



Notes from
Multifamily Committee Conference Call
October 19, 2005

On October 19, 177 members participated in a conference call meeting of the Multifamily Committee. Scott Moore, Chairman of the Committee and President of Lancaster Pollard Mortgage Company, called the meeting to order at 11:35 a.m. eastern time and announced that Tom Szydowski, President and CEO of Reilly Mortgage Group, would be the Vice Chair of the Committee for FY 2006.

Legislative Update

Cheryl Malloy, staff representative to the Committee, provided the legislative update in the absence of Renee Rappaport. She reported that it now appears that the GSE reform bill in the House (H.R. 1461) would go to the floor the week of October 24. A compromise on the issue of the affordable housing funds had been reached, which would prohibit entities that engage in voter registration activities from receiving funding. (Note: H.R. 1461 as amended passed the House October 26, by a vote of 331-90.) Ms. Malloy also reported that the Senate bill (S.190) remains stalled due to disagreements over the portfolio restrictions contained in the bill. At this point it is unclear whether Senate Banking Committee Chairman Shelby will attach S.190 to another bill in order to secure a vote and move GSE reform to a conference committee. Because major differences remain between the two bills, passage of GSE reform in 2005 is unlikely.

Several bills have been introduced in Congress to provide relief to the communities and families affected by Hurricane Katrina. Ms. Malloy reported that MBA has been supportive of a number of these bills, but significant federal outlays are being questioned by many Members of Congress. MBA is recommending a number of legislative changes that will have less of a financial impact, including allowing Ginnie Mae to advance funds for lenders at no interest to encourage forbearance on both single-family and multifamily owners of affected properties.

The HUD/VA Appropriations bill has not been passed by Congress. However, MBA's main issue – adequate commitment authority for the FHA programs – is non-controversial and should not be affected by budget cuts being proposed to offset a portion of the Katrina relief costs.

Ms. Malloy reported that there was a TRIA fly-in of members that day to convince Members of Congress of the importance of passing a TRIA extension as soon as possible. MBA is hopeful of an extender bill being introduced in November and passed before Congress adjourns for the holidays.

GSE Issues

Tari Flannery, former Chair of the Committee, reported on the GSE Inspector Qualifications "Best Practices" developed by a working group and approved by the Steering Committee. She noted that the genesis of the project was the development by Fannie Mae and Freddie Mac of very different criteria for determining which inspectors could perform annual inspections on which types of properties. The working group developed the "best practices" to assure that inspectors are competent, to simplify the requirements of the GSEs, and to avoid redundancies among the various training requirements. Working with Fannie Mae, Freddie Mac and third-party inspection firms, the group reached consensus on a grid that specifies: for performing loans of less than \$30 million, the inspector must have performed at least 25 inspections and be trained; and for watchlist loans and those over \$30 million, the inspector must have performed at least 100 inspections and be trained. Ms. Flannery noted that these "best practices" were only for GSE loans, but others may adopt them, despite the fact that they will cause an increase in the cost of inspections. She also stated that some issues remained with Fannie Mae but it was anticipated that those would be resolved. She pointed out that COMBOG would be voting on the "best practices" at their October 25 meeting. (Note: COMBOG adopted the "best practices" at their meeting.)

Bob Anderman of MBA's Education Department then reported that MBA was developing an inspector training course that would be acceptable to both Fannie Mae and Freddie Mac. MBA will be offering the course March 6-8 in Washington, DC and March 27-29 in Las Vegas, NV. He noted that it would be a three-day course with an on-line exam following completion of the classroom sessions. The course will borrow heavily from the course presented by Fannie Mae for its seller/servicers and, in fact, MBA will be using the Fannie Mae instructors (f3, Inc.) for the two days of the program dedicated to the actual physical inspection of the structures. The course will be multifamily only and will not cover commercial structures.

Research/Surveys Update

Jamie Woodwell of MBA's Research Department informed the participants that MBA's Quarterly Data Book which focuses exclusively on multifamily and commercial property data is available on the website (www.mortgagebankers.org) and updates are announced each quarter in CMFNewsLink. He also noted that the Department's most recent new project is a composite of commercial and multifamily delinquency rates. MBA is pulling together various data sources into one document in order that readers can compare the delinquency statistics of various investors. As one last refinement, Mr. Woodwell is working with Ginnie Mae to pull out the construction loan pools so that there is a more accurate comparison across groups. The report will be issued quarterly with the first release expected by the end of the year. Mr. Woodwell identified a few interesting trends from the data assembled to date: there has been a convergence between commercial and multifamily delinquency rates with the commercial rates decreasing to multifamily levels, and the multifamily delinquency rates in CMBS are

rising. It was also noted that the delinquency rates for Fannie Mae and Freddie Mac multifamily loans are extremely low.

FHA Issues

New Leadership at FHA

Mike Petrie, MBA Chairman, reported that he had met with the new FHA Commissioner Brian Montgomery. While Mr. Montgomery has little housing background, he is known as an excellent manager of people and he has stated that he is committed to fixing FHA. It is clear, however, that he has become preoccupied with the Hurricane Katrina relief efforts and it may be awhile before his attention is focused on the FHA multifamily programs. Cheryl Malloy reported that despite the fact that Acting Deputy Assistant Secretary for Multifamily Housing Hank Williams is in Louisiana coordinating relief efforts, he retains the title of Acting DAS. As a practical matter, Reba Cook, the Associate DAS will be performing all of the functions of the DAS in Mr. Williams absence. She also noted that, despite rumors to the contrary, Beverly Miller remains the Office Director for Multifamily Asset Management.

MBA Priorities for Changes to FHA Programs

Scott Moore reported that MBA had been asked to provide suggestions for changes to the FHA programs that would increase production. MBA took the opportunity to develop three lists: longer-term production recommendations, short-term production fixes and asset administration recommendations. Those priorities had been discussed with HUD staff during the September 21 MAP Lenders Roundtable held in Washington. (See HUD Highlights of October 3 for details of that meeting and the recommendations.) Mr. Moore reported that one issue brought up at that meeting and not on MBA's original list of priorities – new Form 2530 requirements – had been addressed by HUD following the meeting, at least the short-term issue of requiring a project number on the form. (Subsequent to the call, FHA has made additional concessions, allowing paper submissions until November 30.)

Capital Markets Working Group

Bud Malone, chair of the working group, reported that the group had adopted a three-part mission: (1) reviewing recommendations raised by Ginnie Mae and FHA in the July 12 call; (2) responding to Ginnie Mae's new disclosure requirements (DSC ad LTV); and (3) making recommendations to minimize defaults that circumvent rate locks. The working group met on August 24 by conference call and on September 21 in person and had excellent participation in both meetings. The recommendations of the group have been forwarded to the Multifamily Steering Committee for review before being sent to Ginnie Mae and FHA. (Anyone wishing to see a copy of the report of the working group should contact Angela Epps at aepps@mortgagebankers.org).

MAP Underwriter Approval Working Group

Chip Moore, chair of the working group, explained that the group had been formed to develop a template of experience and/or training that should demonstrate that an

underwriter was capable of underwriting MAP loans. This was necessary because a number of requests from lenders to have underwriters approved by HUD had been rejected or were languishing in HUD Headquarters. Mr. Moore asked the group if this was still an issue since the former Office Director had left the Department. The general consensus was that much of the backlog had been cleared and reasonable decisions were being made. While there was some sentiment that MBA should recommend that HUD rely on the lender and not continue to require that all underwriters be pre-approved by HUD, it was agreed that such a change would be a much longer-term effort. Consensus emerged that the work of the group should be distributed to the entire committee for comment. Once there was agreement, the template could be used by the industry as a guideline as they submit requests to HUD and this template should be shared with HUD for their review and possible use.

FHA Servicers Subcommittee

Cheryl Malloy reported for Marty Johnson, chair of the Subcommittee, noting that the Subcommittee had met several times over the past year with Bev Miller and her staff. The Subcommittee had raised MBA's priority issues (discussed above) and had even proposed both a streamlined approach to the 9807 process and an MDDR "best practices" guide. HUD staff have been very willing to meet and discuss issues, but there has been little or no progress on MBA's priorities. Recently, the HUD asset administration staff has been almost totally preoccupied with Hurricane Katrina response efforts and they have met by conference call with interested servicers. However, few servicer questions have been answered and issues are not being addressed by headquarters. Field offices remain understaffed, undertrained and inconsistent in their approach to issues. The Subcommittee continues to engage the HUD headquarters staff, but the lack of progress is frustrating.

Other Issues

In response to Scott Moore's request for questions or other issues, several issues surfaced.

- 1) It was noted that the Greensboro HUB is not meeting its MAP deadlines because there is not an architectural reviewer, except for the HUB Director, in either office within the HUB. Cheryl Malloy responded that staffing levels are very low at HUD, particularly in Housing, and the levels are expected to be reduced in FY 2006, thus exacerbating field office staffing problems. She did, however, offer to raise the issue with Headquarters staff to determine whether any relief could be offered to the Greensboro HUB.
- 2) The issue of master leases for tax credit properties was raised. It was noted that HUD's approval of master leases was particularly important for properties where low income housing tax credits were being combined with new markets tax credits. Ms. Malloy offered to bring the importance of this issue to the attention of HUD staff.

- 3) The time, effort and money spent by lenders on HUD audits was raised. It was generally agreed that some things were learned from the quality control reviews, but that they are extremely expensive and continuing them at the current level needs to be reexamined. Of particular note was the new requirement that originators be tracked. It was also suggested that HUD should publish what they have learned from the quality control reviews and perhaps change the MAP Guide to address some of the findings. Ms. Malloy agreed to pursue this issue.

Upcoming Meetings

Cheryl Malloy noted that CREF Convention registration was running ahead of last year this time and that we may have another record-breaking Convention in Orlando. She also noted that lenders who had not registered or made their reservations for the February 5-8 event should do so soon, as most hotels are already sold out. It was noted that the next meeting of the Multifamily Committee will be held on Sunday, February 5, but a time had not yet been set.

Ms. Malloy also suggested that participants mark their calendars for the National Policy Conference, March 21-22 in Washington, DC. Major issues to be included in MBA's lobbying efforts will be GSE Reform and FHA Modernization.