

## **U.S. Department of Housing and Urban Development**

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**Special Attention of**

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

**Notice H 2010-13**

Issued: July 19, 2010

Expires: July 31, 2011

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Cross References

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**SUBJECT:** Overview of Hub and National Loan Committees

### **I. Purpose**

The purpose of a loan committee approval structure is to align Hub and Program Center loan commitment authority 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, will provide a method to ensure oversight of Hub and Program Center commitment authority and to ensure consistency in underwriting throughout the nation, as well as to provide a platform to share best practices.

### **II. Background**

On January 6, 2010, the Federal Financial Institutions Examination Council (FFIEC) issued an Advisory to remind institutions of supervisory expectations regarding sound practices for managing risk. The FFIEC noted the challenging financial environment and stated,

“Current financial market and economic conditions present significant risk management challenges to institutions of all sizes. For a number of institutions, increased loan losses and sharp declines in the values of some securities portfolios are placing downward pressure on capital and earnings.”

This cautionary note is consistent with increases in vacancy, delinquency, default and claim rates in FHA’s portfolio. Interest in FHA financing has dramatically increased as the availability of other sources of commercial financing has decreased. 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.

### **III. Implementation**

Thirty days after the publication of this Notice, the Department will implement the use of loan committees at the Hub and National levels as part of its approval process for the issuance of commitments for the FHA multifamily mortgage insurance programs. In accordance with the guidelines contained in this Notice, loan committee review and approval will be required for all new loan applications, and applications which are in the pipeline but have not received a Firm Commitment within 30 days of the date of this Notice.

### **IV. 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, leading to the eventual implementation of:
  - 1. A single loan underwriter who is responsible for the risk analysis of the entire transaction as a whole, and
  - 2. A chief underwriter.
- 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 requests, and,

4. Improved Headquarters ability to support local decisions.

**V. 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 or may be subject to Hub or National Loan Committee approval before either an application invitation letter or a Firm Commitment may be issued, depending on program type, project size, loan size and real estate risk. The National Loan Committee will oversee the activities of the Hub committees and will retain approval authority for all large loans over 250 units or \$50 million, and for market rate new construction or substantial rehabilitation loans over 150 units or \$15 million. 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 track commitment activity by region and by program so as to better understand program utilization and to track trends, waivers and emerging issues.

The following program types, loan amounts and project sizes (whichever limit is reached first) will be retained for Hub or Program Center director’s signatory approval or will be presented to either the Hub or the National Loan Committees:

Loan Amount/ Unit Count	Program Type		
	220, 231, 241, 221(d)(3), Market Rate 221(d)(4)	Affordable 221(d)(4) (Rental Asst. or Tax Credit)	223(f), 223(a)(7), and 232 or 232/223(f) processed by Multifamily
up to 75 units or \$5 Million	Signature	Signature	Signature
76 to 150 units or \$5 to \$15 Million	Hub	Signature	Signature
151 to 250 units or \$15 to \$50 Million	National	Hub	Hub
greater than 250 units or \$50 Million	National	National	National

**VI. 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 twice: once before an application invitation letter may be issued and once before a Firm Commitment may be issued. Applications processed under direct to firm processing or under the refinance programs will be reviewed prior to issuance of the firm commitment.

To support the Hub or National Committee loan approval request, housing program staff must prepare a standardized transaction summary that will include a description of:

- 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 for any variance in the underwriting from their determinations,
- H. Any waivers of program guidelines and the rationale,
- I. The primary transaction risks, why the risks appear to be acceptable and the steps taken to mitigate such risks, and
- J. The submitting Multifamily Accelerated Processing (MAP) Lender's Credit Watch status with the Department.

A standard form of transaction summary will be required for submission to the Hub or National Committees. In addition to the transaction summary, a financial pro forma spreadsheet showing property operations for the first 10 years of the permanent loan term with stress tests of the underwriting and trending assumptions, and a preliminary sources and uses of funds, must be presented, which may be prepared by the Lender. Further instructions on preparation of these materials will be provided with the Housing Notice that implements use of the standardized underwriter's narrative.

Neither the Hub nor National Loan Committees may act on a transaction if the transaction summary, pro forma, and sources and uses statement have not been completed. A limited amount of underwriting materials will be posted to a Share Point website for access by Hub or National Committee members if they wish to review these materials in addition to the transaction summary, the pro forma and the sources and uses, including the: a) underwriter's narrative, b) appraisal, c) market study, d) site plan, e) sample floor plans and f) building elevations.

To support the request for issuance of a Firm Commitment after approval of the invitation letter, the staff prepared transaction summary and Lender prepared spreadsheet and sources of uses must be updated with particular emphasis on any project features or financial assumptions that may have changed since the pre-application approval. For applications processed under other programs which are only reviewed prior to issuance of a Firm Commitment, the same transaction summary and related materials in support of the request must be prepared as described above.

## VII. 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 an 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.
3. The Hub and Program Centers retain the authority to reject transactions without committee involvement.
4. 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, conditionally approve, table (take no action) or deny the invitation or commitment request.
6. Loans must be approved by a majority vote of the full committee membership.
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 Share Point 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 one day of the committee meeting, and that office will notify the Lender of the committee's action, and
- f. every two weeks, prepare a report summarizing the committee's activities to submit to the National Committee. The report content and format will be provided.

## B. Membership

1. The Hub Director 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 5 members representing the key technical disciplines, including the heads of Housing Development 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.
3. The committee may 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 bi-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 an application invitation letter or a Firm Commitment.
2. All actions of the Hub Loan Committees that were taken during the period since the last National Committee meeting will be reported for review and discussion.
3. 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.

4. Hub Directors and Program Center Directors retain the authority to reject transactions without committee involvement.
5. All transactions (either for issuance of an invitation letter or a Firm Commitment) will be posted to a consent list for review by committee members, at least 5 days before a scheduled meeting date. Consent list items will not be discussed at the committee meeting or voted on individually, but rather will be approved by the group based on unanimity. The DAS or any committee member may request that a transaction be removed from the consent list and designated for discussion in the committee meeting.
6. 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.) This request must be made by the National Committee member 3 days prior to convening a committee meeting.
7. The committee must act before an application invitation letter or a Firm Commitment may be issued.
8. The committee may either approve, conditionally approve, table (take no action) or deny the invitation or commitment request.
9. Loans must be approved by a majority vote of the committee. If the vote is a tie, the transaction will not be approved.
10. 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. summarize the weekly reports of the actions of the Hub committees that have been taken since the last meeting of the National Committee and compare them to Development Application Processing (DAP) data,
  - c. distribute the transaction summary and related materials to committee members,

- d. post the additional underwriting materials to the committee's Share Point site,
- e. maintain a record of the committee's deliberations, decisions and any conditions of an approval, and
- f. relay the committee's determinations to the submitting office within one 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 6 members and 6 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 a member to chair the committee.
2. Three 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.
4. Alternates will vote in the absence of the member and will be available for consultation with the 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.

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

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/s/  
David H. Stevens  
Assistant Secretary for Housing –  
Federal Housing Commissioner