

U.S. Department of Housing and Urban Development

Special Attention of

All Multifamily Hub Directors
All Program Center Directors
All Project Managers
All Field Office Directors

Notice H 2011-35

Issued: December 29, 2011

Expires: December 31, 2012

Cross References: Notice H 2010-13
Notice H 2011-4

SUBJECT: Hub and National Loan Committees

I. Purpose

This Notice extends and revises Loan Committee Housing Notices H 2010-13 and H 2011-04, and all previous administrative guidance regarding Loan Committee policy and procedures. It also incorporates best practices based on operational experience and addresses questions which have been raised.

The purpose of a Loan Committee approval structure is to align the Hub and Program Center loan review processes with management of credit risks, and to ensure the integrity and stability of the FHA Insurance Fund. Credit risk management, as implemented through a Hub and National Loan Committee approval process, provides a method to ensure oversight of Hub and Program Center commitment and credit authority, and consistency in underwriting throughout the nation, while providing a platform to share best practices.

II. Summary of Changes

As noted, this Notice extends and revises the Housing Notices H 2010-13 and 2011-4. The following changes are incorporated:

- A. Section 223(a)(7) transactions refinancing already-insured loans are no longer reviewed by either Hub or National Loan Committees.
- B. All Section 220, 221(d) age-restricted and 231 applications require National Loan Committee review, regardless of the size of the loan or number of units.
- C. A representative from the Office of Risk Management will serve as a voting member for large loans.
- D. National Loan Committee submission documents and file naming requirements are specified.
- E. Quorum requirements and the roles of ex-officio members are clarified.
- F. Responsibility, reporting, and monitoring of Hub Loan Committees is expanded.
- G. A discussion of the treatment of loans that have previously been reviewed, either at Pre-application stage or because a Firm Commitment is being amended.
- H. A discussion of Loan Committee support and oversight.

III. Background

Housing Notice H 2010-13, published July 19, 2010, noted that financial market and economic conditions presented significant risk management challenges. FHA's portfolio was subject to increases in vacancy, delinquency, default and claim rates, at the same time interest in FHA financing dramatically increased due to the decrease in the availability of other sources of commercial financing.

FHA is committed to playing a critical role in restoring health to the Multifamily Housing market by helping qualified borrowers access construction and permanent financing when private capital is scarce. With this increased role comes increased risk and responsibility for the integrity of the FHA mortgage insurance fund. Loan Committees at the Hub and National levels are integral to the proper management of FHA's credit risk. Accordingly, formal loan approval authority was instituted, including requirements for Hub and National Loan Committee review for transactions based on program, loan size, and the number of units in a property.

Demand for FHA financing, reflected in our pipeline and production volume, are at record high levels. The average size of loans has increased dramatically, resulting in increased risk in the event of "single point failure". HUD anticipates a continued high volume of FHA loan applications. At the same time, vacancy, delinquency, and default and claim rates have stabilized. The Loan Committee has proven effective in managing FHA's risk while at the same time providing needed liquidity in the rental housing finance markets. Further, Loan Committee has been instrumental in identifying necessary policy changes and needed clarification. The following chart summarizes Loan Committee operations after approximately 1 year of operation (i.e. as of December 9, 2011).

	Total # of applications reviewed	# of applications approved	# of applications rejected
National Loan Committee	240	226	14
Hub Loan Committee	358	346	12

IV. Implementation

The provisions of this Notice are effective immediately, with the exception of the required standardized form of the Loan Committee transaction template. The template is required for both Hub and National Loan Committee presentations. However, variations to the form of the Loan Committee transaction template for projects already in process or as otherwise approved by the Multifamily Hub Director will be accepted until March 31, 2012. After that date, the standard form included as Attachment 1 will be required. The template will be revised from time to time based on experience.

V. Intended Outcomes

- A. Align the FHA loan approval process with established industry practice.
- B. Assure that the best lending and deal structuring decisions are being made on large, complex and higher risk loan transactions.
- C. Assure consistent and predictable underwriting outcomes for lenders and borrowers.
- D. Promote better informed lender decisions on the use of the programs and better front-end deal structuring by lenders.
- E. Achieve consistent and uniform loan underwriting, financial analysis, waivers from program guidelines and program implementation across regions.
- F. Provide credit risk management of lending decisions being made by the Program Center production team.
- G. Develop uniformity in the Program Centers' and Hubs' underwriting.
- H. Achieve peer review benefits and sharing of best practices.
- I. Facilitate communication between the Program Centers, Hubs and Headquarters for:
 - 1. Enhanced understanding at Headquarters of production and portfolio activity throughout the country,
 - 2. Better informed policy development
 - 3. Improved Headquarters understanding of the reasons for waiver request, and
 - 4. Improved Headquarters ability to support local decisions.

VI. Applicability: Loan Types Subject to Committee Approval

Program Center Directors and Hub Directors will retain signature commitment authority for all loans under 75 units or \$5 million, whichever limit is reached first. Loans over 75 units or \$5 million may remain subject to signatory approval in accordance with current delegations, or may be subject to Hub or National Loan Committee approval before either a Pre-application Invitation Letter or a Firm Commitment may be issued, depending on program type, project size, loan size and real estate risk.

The limits and authorities discussed in this Notice refer to approvals needed prior to issuing Pre-application Invitation letters and Firm Commitments, but do not address the delegations of who actually signs the Invitation Letter or Firm Commitment. Thus, while Loan Committee review is required pursuant to this Notice, the Multifamily Hub or Program Center signs the required letter pursuant to existing delegations.

The National Loan Committee will oversee the activities of the Hub Committees and will retain approval authority for all large loans over 350 units or \$50 million, and for market rate new construction or substantial rehabilitation loans over 250 units or \$25 million. In addition, all Section 220, 221(d) age-restricted and 231 applications require National Loan Committee review, regardless of the size of the loan or number of units.

The purpose of the National Committee's review of the Hub Committees' actions is not to re-underwrite loans they have approved or to question decisions made by the Hub Committees. Rather, the review will permit the National Loan Committee to better understand program utilization and to track trends, waivers and emerging issues. As directed by the Deputy Assistant Secretary for Multifamily Housing Programs, ex-officio or voting members will from time to time participate (but not vote) in Hub Loan Committee meetings.

The following program types, loan amounts and project sizes will be presented to either Hub or the National Loan Committee, based on whichever limit is reached first.

FY 2012 Loan Committee Limits	
Loan Amount/Unit Count	New Construction/Substantial Rehabilitation - Section 221d3/d4
up to 75 units or \$5 million	No LC review required
\$5 - \$25M or 75 - 250 units	Hub
> \$25M or 250 units	National
Section 223f & 221d4 Affordable (Rental Assistance or Tax Credit)	
Loan Amount/Unit Count	Section 223f & 221d4 Affordable (Rental Assistance or Tax Credit)
up to 200 units or \$20 Million	No LC review required
\$20 - \$50M or 200 - 350 units	Hub
>\$50 Million of 350 units	National
Section 220, 231, & d4 age-restricted	
Loan Amount/Unit Count	Section 220, 231, & d4 age-restricted
Regardless of loan amount/ unit count	National
National Loan Committee for loans greater than \$100 Million will include a voting member representing the Office of Risk Management. Quorum requirement for loans greater than \$100 Million is increased from four to five committee members.	

VII. Submission to the Hub or National Loan Committees

Section 220, 221(d)(3), 221(d)(4), 231 or 241(a) market rate transactions over 75 units or \$5 Million with 2 stage processing, must be reviewed and approved by the appropriate Loan Committee at each stage: once before a Pre-application Invitation Letter may be issued and once before a Firm Commitment may be issued. For transactions which have been reviewed and approved by Loan Committee prior to issuance of a Pre-application Invitation Letter, Loan Committee review will be restricted at the Firm Commitment stage to any material changes to the application or the market, and to the those issues not addressed at Pre-application (e.g., complete mortgage credit review, architectural and cost analysis).

Applications processed under direct to firm processing or under the refinance programs will be reviewed prior to issuance of the Firm Commitment. Firm Commitment amendments do not need to be reviewed by Loan Committee unless there is a material change to the terms of the loan (e.g. an increase in the mortgage amount of greater than 5%) or that would require a modification of one of the conditions which were included as part of the Loan Committee Approval. The Multifamily Hub or Program Center should submit a brief description of the change and any relevant supporting analysis in such cases.

To support the Hub or National Committee loan approval request, Housing Program staff must prepare a standardized transaction summary. A copy of the transaction summary is included as Attachment 1 to this Notice. Attachment 2 is a list of the National Loan Committee submission requirements and the naming protocol. While generally not required, Committee members may request additional information or reports be provided for review (e.g. third-party reports, financial or credit information, or other relevant analysis). The Loan Committee presentation should address the following:

- A. The project, the borrower and the market,
- B. The borrower and its financial condition and experience, and the acceptability of other members of the development team,
- C. The status of all prior FHA transactions involving the borrower,
- D. The status of all insured loans in the same sub-market as the subject,
- E. The recommended terms and conditions of the loan request,
- F. The market conditions, rent levels and operating expenses, and the basis on which the financial assumptions appear to be acceptable,
- G. A discussion of the market conditions as determined by the Economic and Market Analysis staff and the basis, including detailed analysis, for any variance in the underwriting from their determinations,
- H. Any waivers of program guidelines the rationale, and Multifamily Hub Director's recommendations.

- I. The primary transaction risks, why the risks appear to be acceptable and the steps taken to mitigate such risks, and
- J. A discussion of the Multifamily Hub or Program Center's experience with the submitting Multifamily Accelerated Processing (MAP) Lender, and (once applicable) the Lender's Credit Watch status with the Department.

VIII. Hub Loan Committee

A. Operations

1. The Hub Loan Committee will be convened in person or by conference call on a fixed weekly date, or more frequently as needed based on demand, and will adhere to time deadlines established by the Hub Director in order to ensure no delay to the issuance of a Pre-application Invitation Letter or a Firm Commitment.
2. The Hub Committee must review and discuss each transaction approval request and must act before an invitation letter or a Firm Commitment may be issued. The Hub Committee may not refer transactions within their authority to National Loan Committee. If technical assistance or programmatic or policy guidance is needed, the Hub or Program Center Director or Hub Loan Committee representative should contact the Director of the Office of Multifamily Development in Headquarters.
3. The Hub and Program Centers retain the authority to reject transactions without Committee involvement.
4. Unless a transaction is approved by unanimous consent prior to the Hub Loan Committee meeting, the team leader who prepared the transaction summary will make a brief oral presentation to the Committee with the salient aspects of the transaction and will respond to Committee questions. In addition, the Committee may ask to make available for questions a specific member of the processing team (e.g., appraiser, cost analyst, etc.)
5. The Hub Committee may either approve, approve by consent, conditionally approve, table (take no action until additional information is submitted) or deny the invitation or commitment request. Generally, loans will be denied rather than tabled if the missing information cannot be obtained within 2 weeks.
6. Loans must be approved by a majority vote of the full Committee membership. Loans approved by consent must receive a unanimous vote to approve.
7. A Hub staff member will:
 - a. manage the Committee's agenda,
 - b. distribute the transaction summary and related materials to Committee members,

- c. post the additional underwriting materials to the Committee's SharePoint site,
- d. maintain a record of the Committee's deliberations, decisions and any conditions of an approval,
- e. relay the Committee's determinations to the submitting office within 1 day of the Committee meeting, and that office will notify the lender of the Committee's action, and
- f. every 2 weeks, prepare a report summarizing the Committee's activities to submit to the National Committee. The report content and format is located on the Multifamily SharePoint site.

B. Membership

1. The Hub Director, or a delegated representative, will participate on and chair the Committee and will determine the Committee's membership, which may consist of both Hub and Program Center staff.
2. In addition to the Hub Director, the Committee should consist of at least four members representing the key technical disciplines, including Production Team management and their senior technical staff, as well as Asset Management and Operations or their equivalents, based on the staffing and organization of the Hub and Program Center offices. Within 30 days of the date of this Notice, or when changes to the roster of voting members occur, the Hub Director will provide a list of Committee members to be posted to the Loan Committee SharePoint site.
3. The Committee should have standing members who review all transactions presented to it or may have rotating membership. Terms of the Committee members will be determined by the Hub Director.
4. In no event may Committee members have been directly involved in or responsible for underwriting loans that will be presented for Committee approval. In that case, the Hub Director should appoint alternate Committee members representing each of the technical disciplines, but from staff who were not directly involved in underwriting the loan.

IX. National Loan Committee

A. Operations

1. The National Loan Committee will be convened in person or by conference call on a fixed date weekly, or more frequently as needed based on demand, and will adhere to time deadlines established by the Deputy Assistant Secretary (DAS) for Multifamily Housing in order to ensure no

delay to the issuance of a Pre-application Invitation Letter or a Firm Commitment.

2. All transactions submitted to the National Committee must first be approved by the Hub Director, with or without conditions, and be recommended for favorable consideration. Transactions to be considered by the National Committee do not need to first be reviewed or approved by the Hub Loan Committee.
3. Hub Directors and Program Center Directors retain the authority to reject transactions without Committee involvement.
4. All transactions (either for issuance of a Pre-application Invitation letter or a Firm Commitment) will be posted for review by Committee members, at least 5 days before a scheduled meeting date. Requests for exceptions to facilitate transaction timeline demands will be considered based on a memorandum from the Hub Director to the Chairperson. The request should specify the reason an expedited review is necessary. Such requests will be honored where practicable.
5. Each Committee member (or alternate) will review the material posted to SharePoint or otherwise distributed, post any comments or questions, and either recommend approval by consent or that the meeting be discussed at the scheduled Committee meeting. Committee members may request additional review material or that certain members of the Field staff transaction team are available for questions during the meeting.
6. Transactions which receive unanimous consent prior to the Loan Committee meeting will not be discussed at the Committee meeting or voted on individually, but rather will be assumed approved by the Committee based on unanimity. The DAS or any Committee member (including ex-officio members) may request that a transaction be removed from the consent list and designated for discussion in the Committee meeting.
7. The Chairperson may cancel or postpone a Committee meeting or a specific transaction review without prior notice (e.g., if the review package is not complete or other extenuating circumstances arise). The Hub Director, or a designee in the Director's absence, may request a postponement or withdrawal of a specific transaction. Cancellation, postponement or withdrawal should be done by written notice (e.g. in an e-mail) and where practicable, at least 24 hours prior to the scheduled time of the Committee meeting.
8. For transactions identified for discussion at the Committee meeting, the team leader who prepared the transaction summary will make a brief oral presentation to the Committee with the salient aspects of the transaction

and will respond to committee questions. In addition, the submitting office may also be asked to make available for questions a specific member of the processing team (e.g., appraiser, cost analyst, etc.) To the extent practicable, this request should be made by a National Loan Committee member 3 days prior to convening a Committee meeting.

9. The Committee must act before a Pre-application Invitation letter or a Firm Commitment may be issued.
10. The Committee may either approve, conditionally approve, table (take no action pending additional information) or deny the invitation or commitment request. Generally, loans will be denied rather than tabled if the missing information cannot be obtained within 2 weeks. The Committee's decision will be documented in a memorandum to the Multifamily Hub Director and included in the project loan file.
11. Loans must be approved by a majority vote of the Committee. The Chairperson will cast the deciding vote in the case of a tie.
12. A Headquarters staff member will:
 - a. Post all transactions for consideration to the consent list, and will manage the consent list and the Committee's discussion agenda,
 - b. distribute the transaction summary and related materials to Committee members,
 - c. post the additional underwriting materials to the Committee's SharePoint site,
 - d. maintain a record of the Committee's deliberations, decisions and any conditions of an approval, and
 - e. relay the Committee's determinations to the submitting office within 1 day of the Committee meeting, and that office will notify the lender of the Committee's action.

B. Membership

1. The National Loan Committee will consist of five primary members and five standing alternates, as selected by the DAS. Representation on the National Loan Committee will be a cross section of Headquarters and Hub/Program Center staff representing different technical disciplines and Asset Management. The DAS will select an additional staff member to chair the Committee. The Chairperson will be a non-voting member of the Committee.

2. Two Committee members will be from Headquarters staff and three members will be from Hub/Program Center staff from regions other than where the property is located.
3. Four members/alternates, at least half from HUD Headquarters, must participate in a meeting to constitute a quorum. In the event the Committee does not have a quorum of standing or alternate members, the meeting will be rescheduled.
4. Alternates will vote in the absence of their primary member and will be available for consultation with their member on all transactions presented to the Committee.
5. Membership on the Committee will rotate. Four members will serve for 1 year and two will serve for 2 years. Alternates may be selected as future Committee members. Selections and rotation schedules will be managed so as to maintain continuity on the Committee.

The National Loan Committee members for Fiscal Year 2012 have been identified by administrative memorandum and are included in Attachment 3.

C. Executive Session

Executive Session is only open to the standing, alternate, and ex-officio Committee members. The Chairperson will moderate the session, and allow for any additional internal discussion by the voting Committee members.

Each Committee member will individually cast their vote for the transaction. A Committee member may vote to approve transactions with or without conditions, or reject transactions with or without the ability to resubmit the transaction request later.

The vote of each Committee member will remain confidential.

The Chairperson will ensure that the minutes, conclusion and vote are recorded and communicated within 24 hours to the Multifamily Hub Director.

X. Ex-Officio Members of Loan Committee.

The Associate Deputy Assistant Secretary of Multifamily Housing Programs, a Senior Advisor to the DAS, a member of the Office of Risk Management, and others at the DAS's discretion will serve as ex-officio members to Hub and National Loan Committees. The role of the ex-officio members is to a) monitor the operation of the Loan Committee; b) identify program and market trends and monitor programmatic utilization (e.g. waivers, loan types, etc.) of transactions brought before the Committee; and c) recommend policy, programmatic or operational changes to the DAS. Ex-officio members may attend Committee meetings,

and review transactions as necessary from the SharePoint site or other records. Ex-officio members will not post comments, make recommendations, vote, or otherwise comment during the meetings.

A meeting to discuss and review the results of the Hub and National Loan Committee work will be conducted by the ex-officio members semi-annually (typically in December and June). A written report of the meeting minutes and report will be provided to the DAS for review.

XI. Implementation and Conclusion

This Notice is effective immediately.

If there are any questions regarding this Notice, please contact Daniel J. Sullivan, Acting Director of the Office of Multifamily Development at (202) 402-6130. Persons with hearing or speech impairments may access this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Carol J. Galante
Acting Assistant Secretary for Housing –
Federal Housing Commissioner

Attachment 1:

NLC Data Sheet and Narrative Template

Attachment 2:

Submissions should normally be limited to just these standard exhibits:

	Exhibit	Electronic naming protocol
1	Hub Director recommendation, including names of staff presenting transaction	(7-digit project number)(Project Name) Hub Director's Recommendation(date)
2	NLC Narrative template	(7-digit project number)(Project Name) NLC Narrative(date)
3	NLC Data Sheet – “wheelbarrow” output reports	(7-digit project number)(Project Name) NLC Datasheet(date)
4	Lender's Underwriting Narrative	(7-digit project number)(Project Name) Lender's Narrative(date)
5	HUD-92264, 92264-A, (HUD-92013 if Preapp)	(7-digit project number)(Project Name) 2264 & 2264A(date) (or 2013 if Pre-App)
6	Site / Unit sketch plans (for NC/Sub Rehab)	(7-digit project number)(Project Name) Site/Unit plans(date) (for NC/SR's)
7	Photo's (for existing projects)	(7-digit project number)(Project Name) Photos(date) (for refinance, purchase, or substantial rehabilitation only)
8	Pre-application Invitation letter (for NC/Sub Rehab)	(7-digit project number)(Project Name) Invite Letter (if applicable)

Attachment 3:

NLC Roster

Chairperson

Barbara Chiapella

Primary

Kelly Boyer	Los Angeles Hub
Marcia Ringo	Atlanta Hub
Susie Sapilewski	Detroit Hub
Nancie-Ann Bodell	Headquarters
David Wilderman	Headquarters

Alternate

Maurice Barry	Boston Hub
Donna Crane	Jacksonville Hub
William Graves	Columbus Hub
Jerry Anderson	Headquarters
Margaret Salazar	Headquarters

Schedule of NLC meetings:

- Wednesday afternoons, 1-3pm Eastern Time.
- Tuesday and Thursday afternoons, 1-3pm Eastern Time if necessary based on volume.