Rob's Quick Thoughts on the 2016 MAP Guide AND the MIP Reduction Notice

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Previously on March 02, 2015, I wrote a piece on the then Draft MAP Guide and expressed much excitement; however, little did I know I had to bottle my excitement for the next 12 months! At this year's MBA-CREF conference in Orlando, the HUD Multifamily Deputy Assistant Secretary (DAS) gleefully announced the release of the Final 2016 MAP Guide. But there's more, because concurrent with the release of the 2016 MAP Guide was the issuance of a Federal Register notice, which effectively reduces the Mortgage Insurance Premium (MIP) for affordable and green properties in the FHA portfolio. Wow, a double whammy and it feels like New Year's, Easter, Thanksgiving, Hanukkah, Kwanza, Festivus, and Christmas all rolled into one. Way too much excitement for a HUD-geek like me!

Below are my initial thoughts on these two (2) complementary policies, which are in no particular order primarily because my synapses are firing randomly thinking of the possibilities for FHA mortgage insurance:

1. **Overall Comment – HUD Working as a Partner with the Industry**
   Kudos to the HUD administration and in particular Ted, Priya and Ben. In my 20+ years of working closely alongside the Department, I have never experienced such listening to the industry – truly a partnership where the beneficiary is affordable rental housing. The Draft MAP Guide comment period worked as it should and resulted in a collaborative compromise to make the 2016 MAP Guide effective for HUD's goals: affordability of rental housing and reduction in energy expenses. HUD understood that the risk reduction policies of 2012 hindered access to capital for the affordable rental housing markets and they committed to change – thank you!

2. **MAP Guide – Reserve for Replacement (R4R) Changes**
   HUD got it right! The 2016 MAP Guide reserve for replacement (R4R) funding schedule mathematics essentially repeals the prescriptive controls of HN/ML 2012-25. If you haven't heard the news, the R4R schedule remains a 20-year study period; however, only the 1-10 term is funded by the IDRR and ADRR, with the later years funded by accrued value and amortization. HUD listened to the industry and I want to give a large shout-out to all of those who worked countless hours to demonstrate past projects, perform R4R modeling, and openly discuss common sense approaches to capital needs assessments (*you know who you are and kudos for the assistance!*). In our most recent R4R models using the new funding arrangement, we have found younger properties in good physical condition to be on a level playing field with Fannie and Freddie! I could go on and on, but I think

this is the #1 biggest change within the new 2016 MAP Guide which will allow for greater funding and preservation of affordable housing.

3. **MAP Guide - 223(f) Non-Critical Repair Increase**
The dollar threshold for substantial rehabilitation has been greatly increased from the previous limit of $6,500 per unit. The new level defining substantial rehabilitation is $15,000 multiplied by the published High Cost Percentage (HCP) index. We can now avoid prevailing wages (Davis-Bacon Wage Rates) for repairs nearly similar to that allowed in the LIHTC Pilot. These higher repair limits, combined with the MIP reduction notice, should encourage improved physical conditions, deeper energy retrofits, and greater access to capital for housing.

4. **MAP Guide and MIP Reduction Notice - Green Underwriting Standards**
The 2016 MAP Guide contains the useful underwriting nugget of allowing 75% of presumed energy savings between pre- and post-rehabilitation to be recognized. While this is a great change to incentivize properties to Go Green, many in the industry felt it was too little. What else could HUD do to encourage energy reduction in housing and work towards the President's Climate Action Plan? Well, how about drop the MIP to 25 basis point if you commit to Energy Star or green building certification? I didn't see that coming, and I commend HUD for their innovative approach to green their portfolio. If you want more information on the MIP Green Underwriting Standards please read my other white paper "How to Get to 75".

5. **Streamlined 221(d)(4) Process**
The previous streamlined processing for LIHTC projects using Section 221(d)(4) has been extended to market rate new construction and substantial rehabilitation projects. The process for acceptance to the streamlined process begins during the concept meeting or pre-application phase with the MAP Lender demonstrating that the entire team has successful prior HUD project experience. Streamlined processing means that less than 100% complete plans and specifications may be submitted with the application for Firm Commitments, with 100% complete design documents due a minimum of 30 days prior to closing. Our experience with pilots in this program have demonstrated that effective use of the streamlined process can shave greater than 45 days off a typical 221(d)(4) transaction schedule. Those in attendance at the MBA-CREF conference heard that the streamlined process will be greater defined in an imminent Mortgagee Letter (ML).

6. **MAP Guide – Energy Audit Requirement**
While most may not notice this change between the Draft and Final MAP Guide, I found the revised trigger to an energy audit significant. Originally, HUD was going

to require all properties over 10 years of age to have an energy audit. However, we stood up and said, "Age is not indicative of energy performance and please do not penalize all properties with this requirement." Once again HUD listened and adopted the recommendation that energy benchmarking should be the trigger for an energy audit, and future energy retrofits should be voluntary not prescriptive. This small change is likely to save borrowers thousands of dollars, while still providing the primary purposes of energy awareness and benchmarking of HUD's portfolio.

7. **MAP Guide and MIP Reduction Notice – Accreditation and Licensing of CNA Providers**
   I have been a vocal critic that the 2008 Giant Fiscal Crisis caused great damage to the FHA markets. I know, many readers will say that is crazy talk – just look at the huge spike in HUD loan volume following the crash. Most FHA lenders had some of their best years following the crash because HUD multifamily is economically counter-cyclical. But let us not forget that most of the 2012 HUD risk mitigation controls were directly related to the record volume and the new CMBS-seasoned 3rd parties that entered the HUD markets. The 2016 MAP Guide rolls back many of these risk mitigation controls. I commend HUD for the new policies, but my favorite is the required licensing and accreditation of needs assessors and energy auditors. HUD understood that you don't correct PCNA providers by implementing prescriptive controls, rather by requiring a higher level of training and professional accreditation. MAP Lenders need to look carefully at their third-party providers and see how many field staff qualify as Lender Construction Analysts, BPI-MFBA, RESNET-HERS, CEA, and CEM; because, if not, you may be contributing to the next risk mitigation event by HUD (which we all don't want to happen again - ever).

8. MAP Guide – Suspension of the CNA e Tool Platform
   I previously noted that the Draft MAP Guide contained reference to the forthcoming Capital Needs Assessment e-Tool 68 times. However, regarding the 2016 MAP Guide, the most important reference to the CNA e Tool is in the Transmittal Letter, which suspends use of the new electronic reporting platform until a future undefined date. It appears the tool is not ready for industry use, which is fine by us, as it will have a steep learning curve potentially increasing study costs to the borrower.

I am sure there are more nuggets in those 764 pages of collaboration between HUD and the housing industry. I just need to find the time to read them all!