



February 24, 2003

Mr. Philip A. Murray  
Director  
Office of Lender Activities and Program Compliance  
Office of Housing  
U.S. Department of Housing and Urban Development  
490 L'Enfant Plaza East, SW  
Suite 3214  
Washington, DC 20024

Re: HUD's Uniform Financial Reporting Standards (UFRS) Rule

Dear Mr. Murray:

The Mortgage Bankers Association of America (MBA) appreciates the opportunity to comment on HUD policies, programs, and rules. I am writing today to share our members concerns regarding the extension of HUD's UFRS Rule to Title I and Title II non-supervised lenders, non-supervised mortgagees, and non-supervised loan correspondents (hereby lenders), as announced by a final regulation published in the Federal Register on August 15, 2002. More specifically, and for the reasons explained below, I am writing to respectfully request that HUD grant lenders a 90-day extension of their filing deadlines under the Rule (e.g. June 30th for March 31st filers).

Pursuant to the final regulation, lenders were added to the list of HUD program participants that are currently subject to the Rule. For the past several years, public housing authorities (PHAs) and multifamily program participants receiving HUD financial assistance have been submitting their data electronically to HUD. Because the recent regulation is effective for audited financial statements with fiscal years ending on or after September 30, 2002, the vast majority of lenders must electronically submit their financial data for the first time by March 31, 2003.

MBA has studied the final regulation as well as a draft of a HUD Guide ("Guidelines on Reporting and Attestation Requirements of Uniform Financial Reporting Standards") which "is to provide guidance to lenders and their independent auditors for successfully fulfilling the [above] requirements in the Guide." According to the Guide, the basis of the UFRS Rule is to provide HUD better oversight and control of assets funded with HUD assistance. Given the thousands of entities that participate in HUD assisted programs, MBA recognizes the need for a standardized, automated filing system for submission by program participants of data to HUD.

In recent weeks, however, our members have grown increasingly concerned about the effective date of the Rule and their ability to meet it. We have consulted a number of our members about this issue to get a better understanding of their concerns. As explained below, we believe there are several overriding reasons why lenders, including small and large lenders, are at risk of not meeting their filing deadlines.

### Lack of Specific Guidance

One reason that has been cited for our members' lack of preparedness in meeting their filing deadlines is that the implementing regulation contains very little specific guidance for complying with the Rule. At this point, MBA is likely more familiar than many lenders with the procedures that must be followed to comply with the Rule only as a result of multiple readings of the draft HUD Guide (which we obtained indirectly from an independent public accountant (IPA)). Moreover, while the Rule purportedly does not impose new reporting requirements on lenders, it does impose some new requirements on their IPAs, including requirements to obtain user IDs, passwords, and unique IPA identifier numbers, as well as to submit a new Agreed-Upon Procedures Report to HUD.<sup>1</sup>

We believe there is significant information of value in the draft HUD Guide and that this information should have been made available to lenders and their IPAs before the effective date of the Rule. While we understand that HUD may believe there is sufficient experience among other HUD program participants (namely PHAs and multifamily program participants) to enable IPAs and lenders to comply with the Rule without further guidance, our members and many of their IPAs contend they are unfamiliar with the experiences of those other HUD participants. Moreover, they believe the electronic filing requirements are sufficiently complex to warrant specific implementing guidance.

### Remapping of General Ledger Accounts

We are also aware that some lenders, most particularly some very large lenders, are faced with the prospect of remapping potentially hundreds of general ledger accounts into the format used in HUD's Financial Data Templates (FDT). Unlike PHAs and multifamily program participants that have limited lines of business and relatively uncomplicated accounting systems, some lenders are large organizations with multiple lines of business and voluminous accounting records and complex accounting systems. MBA has been notified that these lenders' financial statements generally do not lend themselves to a quick day-long exercise in mapping the financial statement line items into the FDT and that, in fact, the exercise could amount to a multiple day challenge involving possible systems, record-keeping and other changes.

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<sup>1</sup>Under Findings and Certifications of the final regulation, it is stated: "This rule does not create a new reporting requirement. The annual reporting of certain financial information is a preexisting HUD program requirement." In contrast, MBA believes the extension of the UFRS Rule does, in fact, constitute a new reporting requirement for lenders, albeit one in which the same data is reported in a different manner.

### Subsidiary Cash Flow Statements

A MBA member that is a subsidiary of another institution has cited another concern with the Rule relating to the requirement that lenders electronically submit a full set of financial statements to HUD. A full set of financial statements includes a statement of position, an income statement and a statement of cash flows. However, this member has pointed out that some subsidiaries do not engage IPAs to produce separate financial statements for them.

The Rule provides exceptions from the reporting requirements for such subsidiaries by allowing the audited financial statements of their parents, and the accompanying consolidating schedules, to be the source of the data to be submitted to HUD. However, while this exception accommodates the electronic filing of information regarding the statement of position and income statement of the subsidiary, the requirement that a separate statement of cash flows be submitted cannot be met by a subsidiary since a need for a separate subsidiary statement is not necessary for the purpose of preparing the parent's cash flow statement. Consequently, it appears subsidiaries that are not subject to separate financial statement audits could run into problems in terms of submitting their data electronically without further guidance from HUD.

### Inappropriate Employees' Reactions Solicited

Generally speaking, the most common reason that our members have cited for not being able to meet their filing deadlines under the Rule is that they were simply unaware of it until recently. In conversations with chief financial officers (CFOs), controllers and IPAs across the country, MBA has learned that many lenders became aware of the Rule within the past several weeks through conversations with their IPAs or as result of MBA solicitations for feedback. Based on our conversations, we strongly suspect many other lenders are still in the dark and, therefore, not even in a position to register their concerns - or to request an extension of their deadlines - with HUD.

We believe the general lack of knowledge of the Rule is attributable, at least in part, to the fact that HUD did not target the right lender employees (namely CFOs, controllers and IPAs) in soliciting comments on a proposal to extend the UFRS to lenders (published in the November 30, 2001 Federal Register). We believe the very limited feedback that HUD received on the proposal supports our contention that CFOs and controllers were simply unaware of it. This would certainly seem to be true since the CFOs and controllers that have contacted MBA in recent weeks have had very animated reactions to the Rule.

In making this point, it is not our intention to blame HUD for not ensuring that the right lender employees were brought into the comment process and made aware of the extension of the Rule. However, we believe it is true that the wrong audience was aware of this development and that, as a result, HUD received too little reaction to its

proposal and its implications for lenders. Ultimately, this lack of communication with the right employees has led to the situation we now find ourselves in which is that too few lenders are prepared to meet their filing deadlines.

#### MBA Recommendation

For all these reasons, we strongly recommend that HUD grant lenders a 90-day extension of their filing deadlines under the Rule (e.g. June 30th for March 31st filers). This extension will give HUD additional time to complete and release its implementing Guide which will help ensure that lenders and their IPAs understand the full extent of their responsibilities under the Rule. It will also allow time for lenders to learn about the Rule, to do the remapping necessary to complete the FDT, and to address issues with HUD such as the issue relating to the requirement for subsidiaries to submit separate cash flow statements.

For MBA's part, we would gladly take advantage of a 90 day filing extension to make our members aware of the Rule through notices in MBA correspondence and *MBA Newslink*, our online news publication. Moreover, we would be happy to consider adding a flashing notice to our web site for a period of time to get the word out to as large an audience as possible. If you would be interested in MBA's assistance in this regard, please let me know.

Again, MBA appreciates the opportunity to share its concerns with you on matters involving HUD policies, programs and rules. If you have any specific questions about the comments herein, please feel free to contact Alison Utermohlen, Staff Representative to MBA's Financial Management Committee at 202/557-2864. In addition, we will contact you shortly to discuss HUD's reaction to our recommendation.

Sincerely,

Kurt P. Pfothauer  
Senior Vice President, Government Affairs