



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Special Attention of

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

Notice H 2013-19

Issued: June 17, 2013

Expires: This Notice is in effect until amended, superseded, or rescinded

Cross References: Notice H 2010-13
Notice H 2011-4
Notice H 2011-35

SUBJECT: Loan Committees, Hub and National

I. Purpose

This Notice extends and revises Notices H 2010-13, H 2011-4 and H 2011-35 concerning Loan Committees and all prior administrative guidance regarding Loan Committee policy and procedures. It also incorporates best practices based on operational experience and addresses questions which have been raised. In this Notice “Loan Committee” refers to such committees in general. The words “Hub” or “National” will be used only when a particular reference to the National Loan Committee or Hub Loan Committees is intended.

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 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, H 2011-4 and H 2011-35. The following changes are incorporated:

- A. Loan amount and project size thresholds requiring review by the National Loan Committee are further increased, shifting more cases to Hub Loan Committee review and decision.
- B. In prior Notices, all Section 220, as well as all 221(d) age-restricted and 231 applications were identified as requiring National Loan Committee review, regardless of the size of the loan or number of units. But this requirement is clarified to exclude age restricted transactions where the property was previously financed under Section 202 or is an insured

- project with project based Section 8 assistance. Now such prior assisted, age restricted projects require Loan Committee review only in accord with the thresholds for loan size or number of units.
- C. Submission documents and file naming requirements previously specified for National Loan Committee submissions are now made mandatory for all Loan Committee submissions.
 - D. Hub Directors are required to define a quorum for Hub Loan Committees.
 - E. The method for “Approval by Consent” is clarified.

III. **Background**

Housing Notices H 2010-13 and 2011-35 noted significant risk management challenges arising from economic conditions since 2008. 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. Loan Committees were instituted to manage these increased risks and to provide a transaction based exchange of views on emerging policy issues and best practices among Multifamily Hubs, Program Centers and Headquarters.

The following chart summarizes Loan Committee operations from inception to December 9, 2011, (somewhat more than 1 year of operation) and then from December 10, 2011, to December 11, 2012.

| Committee Type: | Year 1 | | | Year 2 | | |
|--------------------|---------|------------|------------|---------|------------|------------|
| | # Deals | # approved | # rejected | # Deals | # approved | # rejected |
| National Committee | 240 | 226 | 14 | 106 | 103 | 3 |
| Hub Committees | 358 | 346 | 12 | 296 | 286 | 10 |

Since the thresholds for loan amount and number of units for National Loan Committee were increased at the end of the first year, the proportion of all Loan Committee transactions going to the National Loan Committee has declined from 40% to 26% as Hub Loan Committees are now reviewing nearly 3 out of every 4 deals that require Loan Committee review. This trend is appropriate as Hub Loan Committees have become effective and thus the thresholds for National Loan Committee review are being adjusted.

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 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 made by production teams.
- G. Develop more uniform underwriting among Hub/Program Centers.
- 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.

V. Applicability: Loan Types Subject to Committee Approval

Except for loans proposed for Sections 220 and 231 and certain other age restricted projects, Program Center Directors and Hub Directors will retain signature commitment authority for all loans which are both less than 76 units and not more than \$5 million. 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. When an application does require loan committee approval, it will be submitted to only one Loan Committee, either Hub or National Loan Committee, consistent with the thresholds defined in this Notice.

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 Pre-application Invitation Letter or Firm Commitment. Thus, while loan committee review is required pursuant to this Notice, the Multifamily Hub or Program Center signs Invitation Letters and Firm Commitments pursuant to existing delegations.

The National Loan Committee will oversee the activities of the Hub Loan Committees and will retain approval authority for all loans under Sections 220 and 231 and certain other age restricted projects, for market rate new construction or substantial rehabilitation loans over 400 units or \$40 million, and for all transactions over 400 units or \$50 million. Section 221(d)(4) age-restricted and Section 231 applications require National Loan Committee review due to unique characteristics of age restricted housing. However, this required review of age restricted projects does not extend to transactions involving properties previously financed under Section 202 or to currently insured projects with project based Section 8 assistance,

which, like projects with no age restrictions, only require loan committee review in accord with loan amount and project size thresholds.

The purpose of the National Loan Committee’s oversight of the Hub Loan Committees’ actions is not to re-underwrite loans or to question decisions made by the Hub Committees. Rather, oversight 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, voting members of the National Loan Committee (either currently or formerly serving) periodically participate (but do not vote) in Hub Loan Committee meetings.

Thresholds requiring either Hub or National Loan Committee review of projects are established for program types, loan amounts and project size as follows:

| FY 2013 Loan Committee Limits | |
|---|--|
| Loan Amount/Unit Count | New Construction/Substantial Rehabilitation - Section 221(d)(4) |
| Up to \$5 million and 75 units | No LC review required |
| >\$5M to \$40M or 76-400 units | Hub |
| > \$40M or >400 units | National |
| Loan Amount/Unit Count | Section 223(f) & 221(d)(4) Affordable (Rental Assistance or Tax Credit) |
| up to \$20 Million and 200 units | No LC review required |
| >\$20 to \$50M or 201-400 units | Hub |
| >\$50 Million or >400 units | National |
| Loan Amount/Unit Count | Section 220, 231, & 221(d)(4) age-restricted (excluding prior 202 or project based Section 8) |
| All | 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. | |

Refinancing of existing insured projects under Section 223(a)(7) does not require Loan Committee review.

VI. Submissions to Loan Committees

Projects subject to 2-stage processing must obtain Loan Committee approval at both Pre-application and Firm Commitment. 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 issues not addressed at Pre-application (e.g., complete mortgage credit review, architectural and cost analysis). Hub/Program Centers have authority to reject transactions prior to any Loan Committee review.

Applications offered for single stage processing (direct to Firm Commitment) 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 unless the change requires a modification of any conditions of the Loan Committee's approval. In such cases, the Multifamily Hub or Program Center should submit a brief description of the change and any relevant supporting analysis.

All Loan Committee submissions must be prepared by Housing Program staff in form and substance consistent with the standard Loan Committee Data Sheet and Narrative Template previously transmitted. Submission documents and exhibits should be uploaded to the relevant Loan Committee SharePoint site. Attachment 1 to this Notice is a list of Loan Committee electronic submission requirements and the naming protocol for each item. Additional exhibits or files should not be submitted unless required in order to detail an unusual circumstance or unless requested by Loan Committee voting members who may request specific additional information or reports (e.g. third-party reports, financial or credit information, or other relevant analysis). Loan Committee presentations should address the following:

- A. An overview of the project,
- 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. A description of and the rationale for any waivers of program guidelines and the 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.

VII. Hub Loan Committees, Operations and Membership

A. Operations

1. The Hub Loan Committee will be convened in person or by conference call on a regular schedule or more frequently based on demand, and will adhere to time deadlines established by the Hub Director in order to ensure no delay in issuing a rejection, a Pre-application Invitation Letter or a Firm Commitment.
2. The Hub Loan 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 Loan Committees 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. 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 Hub Loan Committee addressing key aspects of the transaction and will respond to questions. In addition, members may ask that a specific staff person on the processing team (e.g., appraiser, cost analyst) be present to respond to questions.
4. The Hub Loan Committee may approve, 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.
5. Loans must be approved by a majority vote of the members present which shall not be less than a quorum. Approval by consent requires a unanimous vote of the members participating even when the number of voting members participating exceeds a quorum. When approved by consent a transaction will not be presented or discussed at the Hub Loan Committee meeting.
6. A Hub staff member will:
 - a. manage the Hub Loan Committee's agenda,
 - b. distribute the transaction summary and related materials to Hub Loan Committee members,

- c. post any additional underwriting materials to the Hub Loan Committee's SharePoint site,
- d. maintain a record of the Hub Loan Committee's deliberations, decisions and any conditions of an approval,
- e. relay the Hub Loan Committee's determinations to the submitting office within 1 day of the meeting, and that office will notify the lender of the Hub Loan Committee's action, and
- f. after each meeting, report Hub Loan Committee action and summary project information at the Multifamily Loan Committee SharePoint site:
<http://hudsharepoint.hud.gov/sites/DASMFH/OMHD/LComm/Lists/Hub%20Loan%20Committee%20Reporting/Standard1.aspx>

B. Membership

1. The Hub Director, or a delegated representative, will participate on and chair the Hub Loan Committee and will determine its membership, which may consist of both Hub and Program Center staff.
2. In addition to the Hub Director, the Hub Loan Committee should consist of at least two members representing key technical disciplines, such as 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 Hub Loan Committee's SharePoint site.
3. The Hub Loan Committee may have standing members who review all transactions presented to it or may have rotating membership. The Hub Director shall define the terms of the members and the number of voting members who constitute a quorum for conducting business.
4. A Hub Loan Committee member must not participate in any committee discussion or action with respect to any loan in which the member has been directly involved or for which the member has direct responsibility. Members must excuse themselves from consideration of any loan in which the member has a personal relationship (i.e. apart from business relationships formed in the conduct of business as a HUD employee) with any party to the loan.
5. The Hub Director may arrange for Hub Loan Committee participation by senior staff from other offices or from Headquarters Multifamily Development if needed to form a quorum for Hub Loan Committee.

VIII. National Loan Committee, Operations and Membership

A. Operations

1. The Chairperson shall convene the National Loan Committee in person or by conference call on a regular schedule or more frequently as needed based on demand, and will assure that the National Loan Committee adheres to time deadlines established by the Deputy Assistant Secretary (DAS) for Multifamily Housing in order to ensure no delay in issuing a Pre-application Invitation Letter, a Firm Commitment or a rejection.
2. All transactions submitted to the National Loan Committee must first be approved by the Hub Director, with or without conditions, and be recommended for favorable consideration.
3. Hub/Program Centers shall post all applications (whether for a Pre-application Invitation Letter or a Firm Commitment) for review by 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.
4. Each member (or alternate) will review the material posted to SharePoint or otherwise distributed, post any comments or questions, and either cast a vote or request that the transaction be discussed at the scheduled meeting. Members may request additional review material or that certain participants on the project team be available for questions during the meeting. To the extent practicable, such requests should be made 3 days prior to the meeting in which a transaction is scheduled for consideration.
5. Absent objection by the DAS or an ex-officio member, transactions may be approved by consent with a unanimous vote of participating members even when the number of members participating exceeds a quorum. When approved by consent a transaction will not be presented or discussed at the National Loan Committee meeting.
6. The Chairperson may cancel or postpone a 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 their designee may request a postponement or withdrawal of a specific transaction. Cancellation, postponement or withdrawal must be done by written notice (e.g. e-mail) and where practicable, at least 24 hours prior to the scheduled time of the meeting.
7. When transactions are presented to the National Loan Committee, the team leader who prepared the transaction summary will address key aspects of the transaction and will respond to committee questions.

8. The National Loan Committee's approval is required before a Pre-application Invitation Letter or a Firm Commitment may be issued.
9. The Committee may approve, conditionally approve, table (take no action pending additional information) or deny approval for any Pre-Application Invitation Letter or Firm Commitment. Generally, loans will be denied rather than tabled if the missing information cannot be obtained within 2 weeks. The National Loan Committee's decision will be documented in a memorandum to the Multifamily Hub Director, included in the project loan file and posted to the Multifamily Loan Committee SharePoint site at <http://hudsharepoint.hud.gov/sites/DASMFH/OMHD/LComm/HQ%20Review/Forms/Standard%20View.aspx>.
10. Loans must be approved by a majority vote of the voting members present which shall not be less than a quorum. The Chairperson will cast the deciding vote in the case of a tie.
11. A Headquarters staff member will:
 - a. post all transactions for consideration to the National Loan Committee's SharePoint site monitor and manage member comments and votes cast for approval by consent, and schedule transactions for review.
 - b. distribute the transaction summary and related materials to members,
 - c. post any additional underwriting materials to the National Loan Committee's SharePoint site,
 - d. keep minutes and maintain a record of the National Loan Committee's deliberations, decisions and any conditions of approval or observations made, and
 - e. relay the National Loan Committee's determinations to the submitting office within 1 day of the meeting, and that office will notify the lender of the National Loan Committee's action.

B. Voting and Alternate Members

The National Loan Committee members for Fiscal Year 2013 have been identified by administrative memorandum.

1. The National Loan Committee will consist of five primary members and five standing alternates 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 as Chairperson. Except in the event of a tie, the Chairperson may not vote.

2. Two 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 primary member on all transactions presented to the National Loan Committee.
5. Membership on the National Loan Committee will rotate. Members may be appointed for staggered terms of 1 or 2 years. Selections and rotation schedules will be managed so as to maintain continuity on the National Loan Committee.

C. Executive Session

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

Each voting member will individually cast their vote for a transaction. A member may vote to approve transactions with or without conditions, or to reject transactions with or without advice or comment on changes which, if made, would make the rejected transaction approvable.

The vote of each member will remain confidential.

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

IX. Ex-Officio Members of Loan Committees

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 Loan Committee; and c) recommend policy, programmatic or operational changes to the DAS. Ex-officio members may attend Loan 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.

X. Implementation and Conclusion

This Notice is effective immediately.

If there are any questions regarding this Notice, please contact Daniel J. Sullivan, Deputy 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
Assistant Secretary for Housing –
Federal Housing Commissioner

Attachment 1:

Submissions should normally be limited to just these standard exhibits:

| | Exhibit | Electronic naming protocol |
|---|--|---|
| 1 | Team or (for NLC) Hub Director recommendation, including names of staff presenting transaction | (7-digit project number)(Project Name) Team (or for NLC, Hub Director's) Recommendation(date) |
| 2 | LC Narrative template | (7-digit project number)(Project Name) LC Narrative(date) |
| 3 | LC Data Sheet – "wheelbarrow" output reports | (7-digit project number)(Project Name) LC 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 Pre-app) | (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) |

Schedule of NLC meetings:

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