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## Chapter 4 Application Processing

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### 4.1 Introduction / General

Only an approved MAP Lender and MAP-approved Underwriter may submit an application for insurance using MAP. Lenders should contact the MF Regional Center's Workload Distribution Lead to discuss the submission of an application for insurance using MAP.

Approval of Lender's Reviewers. The lender is responsible for assigning a MAP-approved Underwriter, who is responsible for selection and management of their third-party consultants. If a Regional Center or Satellite Office has concerns about an underwriter or a proposed third-party consultant, they should contact the Multifamily Asset Counterparty Oversight Division before responding to the lender.

The lender must advise HUD who will be the Construction Loan Administrator, if applicable, prior to the Firm Commitment stage if the closing and servicing lender has been identified, or as soon as identified.

### 4.2 Stages of Application

#### A. Refinancing Applications (Sections 223(f), 223(a)(7)).

1. Concept meetings (or conference calls) with the MF Regional Center or Satellite Office are optional and generally not needed for refinancing transactions. They are recommended for projects in volatile markets, Large Loan requests (per Section 3.10), questions about the scope of repairs, significant cash out (e.g. \$20M or exceeding 50% of the loan amount) , if there are concerns about marketability, environment, competing proposals, or if there are other unusual risk factors. Upon the lender's request, a Concept meeting will be scheduled either in person or by teleconference as soon as workload permits, generally within two weeks. Site visits by the appropriate HUD staff may be conducted if practicable. Please refer to Appendix 4 for concept meeting exhibits.

HUD will respond by written letter or by email within 5 business days of the concept meeting. Consideration will be given as to the effect on other insured projects in the subject's market area that are already in the pipeline or in portfolio, borrower experience

and overall feasibility based on the exhibits and information presented. Depending on the completeness and quality of the submission, HUD may recommend that the lender submit an application, request additional information, specify conditions or recommendations to consider, and/or identify specific risks or weaknesses of the proposed project that should be addressed. The written response to the concept meeting does not represent a commitment from HUD and this should be clearly stated in the response. Based on the preliminary information submitted, HUD may encourage an application submission but not approve it after review of the actual application.

2. Firm Commitment application submissions will be reviewed for completeness, processed, reviewed and underwritten and either recommended for approval or approval with conditions, returned to the lender for modifications, or rejected.
3. Loan Approval is either by National Loan Committee, Regional Center/Satellite Office Loan Committee, or Regional Director signature authority. Loan Committee requirements are specified in administrative memoranda to HUD staff.
4. Firm Commitment issuance. The MAP Lender may prepare a draft firm commitment for the project for inclusion in the application to expedite HUD processing.
5. Firm Commitment acceptance and rate lock. Firm Commitments may be extended up to no more than 180 days from date of issuance, plus a discretionary 60 calendar days for good cause to be approved by HUD HQ. At the expiration of all permitted extensions, a reopening fee is required. The reopening fee for refinance and new construction/substantial rehabilitation programs is \$.50 per \$1,000 of the loan amount and the reopening request must be received within 90 days of the expiration of the firm commitment, plus all extensions. In addition to updated third party reports, all mortgage credit documentation, including financial statements, credit reports and an updated Form HUD 92013-SUPP are required. The lender's narrative should confirm that no substantive changes have occurred in the underwriting or the development team as a result of the extension of time. The new commitment, if issued, will remain in effect for 180 calendar days.
6. Closing. A Closing Coordinator will be assigned to the transaction to facilitate communication between the lender and HUD housing and OGC staff and to provide instructions and guidance on the closing process.

#### B. New Construction and Substantial Rehabilitation Programs.

1. Concept meetings (or conference calls) with the MF Regional Center or Satellite Office are strongly encouraged for market rate new construction or substantial rehabilitation transactions (unless waived by the Regional Director) and optional for affordable

transactions. They are required for projects intended to be submitted under the LIHTC New Pilot Program. The process for concept meetings is the same as for refinancing transactions. Lenders may submit applications for market rate deals without a concept meeting; however the application fee will be considered “earned” at acceptance of the application for processing and will not be refunded if the application is rejected or not approved under terms acceptable to the lender and borrower.

The lender may request to skip the Pre-application stage to go directly to Firm Commitment application. Lenders should consider such requests only for projects in strong markets, where the lender and borrower acknowledge in writing the risk of a rejection and that the application fee is nonrefundable, so long as there are no environmental issues, and the lender, borrower, and development team members have previous positive experience with FHA Multifamily financing.

2. The Pre-application stage for new construction or substantial rehabilitation is designed to permit HUD to review the feasibility of a proposed project prior to the lender, borrower, and HUD spending the time and expense involved in Firm Commitment processing. Pre-application submissions will be reviewed for completeness, processed, reviewed and underwritten, and either recommended to be approved, approved with conditions, returned to the lender for modifications, or rejected.

If an invitation letter is issued, the lender must advise HUD in writing within 30 calendar days if it plans to submit a Firm Commitment application. If it fails to notify HUD, the invitation letter will expire, and the lender will be required to repeat the Pre-application process. Letters of invitation are issued and effective for 120 calendar days.

The application for a Firm Commitment must be submitted within 120 days of the date of the letter of invitation. The Regional Director may or may not authorize one extension up to 90 days. The HUD Underwriter will review the lender’s extension request.

If there is a justifiable request by the lender for an extension of time beyond the time period allowed (210 total days), the Regional Director must request approval for a further extension from the Director of the Office of Multifamily Production, in HQ stating the additional time requested, the Regional Director’s recommendation and the reasons for the extension.

3. Loan Approval is either by National Loan Committee, Regional Center Loan Committee, or Regional Director signature authority. Loan Committee requirements are specified in administrative memoranda to HUD staff.
4. Firm Commitment acceptance and rate lock. Firm Commitments may be extended up to no more than 180 days from date of issuance, plus a discretionary 60 calendar days for good cause to be approved by HUD HQ. Guidance related to expired commitments and reopening fees for new construction and substantial rehabilitation programs is identical to the guidance for refinancing programs found in Section 4.2.A.5 of the MAP Guide.

5. A pre-construction conference is required prior to Initial Endorsement / Closing.
6. Closing. A Closing Coordinator will be assigned to the transaction to facilitate communication between the Lender and HUD housing and OGC staff to provide instructions and guidance on the closing process.
7. Construction period.
8. Cost Certification. Provides for submission of documentation to HUD upon completion of construction in order to reconcile all construction related costs in order to determine the maximum insurable mortgage.
9. Final Endorsement. Represents the endorsement of the final loan amount and payment of all outstanding construction obligations.

#### C. Appeals.

Lenders have the right to appeal HUD decisions regarding the issuance of an Invitation for Firm Application or Firm Commitment with which they do not agree. There is no appeal process for the concept meeting recommendation. Other parties (borrowers, third parties) do not have a formal right to appeal. Appeals must be filed in writing, delivered electronically and by hard copy, to the Regional Director. The appeal must explicitly address the basis for the appeal and disagreement, and include supporting documentation and background information, including a copy of relevant previous correspondence and reports.

The Regional Director will assign the appeal for review to staff not involved in the original decision. The Regional Director will issue a written response to the Lender within 30 days of receipt of the appeal, or such other period of time as practicable. If the original decision being appealed was a result of a Regional Center Loan Committee which the Regional Director participated in, the Regional Director will either hear the appeal or may request it be treated as a second level appeal and referred to HUD Headquarters.

If the lender is not satisfied with the appeal decision, they have the right to a second level appeal, which should be addressed to the Director of Multifamily Production in HUD Headquarters. The Director will assign the appeal for review to technical support or other staff not involved in the original decision. The Director will issue a written response to the Lender within 30 days of receipt of the appeal, or such other period of time as practicable.

## **4.3 Lender Processing**

### A. General Requirements.

1. Borrower engagement letters are expected as a prudent business practice, but not regulated by HUD. Only one MAP lender may be engaged at a time. If borrower changes MAP Lenders prior to or after submission of an application, the borrower must disclose the processing history, and the MAP Lender submitting the application must address it in the Underwriter Narrative Executive Summary.
2. Lenders must have a written contract (engagement letter) with Third Party reviewers; HUD recommends extension clauses as part of the contract.
3. Electronic submission of applications material, the Standard Underwriting Narrative and the LIHTC Summary Report (LIHTC transactions only), are required. Application checklists are in Appendix 4. HUD will in the future continue moving to complete electronic submission and processing through a web-based portal.
4. MAP Lenders are required to comply with the procedures and management controls specified in their Quality Control Plans.
5. Pre-Approval of Principals with Large Concentrations of FHA Insured Debt. The lender must perform a thorough mortgage credit and creditworthiness review, and obtain HUD approval, before submission of an application in cases where principals have greater than \$500,000,000 of outstanding FHA insured debt. Borrowers previously approved for amounts between \$250,000,000 and \$500,000,000 must continue to obtain HUD approval upon expiration of any existing decision memo or when approval authority is exhausted, whichever first occurs.

Please refer to Section 8.8 for additional information.

6. Lenders may produce their own copies of HUD forms, so long as the recreated forms have the correct Office Management and Budget (OMB) numbers, HUD form numbers, OMB expiration dates, and approval numbers, form titles, and are identical in content and order of the line items on the MAP Form. All forms must be completed subject to their respective instructions. (See HUDClips

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/administration/hudclips/forms](http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/forms)

7. A complete application submission includes one original, one additional hard copy and one electronic copy. The additional hard copy should be in a separately bound mortgage credit file, and the rest of the application containing the exhibits that do not contain sensitive personal and Privacy Act protected information. A standardized underwriting narrative and more structured application checklist are now required as well.

## B. Processing

The lender's MAP approved Underwriter is responsible for oversight and performance of the following tasks:

1. Data collection;
2. Due diligence;
3. Loan Processing;
4. Mortgage Credit review;
5. Underwriting;
6. Obtain internal loan approval (from the lender's loan committee or other process);
7. Submission of the loan application to the appropriate Regional Center or Satellite Office and the application fee to Pay.gov. See Appendix 4 for pay.gov instructions;
8. Responding to HUD deficiency letters and requests for information;
9. Follow-up to get the loan to closing;
10. Coordination with construction loan administration, cost certification, and servicing.

#### **4.4 HUD Processing**

##### **A. General Requirements.**

1. Under the direction of the MF Regional Director, the HUD Underwriter or third-party contract underwriter for HUD is responsible for management of the application processing, review, underwriting, loan approval and closing processes, as well as coordination of turn over to Asset Management at closing.
2. HUD review is a risk-based, underwriting approach. Technical compliance and processing must be correct and documented, but the primary purpose of HUD's review is to determine if the loan application is an acceptable risk to the FHA insurance fund.
3. Standard Processing Times are detailed in Appendix 1.
4. The HUD Underwriter will review all application exhibits and determine what technical reviews are necessary, if any, given the level of complexity and risk of the transaction and program type, and perform or arrange for the underwriting and mortgage credit analysis.

Risk-based processing and the single underwriter model will allow qualified underwriters to review architectural/cost exhibits, appraisals, and market analyses, and solicit the assistance of appropriate HUD technical specialists to perform additional reviews as necessary depending on the level of risk and complexity of each individual transaction. A Construction Analyst may be called upon to advise the underwriter in his or her

review, or to perform a limited review or full review, as determined by the Production team. The level of review by the HUD Construction Analyst may vary but, the work required from the lender's third-party provider has not changed. The MAP Lender and third-party provider are responsible for determining the acceptability of the physical improvements, providing conclusions essential for underwriting determinations to minimize mortgage risk, and ensuring compliance with MAP Guide instructions and guidance. Similarly, the HUD Appraiser may be called upon to act in an advisory role or perform limited or full reviews as deemed appropriate by the HUD Production team.

5. HUD has certain responsibilities which it does not assign to the lender, including responsibility for the environmental clearance, approval of the owner's Affirmative Fair Housing Marketing Plan, Previous Participation review, and issuing the commitment for mortgage insurance.
6. HUD staff must perform a site visit for all applications in which an Environmental Report is required. Environmental approval is documented by HUD in the HUD Environmental Review Online System (HEROS). The lender must submit an environmental report to HUD using the HEROS system for all projects submitted under MAP. The environmental review in HEROS must also be certified by the Production Division Director as part of the Firm Commitment approval. The site visit is typically performed by a HUD Appraiser, Construction Loan Analyst, Senior Underwriter, or other experienced HUD staff or managers with training and experience in environmental review requirements after review of the third party and lender's environmental analysis. HUD Regional and Headquarters Environmental Officers may be called on to assist if and as questions arise.
7. Applications that the Regional Center or Satellite Office determine to be unacceptable will be returned to the lender and HUD will retain the application fee if the transaction completed screening and entered underwriting and technical review. If it is clear at the screening stage the transaction is not approvable, it will be rejected at that stage. Lenders repeatedly submitting premature, materially deficient, or otherwise unacceptable applications should be referred to the Multifamily Asset Counterparty Oversight Division.
8. Review of MAP Lender Team Members. HUD must check the Limited Denial of Participation List and the Consolidated List of Suspended and Debarred Contractors for all proposed lender team members, and review the proposed MAP Lender and underwriter, and third-party resumes. If there is a concern with past performance, the Regional Director will consult with Multifamily Asset Counterparty Oversight Division for guidance on how to proceed. If appropriate, adverse findings or conclusions should be communicated to the lender within 10 business days.

B. Processing.

Under the direction of the MF Regional Director, Production Division Director, and Underwriter Branch Chief, the HUD Underwriter is responsible for the oversight and performance of the following tasks:

1. Concept meetings and follow-up communication;
2. Reviewing of proposed MAP Lender and Underwriters;
3. Working with the Workload Distribution Lead for the Region and other appropriate officials in managing workload assignments for new applications;
4. Acknowledging receipt of the application;
5. Ensuring the screening of applications for completeness, and fiscal controls for new application submissions;
6. Using the New Early Warning System (NEWS) to determine what level of underwriter and technical specialist review is required given the complexity and risk factors associated the transaction;
7. If during underwriting and technical review, HUD staff determines the application to be deficient, advising the lender who will have 5 business days to correct the defects or deficiencies. If the defects/deficiencies cannot be corrected within the 5 business days, or such other time frame as the Regional Director deems appropriate, HUD will preliminarily reject the application and stop processing;
8. Performing technical reviews of lender underwriting and third-party reports, or arranging for HUD technical specialist reviews for higher risk or more complex transactions when needed;
9. Consulting with and obtaining reviews from Asset Management, Legal, Labor Relations, EMAD, FHEO, and other HUD staff as appropriate depending on the program requirements and particular transaction features; recommending transactions for loan approval (or rejection);
10. Determining whether there are any open referrals to HUD's Departmental Enforcement Center (DEC) relating to the Project, the borrower and/or the proposed management agent; and working with the DEC to resolve the open DEC referrals either prior to, or in tandem with, closing.
11. Preparing and issuing Pre-application Invitation letters and Firm Commitments;



12. Coordinating the closing process with the Closing Coordinators, OGC, the lender, and borrower's team;
13. Coordinating with Asset Management in turnover of files, briefing about conditions of the Firm Commitment, and providing information necessary for Asset Management's risk rating of the transaction.

C. Construction Period Responsibilities.

1. Under MAP, HUD must approve the initial and final draws.
2. HUD will perform or contract or otherwise provide for inspection duties and will provide copies of the Trip Report to the MAP Lender.
3. The MAP Lender will prepare and approve the documents required for the interim draws during construction.
4. HUD must approve the construction amount for each item in the initial and final advance and for each Change Order during construction.

D. Servicing.

MAP makes no changes in procedures for servicing or asset management, except for servicing lenders with prior approval for delegated responsibility for repair escrow administration. See Chapter 1, Section 1.2, paragraph 3 for guidance on MAP-approved lenders who only originate loans and transfer loans to another FHA-approved lender for servicing.

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