone can see what I just clicked on. So this is the Capital Needs Assessment or CNA e-Tool homepage.

So this is presently organized by the kinds of people who might be users. And so for example, if you wanted to download that assessment tool spreadsheet that I was just describing, you could click here or if you wanted the instructions for how to use that tool, you could click here. If you wanted to view our tutorials or see the list of tutorials, any one of which you can open and watch, you would go here.

I'm sorry, not quite there. Where is it? Recorded webinars and tutorials. So this is a list of all the recorded webinars and tutorials. This particular webinar will be added to this list at some point in the future. And so you'll always be able to come back and watch it again. But there are other webinars that are specific to individual parts of the tool and how to use it.

There's also an ask-a-question web portal, which you can go here to access and if you have a specific question about I entered a component and it doesn't look the way I thought it would, I can't understand why my financial schedule doesn't come out right, this is the place where you would send a question like that. So let's move on to the actual assessment tool file. I have two here that I've opened and this one is blank.

I guess it's going to open. Well, I seemed to be locked somehow. Just a moment, folks.

Jennifer Larson: This is Jen. Maybe while David's getting stuff fixed I could work on a couple of these questions that have come in. So one question was, "Can HUD account executives still require a CNA if the R4R request is under the limit?"

So I don't know why they would unless -- you know, they can request it. They can request it as maybe part of an action plan. You know, maybe for example, you've gotten a couple bad REAC scores in a row and we need to address the physical condition of the property, that can be part of an action plan that HUD could require for you to do a CNA, but generally, it would be part of a reserve for replacement increase request, if that makes sense.

Another question was, "Can we use the residual receipt account to pay the cost of the report?"

You can talk about that with your account executive and see whether based on your residual receipt balance or your R4R balance, which makes more sense, but that's definitely a possibility.

And then another question, "If the rules for annual funding [inaudible] each year request under the limit without a CNA?"

So yes, but keep in mind that just because you're requesting doesn't mean HUD's going to approve that automatically. So you can send in a request and every year increase your reserve deposit, but at some point, I think we are going to ask for some documentation that that funding is needed and you're not just really inflating your rent for no reason.

"What's the timeframe prior to contract renewal for submitting the CNA is another question?"

So PRACs are interesting in that they -- rent increases are not tied to contract renewal. You can request a rent increase at any time. So you may request a rent increase at your contract renewal and that would be part of the rent increase package, but then you can also request a rent increase at another time. But again, just to repeat, just because you're requesting it doesn't mean HUD's going to award it. So make sure that you're conscious of what you're requesting and that you're providing evidence to support your request.

David Wilderman: Any more questions, Jennifer?

Jennifer Larson: We can -- I have a couple more, but I can flip back to you if you're ready to go forward [inaudible].

David Wilderman: Well, at least I got the spreadsheet up. I'm not sure what was going on, but we won't bother people with it. Okay. So this is the CNA e-Tool assessment tool. It's the

electronic Excel template that I mentioned and this one is blank. I'm going to show you a completed one in a moment, but for speed purposes, we'll simply look at it in blank first.

So you'll see it has some 15 tabs along the bottom here and these correspond more or less logically and chronically to the way a needs assessor would go about gathering information, completing the information, entering it into the spreadsheet. For each of these worksheets -- and so here's participant information and this is where the names of people would go and so forth, whoever's the owner or the property manager, the name of the needs assessor and his company and so forth.

Anybody who was present on the site and participating in the CNA with any specific expertise that we might need to refer to would be listed on this form. Information about the property, the site, the building, the common areas, units, unit types. So with each of these Excel worksheets there is a form and you click to open the form, you click the button and then this set of forms open.

We recommend that people who are using this tool use the forms to enter data. Do not try to enter data directly in the worksheet. If a needs assessor becomes very experienced with this and knows how the thing works pretty well, then they can begin to enter data directly in the worksheet or to edit data in the worksheet and be successful, but until then you're much better off to use these forms.

And you'll notice that the forms are organized in the same way and in the same -- largely in the same order as these tabs down here at the bottom. So there's participants form, property, site, unit type definition.

This is a little out of order, but actually, the way you would do this is you would define unit types, because most of them you have -- in most buildings, you have three or four different unit types, you define those and then you add them or assign them to buildings and then count them. That's how the logic is set up in this Excel spreadsheet. Well -- so then you define buildings and some of these forms have different tabs, building information and then what units are in the building. Same way here, we're going to talk about units and common spaces. So the first tab here is units.

Here's where you would actually give the number of units that are in it and what some of their specific characteristics are and common spaces. You would name common spaces and answer questions about them and then that would be entered in the corresponding worksheet once you click update, close or add, depending upon the form. For example, here you have update building and add building.

So once you had answered all these questions you would either be correcting an existing record about a building or adding a new building. So these -- this form here more or less stands by itself of the names of people. Property, sites, unit type definition, buildings, units and common spaces, utility type and usage and inspection sample, all of these go together, because they describe what's physically present at the property as part of what we call the building inventory.

Components, alternatives and repair and replace recommendations are the individual parts of the buildings, like windows, and carpet, and wall finishes, and toilets, and doors, and so forth. So these are the things that would be items that would need replacement or repair or some other action over time.

The narrative section is simply where some of these things are explained and the financial factors for them is what will be filled out -- it's -- well, in the insured mortgage basis, it's filled out by the lender. In the case of PRACs, I think it's going to wind up being filled out by the account executive in order to fix the financial schedule. And Jen can correct me on that, if necessary. This last item essentially won't be used by people with PRACs projects, because this is a lender form that's used in FHA mortgage insurance.

And so it'll just sit there blank for PRAC purposes. So now I want to show you a completed form and this -- none of this is real information. This is basically a mock-up and it's actually -- and this mock-up is available to you as a sample document. If you go back to that homepage back here, you'll find here sample docs and I'm not sure where this is, I have to look a little bit.

Sean: David, it's under training.

David Wilderman: It's under training. There we go, sample docs. So if you click here, you'll get a .zip file, which if you open, you will find a version of this particular CNA completed as you see here. And this is a bit larger than many CNAs will be, because we tried to put everything in here, including the kitchen sink; that is, all the different little features or things that might come up.

When you're trying to do a CNA, we've tried to pack into this one when in most cases, people will only experience some of these things, they won't experience all of them. So for that reason, this particular CNA is bigger and maybe more complicated than the normal one would be. But you can see here, when we open the form -- and the bigger the file the more complex it is, the longer it takes to open the form.

The effect of the form is actually to recalculate everything in the spreadsheet. So you can see here that we have ABC Capital Markets and there's ABC Capital Markets there. So if we click that, all the record that we have for ABC Capital Markets shows up. ABC Capital Markets is a lender. There are different roles that people can play and this is the dropdown list that you would use to identify who this person is that you're identifying or who this firm is.

So it might -- in a PRACs case, it might be the current owner, it might be a -- the needs assessor here and there could be maybe a property manager or someone else. Maybe you've had a consulting engineer or something on the side because you've got a particular problem that needs to be addressed, maybe you're doing some energy upgrades.

So maybe you've had an energy auditor there, that sort of thing. So whoever's contributing to this report gets named and their contact information provided. So moving onto the property form, this is basic information about the property, where it's located, how it's identified. This tool is set up for both HUD and USDA to use. So you -- if -- in another world, you would be using USDA and not HUD, but in this case, if you're a PRAC property, you're always going to be selecting HUD.

You're going to use an ARMS [ph] number, you're going to tell us whether you're in a metropolitan statistical area or not, whether it's family or elderly. There's a seismic item here that needs assessors will more readily understand, but basically, it's to indicate whether or not your property is located in an earthquake zone, it might need some attention to life safety issues related to the consequences of an earthquake.

So you'll see here multiple tabs inside the form. The assessment scope is basically information about the particular assignment that the needs assessor has. He's answering some questions about why am I here, why am I doing this work and what program am I talking about? So if it were a PRACs deal, I would go here and select asset management.

I wouldn't select application development, because I'm not applying for an FHA-insured mortgage and that's what that means. If I'm doing a PRACs deal, I'm going to select asset management, because that's who's going to review this. And I wouldn't use this particular list. I think I would leave that blank for the time being. In a future release, we're going to add some other list of values that would address more specifically asset management programs.

Answer some questions about how many units are vacant, what's the percentage of units that I'm going to sample, whether or not I'm doing an energy audit and some of these other questions. If I needed to know how much work I'd already done on the CNA and whether I'd counted all the units or not or if there were two or three buildings, whether I had all the buildings and so forth, this is summary information that's auto-calculated and updates every time you save or open a form and it basically gives the needs assessor elementary information so that he can keep track of where he is as he's doing this work. Information on the site, you'll notice here this is blank until I actually click the name of the site. Most people will only have a single site, some will have more.

When you have a single site, it's just as well just to name it single site and let the rest of the stuff follow. So you answer some basic questions about what's on the site and that's there is to this. If you had multiple sites, then you would name a site here and maybe it would be 123 Main Street and then you would click add site and it would add the site.

Now I'm going to delete that site, because I don't want to mess with my file, but that's what -- how you would do it. So most -- that's the functionality of this form, it's how most of them work. There's an update or add button and usually some -- a delete button or modify button and if you use this tool in conjunction with the instruction guide, you should be able to work your way through it.

You'll occasionally have a question and when you do, you can use that ask-a-question feature that I mentioned already. So a key thing you need to do -- that a needs assessor would need to do would be to identify the units, the unit types. So we have four unit types in this particular building and you'll see each time I click one why the information that we've entered that defines that unit type is present.

A unit type is essentially a number of bedrooms, a number of baths and a number of square feet. So those three things are the basics and of course, they always have some amount of plumbing and this is where we count the plumbing fixtures and so forth by unit type and then the system

counts them all up so that if we are developing measures to save water or do other water-saving features, we have some way to calibrate it and count it.

So next we have buildings. And again, you have to identify a site first. There might be several, but in this case, we only have one and when I click on that site, it gives me the list of the buildings that I've identified. So let's look at, say, building D. When I click on building D, this is all the information that I entered to describe building D.

And if I went here to unit types, these are the two unit types that are found in building D and if I -- these are the two unit types that are present at the site, but not in this building, but if I found that it were true that this building had one bedroom, one bath units, then -- I'm sorry, it's backwards. This building has one bedroom, one bath units and three bedroom, two bath units. These units are present at the site, but not in this building.

But if I were going to change what was in that building, because I just discovered I -- if there was a unit -- this unit type was there and then I -- I don't know what that's doing. Then I would click that and click assign and it moves -- it shows now that this two bedroom, two bath unit is present in building D on single site. Well, I'm going to remove it, because it's not actually there. So you also notice you can delete buildings and copy buildings.

So just like in a Word document or some other software file, maybe you have a template or a standard set of language or something and you want to re-use it somewhere else, you cut and paste or copy, but maybe you have to change one sentence to make it fit the new circumstance. So there's a strategy to how you would copy buildings and obviously, you would probably want to copy them after you had added all the possible features that need to be duplicated.

Or then you would minimize the number of things you would have to modify after you had copied it. I think I made sense with that, but if I didn't, someone ask me a question. Units in common spaces, same arrangement, building -- and here's where you actually count the units and you tell us whether mobility-impaired or sensory-impaired or whether they happen to have an end-unit garage.

There won't be many end-unit garages on properties that I can think of, but I suppose it's possible. An end-unit garage is like a townhouse or something where there's a garage in the unit, it's part of the unit and only the tenant living in that unit can use that garage, kind of like your house. Unit type, utility type and usage, this is where a needs assessor tells us what the utility package is at the property and who's paying for what. So tenant electricity we go here, common electricity would be defined here.

Maybe the water and sewer is paid in as a single bill and maybe it's tenant paid, that's possible or maybe it's landlord pay. So you'd select that one and you would name unit of consumption, however your bill is measured, and the rate per unit and when that rate was effective and who the provider is, county water and sewer company, whatever.

Inspection sample, this is pretty important, because as I mentioned before early on in the property form or -- and the property worksheet, the needs assessor defines the percentage of the units in the property that need to be sampled and that's a guidance question. The MAP guide, or

multifamily-insured properties as that you sample 25 percent of the units unless the property is less than 10 years old in which case you sample 10 percent of the units.

Sean: Hey, David.

David Wilderman: Yes.

Sean: Yes. Hey, we just wanted to make sure that we had time to get to the validation engine and I know this is a very important form.

David Wilderman: Okay. So this is pretty well how the forms work. Each one has a particular purpose, a component. I should at least show you the components. The components -- there are a lot of possible components; right? So we had to develop a way to put them in categories or buckets. And for the needs assessor, he needs to be able to have a way to say, I'm standing in front of a water fountain, how do I -- where do I put it in this spreadsheet?

So he goes here to a new category, which is only eight or nine items, and these are very broad categories, down to a narrower category. So we select that and then we get a second list over here more specific and if we select one of those, then we get another list more specific yet. And after we've selected that, then we go down here and we name what we're actually looking at and that gives it a four-part sequence, a need category, a need item, a component type and a specific thing.

All of these up here are more or less fictitious. They're just categories or buckets. This is particular item, but it is -- this last bucket here of these three, the component type, that establishes what the estimated useful life of that item is. If you read all this in the instruction guide, it'll help. Alternatives --

Sean: David, we --

David Wilderman: -- are what are suggested to replace each of those things and then there's a recommendation about what should be done if there are multiple alternatives. So once you're done with this file, you would go to the validation engine and that's right here and again, you can locate this -- the URL for this on that CNA e-Tool homepage that I described. And this is fairly simple, you choose a file.

Well, obviously, after the needs assessor has completed or partially completed his assessment tool file, he's saved it, he's got a name. So he's going to go look for it on his PC. Now, I'm going to look -- I'm -- that's a particular deal, I don't want to look at that one. So I'm going to go to the particular one that we had open before that was completed, our sample document.

Sean: David, while we're doing that, would you like me to ask some questions?

David Wilderman: Sure. Go ahead.

Sean: Okay. We have a question from Janet. "Is the CNA e-Tool required for an increase in the monthly R4R deposit from $1,253 to $16,128 if budget was submitted in June, 2017?" So I'm thinking she's meaning $1,600 [inaudible].

David Wilderman: I don't know; that's a Jen Larson question.

Jennifer Larson: Yeah. And I would say if -- for anything that's in progress, you can proceed with the request as it is right now. Anything that is submitted after February 1st will need to submit the CNA e-Tool for that level of increase.

Sean: Great. Next question, "What is the average cost of the CNA?"

David Wilderman: Well, that obviously depends on the size of the property, its location, whether it's remote or not, how far the needs assessor may need to travel, how long he has to be on the site and that sort of thing, but a typical capital needs assessment will range in the vicinity of probably $4,000 to $6,000.

Sean: Okay. "Are the utilities required? I'm assuming they're meaning in the assessment tool?"

David Wilderman: Well, you should name the -- you should describe the utility package. I mean, you know who your -- you know what utilities are used on the site and you know who's providing them. And so, yes, that information should be present.

Sean: Okay. "Does HUD have an approved list of assessors they would recommend to owners for bid comparison?"

David Wilderman: No. We do not recommend needs assessors. If you're feeling like you need to have a capital needs assessment done in the near future and it needs to be done in the e-Tool, then a good thing to do would be to call an insured FHA lender, and that would be for multifamily, and ask them who they might recommend, because every one of those lenders has several needs assessors that they use.

They usually don't rely on just one and they'll know and would probably be happy to tell you whether or not they had been satisfied with the work and whether or not the -- that particular firm's knowledge of the e-Tool was good, bad or indifferent.

Sean: Okay. Next question, "Do you need a needs assessor or can an architect do it?"

David Wilderman: Architects are professionally qualified to do it. That is, they would qualify under the MAP guide as a qualified needs assessor, but what will be as a matter of actual practice, most architects don't do it and would find this whole approach strange to them. Now, that's in general. I am sure there are specific architects who are more -- where their business practice is more engaged in property inspection or that sort of review and they might very well be interested and able to do the work. But if it's purely a design architect, it's unlikely that they would want to get involved.

Sean: Great. So now that we only have eight minutes left do you want to go ahead and show us the public validation or the validation response?

David Wilderman: So I've located the file on my PC that I want to validate. So there it is and I just click open here and it puts it in that little choose file box. Okay. There it is now. Now I click this button, validate. A little blue circle goes round and round for a while. And I think the fact

that I have so much open on my machine, plus this webinar thing it makes things running a little slower, but we've gotten this fairly quickly.

So see here, this is what we call the validation response. It says CNA validation up here at the top and this gives you the name and so forth of the property and it tells you how many components I saved, how many alternatives I saved, how many recommendations were saved, total number of common -- other details about the property that I just validated and here are the panels that give you the results.

Let's look first at the financial schedule, because this will be relatively familiar to some of you. So you'll see here I didn't make an initial deposit, I've got some other -- I need some more -- I have some work to do here to get this thing into balance. So I need to make some entries in the file in order to have enough money to cover the needs, because right now I'm negative -- not good.

So basically, I need to go back to that financial factors form and add some cash. The other thing, though, if I'm a needs assessor I'm going to be most interested in is in the flags. Now, this CNA has a good number of flags, the reason that I explained earlier, that it's a complicated one that we put everything, including the kitchen sink in.

But among the things that you'll find here are first of all, if you've got a lot, you could use this detach button and look at an enlarged version of this report. You'll notice here there's something called severity on these flags and there's an I in each of these -- for each of these. An I means it's informational.

So I can read that, I can see something that might be relevant to me about it and it tells me something -- oh, it tells me that each of these buildings has to comply with the requirement -- design and construction requirements of the Fair Housing Act. Well, that's useful, because that means it has to have certain things that are through about its physical arrangement of units and of common spaces. Here are four severe flags. Well, that's not good, because I won't be able to submit this or I won't -- I have to make these severe flags go away.

S means severe. So this is an error that I've committed that I have to cure. So it says here I've left the estimate period field blank. Oh, well, yeah, that would be a problem, because if you don't tell a machine how long the estimate period is, it doesn't know how to calculate a financial schedule or where to put all the repairs that we've identified, because we haven't said the number of years that are covered.

So this is a required piece of information and this is telling me that I didn't provide it. So now I have to go back and provide it. I didn't -- as we already noticed on the financial schedule, I didn't provide an annual deposit. Well, this is telling me what my mistake was. Similarly, you have a number of warning flags.

These are flags that you may or may not be able to cure. For example, here it says, compliance requirements not met for a Fair Housing Act covered unit. It tells me which building -- which site, which building, which unit. If I spread this out some more, it's actually going to give me the unit number, unit number three, building C on a single site.

So in my inspection report, I answered a question that said, does this unit conform to the requirements of the Fair Housing Act? It's a covered unit, it should and I said, no, it doesn't. Well, that's a problem. So this flag is telling me that that unit is a problem. So what that means for the needs assessor is I'll have to propose a repair or a fix to correct that problem.

So that's basically how flags work, information, severe and warning. If you have a warning flag, the needs assessor has to write an explanation, what we call a flag note. If you have a severe flag, the needs assessor has to make it go away. If you have an informational flag, you take note of the information and use it as you see fit, but it does not require a response.

Sean: David, this is Sean. We only have about three minutes and we have a couple of outstanding questions that I would like to ask you before we hand it back to Jen for close-out. So question, "Wouldn't it make more sense to have CNA certified in this program?"

Sean: So I guess they're meaning using the FHA submission process. What's your thoughts about that?

David Wilderman: You mean --

Sean: Yeah. The PRAC process is a little bit different than the FHA lender process submission.

David Wilderman: Why -- you mean, the question is why are we not using the submission process?

Sean: Right. But I think what --

David Wilderman: I think the reason we're not using the submission process for PRACs is primarily the fact that there's -- the submission portal is a secured portal and you have to have a particular user ID and password and we have a way to provide lenders with user IDs and passwords.

And lenders are professional underwriting agents and have that responsibility for insured mortgages for -- when we have a PRACs project, we don't have an intervening lender or other intervening third party that we can provide user ID and password to and allow them to submit.

Sean: Okay. "Can owners request advanced R4R funds to pay for the CNA?"

David Wilderman: Yeah. I think the answer to that is yes.

Jennifer Larson: Yeah. This is Jen. They would need to talk to their account executive about that, but yeah, especially if you have a bid for a CNA and completing one, you can get advanced funds. "How often do the CNAs need to be done?"

Sean: Somebody had just asked that.

Jennifer Larson: So a general rule is every 10 years that they're good for. They plan for 20 years, but we ask for them after 10 years, but again, for PRAC projects, you only need to submit them

if you're making an update to your -- requesting a rent increase that includes a change in your R4R, a significant change to your Reserve for Replacement deposit.

Sean: But if you're --

David Wilderman: Okay. If you're the owner of a multifamily property and you have a responsibility to either a lender or to an investor or to HUD for the condition of this property and of course, your tenants, you -- it only makes sense that you would periodically review the physical condition of your property and plan for meeting the physical needs that are going to come, whether you consider that good or bad news or not, it's going to happen. So you have to plan for it.

Sean: So to Jen, it is 3:00 o'clock now. Did you want to say a closing --

Jennifer Larson: Sure. So just wanted to thank everyone for your time today. I know there was a couple questions that we didn't get to. This training is going to be recorded and posted online so you can watch it again and there's other resources on that CNA e-Tool page for you to look at. Also encourage you to use the ask-a-question portal if you need -- if you have questions, we'll definitely respond to them as soon as we can.

Sean: Okay. Thank you.

Jennifer Larson: Thank you, everyone.

(END)