



**Notes from the Multifamily Sessions at CREF
Orlando, Florida
February 1 - 3, 2004**

There were a number of committee meetings, panels and other meetings at the CREF/Multifamily Convention. For those unable to attend some or all of the events, the following are some highlights as well as a few updates on activities since the Convention.

Legislative Highlights/Outlook

- MBA was able to achieve two key legislative priorities for those members doing business with FHA:
 - Three times MBA convinced Congress to appropriate additional commitment authority for the GI/SRI funds, ending shutdowns of the FHA multifamily programs – the most recent shutdown ended January 30.
 - Congress passed legislation increasing the high cost factors for the statutory mortgage limits to 140% on an area basis and 170% on a case by case basis. FHA Commissioner Weicher indicated that the Department is preparing a regulation to implement this legislation on an expedited basis.
- MBA Senior Vice President Kurt Pfothenauer explained that there were only 62 legislative days left in this Congress and that the FY05 budget and appropriations bills, along with a highway bill, would take much of Congress's attention. He handicapped passage of legislation on a new GSE regulator at only 50-50. He indicated that MBA's top priorities for that legislation would be the establishment of a strong, credible regulator with increased mission oversight.
- MBA's National Policy Conference will be held in Washington, DC March 9-10 and all multifamily members are urged to attend. A major focus of MBA's lobbying activities will be the enhancement of FHA focused on the following:
 - Several systemic/structural changes including providing FHA more autonomy in: funding for technology, personnel practices and program changes; and
 - Several specific program product changes including more than adequate commitment authority levels, changing the definition of elderly, etc.

A registration form and schedule for the conference can be found on MBA's website.

Research/Surveys

- The Middle Income Market Study funded jointly by MBA, NAR and NMHC should be released in May. A draft of the final study, prepared by the Harvard Joint Center for Housing Studies, has been submitted to MBA for review.
- MBA is creating, with the help of Rosen Consulting Group, a commercial/multifamily mortgage originations data series. This will be used to generate a forecasting model for gross commercial/multifamily mortgage originations. The first origination forecast is scheduled to be released by MBA in June.

Insurance Issues

- MBA, in conjunction with ACORD (the Association for Cooperative Operations Research and Development), recently launched a new Evidence of Commercial Property Insurance Form which includes a checklist of coverages – such as terrorism and mold – and preprinted guidelines to assist the preparer. The new Accord 28 form should be used by insurers now, and mortgagees should ask for the new form. A copy of the ACORD 28 along with Frequently Asked Questions are available on MBA's website.
- MBA is developing a white paper on mold which is scheduled for release in May. MBA is working with several groups, including ASTM which is developing a transaction screen for detecting mold.

Accounting Issues

- Accounting for loan commitments has become a significant issue as SEC staff have indicated that they would soon release a bulletin requiring lenders to account for loan commitments only as liabilities. FASB has indicated that they will be taking up this issue and MBA met with the SEC on February 3 to convince them to refrain from releasing any guidance on accounting for loan commitments until the FASB's loan commitment project has been completed.
- FASB has announced that they will be taking up a project to determine the appropriate accounting for Mortgage Servicing Rights. MBA has established a working group of single family and commercial/multifamily members to determine whether MBA should support a change in GAAP to allow mortgage servicing rights to be recognized at fair value rather than the lower of cost or market.
- Issue Papers on both of these accounting issues can be found on MBA's website.

Education

- CampusMBA is focusing significant attention on commercial and multifamily educational offerings. The multifamily underwriting web-based course has recently been updated and a multifamily underwriting case study seminar will be offered twice in 2004.

- 15 new commercial CMBs were announced at the Convention. All members were encouraged to consider becoming a CMB. Information on the requirements and process can be found on MBA's web page and at CampusMBA.

Technology

- A handout was provided on MBA's MISMO efforts for members to take back to their technology staff. Additional information on MISMO or other MBA data standards efforts can be secured from Dan Szparaga at dszparaga@mortgagebankers.org.
- A white paper on commercial/multifamily emortgages is available on MBA's website. While emortgages on the commercial/multifamily side of the business are not imminent, they are coming and the white paper summarizes the current status, challenges and opportunities.
- MBA is working with the Appraisal Institute on developing standards for electronic appraisals for commercial/multifamily properties.

Capital Markets Update

- Mike Marriott of CSFirst Boston provided an upbeat capital markets update noting that the investor base for multifamily continues to grow and the market continues to mature. He expects significant volatility in prices over the next several months as analysts review the economic statistics and debate what moves the Fed might make. However, investors are flush with cash and looking for product so it should be a very good year, barring major moves by the Fed.

FHA Program Concerns

- FHA Commissioner Weicher announced several highlights of the President's FY05 budget proposal:
 - A decrease in the MIP for the Section 221(d)(4) program from 50bp to 45 bp
 - An increase in the MIP for new construction Section 232 loans from 50bp to 57bp
 - A commitment authority level for the GI/SRI funds of \$35 billion (up from \$25 billion for FY04)
- HUD staff stated that they will review the provisions of Notice H04-01 (liability insurance for Section 232 loans) and work with the industry on issues ranging from grandfathering cases in process to providing alternatives to a number of the requirements. HUD issued a Q and A on February 9 allowing all loans in process prior to January 6 to elect to use requirements in Notice H01-03 or Notice H04-01 – a major victory for the industry. HUD staff met with industry representatives (from both lender and owner/operator groups) on February 11 and announced that Notice H04-01 would be published for comment and no changes would be made until all comments were received and analyzed. An MBA working group has been formed to develop MBA's comments.

- HUD staff stated that they have MBA's suggestions for changes to the identity of interest requirements in the MAP Guide, submitted August 20, 2003. They are considering providing further clarification of what constitutes an identity of interest, but additional internal discussions will be necessary before any changes are issued.
- MBA reiterated to the FHA Commissioner the need to adjust the underwriting and asset management requirements for refinancing Section 202 direct loans with FHA insurance. MBA submitted recommendations to HUD September 16, 2003. HUD staff stated that MBA's recommendations, as well as suggestions from other groups, were being considered.
- MBA submitted comments on HUD's proposed amendment to the MAP Guide with requirements for a Quality Control Plan on November 13, 2003. No response has been received by HUD but HUD staff has assured us that once the requirements are finalized, lenders will have at least 60 days to prepare and submit a quality control plan that meets those requirements.
- MBA was successful, through a working group of members, in convincing HUD to change the way it viewed "rolling defaults" for purposes of calculating claim payments. This resulted in HUD agreeing to review all curtailed claims on these cases which should result in millions of dollars of savings for members. If your company is experiencing problems or delays in having the curtailed claims reprocessed, please contact MBA.
- HUD's ability and willingness to override the lockout provisions of an FHA insured loan in default has caused significant controversy. Both FHA Commissioner Weicher and Deputy Assistant Secretary Stillman Knight commented that HUD treats each request for an override individually and approves the override only when the loan is actually in default and refinancing will avoid a claim on the insurance fund. Beverly Miller sent a memo to the field offices on December 23 with detailed guidance on the procedures and consequences to "be sure that [HUD's] action is related to a valid default."
- The replacement reserve calculation for high rise construction has been problematic for a number of cases. Dee McClure (M&T Bank) and Joe Donovan (Arbor) have been working with HUD on a "take-off method" for establishing the amount of reserve for replacement on this type of construction. Anyone wishing to work on this issue should contact amcclure@mandtbank.com or joseph.donovan@thearboret.com.

Ginnie Mae

- The Ginnie Mae Industry Group has been working with Ginnie Mae staff on a number of technical issues as well as several training programs offered in 2003. Anyone interested in joining the group should contact aepps@mortgagebankers.org or if you have ideas for future training programs contact dennis.siefers@midlandls.com.

- Through the efforts of MBA, language was included in the Omnibus Appropriations Act, passed by Congress in January, which enables Ginnie Mae to securitize loans under the RHS Section 538 program. RHS and Ginnie Mae staff outlined the requirements of the Section 538 program which was described by one member as “a Section 221(d)(4) program for rural areas without Davis-Bacon requirements”. Regulations and forms for the program are available on the RHS website at <http://rdinit.usda.gov/regs>.

Fannie Mae and Freddie Mac

- The Fannie Mae Delegated Underwriting and Servicing (DUS) lenders voted during their meeting to become a peer group under MBA. They adopted operating guidelines and will be operating under MBA’s antitrust and confidentiality policies.
- Assistant Secretary John Weicher informed MBA’s Officers that proposed regulations amending the affordable housing goals for Fannie Mae and Freddie Mac had been sent to OMB on January 30 and should be published in the federal register within 90 days. HUD intends to issue a final regulation by the end of 2004 setting the goals for 2005 and beyond.
- Freddie Mac announced that they closed \$22.6 billion in multifamily investments in 2003. Fannie Mae’s multifamily investments totaled \$36 billion, \$31 billion provided through the DUS lenders.

Panel Sessions

Copies of the powerpoint presentations for the “Multifamily Niche Products” and the “Not Your Father’s FHA” panels are available at MBA’s website at <http://www.mortgagebankers.org/present/index.html>.