



Pacific Currents

Multifamily Housing News

U.S. Department of Housing & Urban Development — San Francisco Multifamily Hub

Hawaii

Northern California

Nevada

Arizona

Volume 7, Issue 6

August 2005

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Special Feature HUD Multifamily Mortgage Insurance Programs

“Ponderosa Estates—a 40-year old, 56 unit cooperative located in Marin City, California—represents a classic example of financial and physical restructuring of an older development needing serious upgrading. There were many moving parts in this transaction, viz.: resident affordability was assured through a Long Term Use Agreement, HUD stepped forward with a 20-year project based Section 8 Contract; HUD provided insurance for a new money mortgage that took out a higher interest rate debit with



BEFORE



AFTER

sufficient excess funds to carry out a 3.5M rehabilitation (approximately \$62K per unit). Lastly, there was a substantial funding of two depleted reserves, replacement and operating. Our firm was pleased to serve as Management Agent and Construction Manager. It is clear that without HUD it is unlikely that this transaction could have occurred.”

~ John K. Stewart, The John Stewart Company
Ponderosa Estates Management Agent

(additional information and photos on page 8)

INSIDE! - UPDATED!
4 Page Pull-Out
MAP BROCHURE!

Where To Find Our Previous Pacific Current Issues

The San Francisco HUB publishes Pacific Currents quarterly. While we try to furnish our 4,000+ subscribers with a print copy, sometimes we are only able to post the newsletter on our website due to insufficient printing funds. Look for our latest issue here:

<http://www.hud.gov/local/ca/working/localpo/mfhsgnews.cfm>

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Subscriptions: The San Francisco Multifamily HUB, USDHUD "Pacific Currents" newsletter is published on a quarterly basis and distributed free of charge to registered subscribers.

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Contributed by Jeri Henson

Hub Lines . . .

Small Opportunities are often the beginning of great enterprises.

~ Demosthenes

A hunch is creativity trying to tell you something.

~ Anonymous

A man wrapped up in himself makes a very small bundle.

~ Benjamin Franklin

Feature Article MULTIFAMILY HOUSING DEVELOPMENT

How FHA Insurance Can Help You

This issue of Pacific Currents provides a brief look at HUD Multifamily Housing Development programs, Construction Inspectors, property snapshots, tips for a smooth closing, and HUD development staff.

There are several different types of FHA mortgage insurance programs available to owners. These programs fall into two general categories: programs used to refinance existing loans or to acquire existing properties, and programs used for new construction and substantial rehabilitation.

Programs for Existing Properties

Many existing HUD properties can benefit from refinancing to take advantage of the current low interest rates. These benefits may include:

- Reducing debt service requirements
- Increasing cash flow to the project
- Generating funds for repairs
- Increasing the Reserve for Replacement Account
- Extending the term of the loan

The Section 223 (a)(7) and 223 (f) programs are the two FHA programs which provide mortgage insurance for existing properties not requiring substantial rehabilitation.

Section 223(a)(7)

- > Provides simplified refinancing of HUD-insured multifamily projects.
- > Results in the prepayment of the existing insured mortgage and generates the endorsement of a new, refinanced insured mortgage.
- > Designed for existing HUD-insured MF projects, with or without Section 8 rental assistance.
- > Offers the opportunity to lower the interest rate from the original loan, which will lower the principal and interest of the mortgage resulting in greater cash flow to the project.
- > Repairs that may be required and increases to the Reserve for Replacement Account can be included in the mortgage amount.
- > One-half of the application fee is refundable after a successful closing.
- > There is no inspection fee.
- > Allows for the extension of the original term of the mortgage under certain limited circumstances.

Project Mortgage Insurance applications under the 223 (a)(7) program are currently processed using HUD's TAP (Traditional Application Processing) procedures.

**Changes to the California Energy Code
become effective
October 2005**

Feature Article
MULTIFAMILY HOUSING DEVELOPMENT

Section 223(f)

- > Refinancing of projects while taking advantage of a long-term mortgage of up to 35 years or 3/4 of the project's remaining economic life, whichever is less.
- > Can be financed with Government National Mortgage Association (GNMA) Mortgage-Backed Securities and may be combined with low-income housing tax credits and/or tax exempt bond financing.
- > Permissible to use this program so long as there is no substantial rehabilitation required or if it does not involve the replacement of more than one major system.
- > Ability to take advantage of lower interest rates and extend the term of the mortgage.
- > Potential of equity take-out within LTV less than 80%
- > Reduced principal and interest which will generate additional cash flow.
- > All repairs, both critical and non-critical, are mortgageable.
- > Existing health care facilities (Skilled Nursing, Intermediate Care, Board and Care, Assisted Living) may be acquired or refinanced under the Section 232/223(f) program.
- > The Section 223(f) program may also be used for the refinancing of existing projects originally funded under HUD's Section 202 Direct Loan Program (usually in combination with a Section 8 Housing Assistance Payments Contract). Loan-to-value and debt service coverage requirements for such projects are slightly more generous than those for other projects processed under Section 223(f).

Mortgage insurance applications under 223(f) and 232/223(f) programs are processed using HUD's MAP (Multifamily Accelerated Processing) Procedures.

Section 223(a)(7) projects which have been recently closed.

Kings Garden Apartments, Hanford, CA

- Interest Rate Reduction from 9.25% to 5.75%
- Annual Savings generated by new loan **\$34,286.**

Tehama Estate, Red Bluff, CA

- Interest Rate Reduction from 8.75% to 5.5%
- Annual savings generated by new loan \$41,254.20

Section 223(f) projects that have recently closed.

Davisville Apts., Davis, CA. This project serves elderly residents.

- Interest reduced from 7.5% to 5.625%
- Repairs included adding additional smoke detectors & improving handicap accessibility

YWCA, San Francisco, CA. The project serves elderly residents and is considered historical. It was designed by well-known architect, Julia Morgan.

- Interest reduced from 8.5% to 5.87%
- Annual Savings generated by new loan \$99,012
- Repairs \$991,852
- Lead-based paint removal
- Upgrade fire alarm system and elevators

New Construction and Substantial Rehabilitation

There are also several FHA insurance programs used for New Construction and Substantial Rehabilitation. Sections 221(d)(3) and Section 221(d)(4) are used for multifamily rental or cooperative housing. Section 220 is used for multifamily rental housing in urban renewal and redevelopment areas, and Section 231 is used for multifamily rental housing to be occupied exclusively by independent seniors aged 62 and over. Section 232 is used for New Construction and Substantial Rehabilitation of health care facilities. The charts below highlight the characteristics of these programs.

Section 221(d)(3) and (d)(4) and Section 220

- > Assist private industry in the construction or rehabilitation of multifamily rental or cooperative housing for moderate-income and displaced families by making capital more readily available.
- > Allows for long-term mortgages (up to 40 years) that can be financed with Government National Mortgage Association (GNMA) Mortgaged Backed Securities.
- > Section 221(d)(3) is used by nonprofit sponsors and Section 221(d)(4) is used by profit-motivated sponsors.
- > Insured mortgages may be used to finance the construction or rehabilitation of detached, semidetached, row, walkup or elevator-type rental or cooperative housing containing 5 or more units.
- > Section 220 contains most of the same features as the 221(d)(3) and 221(d)(4) programs but is limited to certain locations, including urban renewal and redevelopment areas as well as RC/EZ/EC's.

Mortgage insurance applications under 221(d)(3), 221(d)(4) and 220 are processed using HUD's MAP procedures. Cooperatives require use of TAP procedures.

Section 221 (d)(4) projects which have been recently closed.

- Del Prado Apartments, Las Vegas NV (See inside story on page 10) (New Construction)
- Sycamore Lane Apartments, Davis CA, (See inside story on page 15) (A substantial rehabilitation project)

Section 231

- Designed specifically to provide housing for independent seniors age 62 and over.
- Was long dormant but has seen renewed activity recently.
- Most aspects of this program are the same as the 221(d)(3) and 221(d)(4) program.
- Limited dining facilities are permitted but congregate housing of the sort once provided under HUD's former Retirement Services Center program are not permitted
- Mandatory meal programs are similarly not acceptable under this program.

Mortgage insurance applications under the Section 231 program are currently processed using HUD's TAP procedures.

Section 232 (Health Care Facilities)

- Insures mortgage loans to facilitate the construction and substantial rehabilitation of nursing homes, intermediate care facilities, board and care homes, and assisted-living facilities.
- Allows for long-term, fixed rate financing (up to 40 years) that can be financed with Government National Mortgage Association (GNMA) Mortgage Backed Securities.
- Facilities must accommodate 20 or more residents who require skilled nursing care and related medical services, or those who, while not in need of nursing home care, are in need of minimum but continuous care provided by licensed or trained personnel.
- Assisted living facilities and board and care homes are also eligible and must contain a minimum of five accommodations or units.
- Section 232 Mortgage insurance applications are processed using HUD's MAP procedures.

Section 232 projects which have recently closed.

- Pacific Gardens, Santa Clara, CA ((An Assisted Living Facility)
- Fremont Vista, Fremont, CA (see inside story on page 16) (An Assisted Living Facility)

WHO WE ARE?

The San Francisco Multifamily Hub processes applications for mortgage insurance involving rental housing and health care facilities comprising 5 or more units/beds, using both the MAP (Multifamily Accelerated Processing) and TAP (Traditional Application Processing) procedures. MAP was introduced in July 2000 to improve the efficiency of the application process. An updated MAP brochure is included as the centerfold in this issue. The San Francisco Hub has two Multifamily Housing Development Offices, one in San Francisco and the other in Phoenix.



The San Francisco Development Staff. Left to Right: Larry Ferguson (MAP Team Leader), Pam Parker (Appraiser), Frank Aranzubia (Architect), Dan Grumet (Mortgage Credit Specialist), Michael Otocky (Mortgage Credit Specialist), Linda V. Johnson (Program Assistant), Jane Chang (Appraiser), Alamdor Arastu (Architect), Clarita Mijares (Architect), Bob Katz (Appraiser), and Patchara Baumgartner (Housing Representative)

Not Pictured: Frank Spillman (Housing Representative) and Wayne Harris (Appraiser)

The San Francisco office processes both MAP and TAP applications. It consists of a Supervisory Project Manager/MAP Team Leader, a MAP Coordinator, and a Program Assistant and generally functions as two working groups, each comprised of a Multifamily Housing Representative and three technical staff members: a Construction Analyst, an Appraiser, and a Mortgage Credit Analyst.

The Phoenix Processing Center handles MAP, TAP and Capital Advance (Section 202/811) processing in one team. It consists of a Supervisory Project Manager/MAP Team Leader, two Construction Analysts, two Appraisers, two Mortgage Credit Specialists, two Multifamily Housing Representatives, one Project Manager, and one Program Assistant, all of whom are supervised by the Processing Center Director.



Phoenix Development Staff. Left to Right: George Nolasco (Construction Analyst), Sandy King (Mortgage Credit Specialist), Kevin Hutchinson (Appraiser), Tom Frizzell (Housing Representative), Rosie Ortega (Project Manager), Sally Thomas (Director), Ronald Bartlett (Appraiser), Don Landry (Construction Analyst), and Kimberly Bledsoe (Program Assistant)

Not pictured: Peter Koziol (Mortgage Credit Specialist) and Tony Perez (MAP Team Leader).

What We Do

Supervisory Project Manager/MAP Team Leader (aka, Chief of Insured Production): Production Chief and Underwriter responsible for overall project development, from Pre-Application through Final Closing, for all FHA multifamily mortgage insurance programs; supervises the insured production team.

Multifamily Housing Representative: Coordinates processing of applications and helps “drive” all aspects of FHA multifamily insured project processing; and acts as HUD’s single-point-of-contact for FHA lenders.

Architect/Cost Analyst: Reviews architectural/cost exhibits and HUD forms; examines engineering and other technical reports; recommends acceptance or rejection of A/E/C portion of the application

Appraiser: Reviews Lender’s Underwriting Summary; conducts desk review of the market study; inspects subject site and comparables to assess acceptability of the site or project for mortgage insurance and determined acceptability of rent and income estimates; reviews Lender’s Phase I Environmental Assessment; prepares HUD Environmental Assessment and Compliance Findings for Related Laws (HUD-4128); For New Construction and Substantial Rehabilitation, reviews and determines replacement cost and makes preliminary determination of maximum insurable mortgage; recommends acceptance or rejection of the appraisal and market study

Mortgage Credit Analyst: *Reviews and determines:* replacement cost (refinance and acquisition transactions); maximum insurable mortgage (final determination for New Construction and Substantial Rehabilitation, performs calculation for refinance and acquisition transactions); eligibility and acceptability of principals; credit and financial capability of principals; Previous Participation Certifications (2530); financial requirements for settlement; source (s) of funds to meet cash requirements. *During and after construction period:* Reviews draw requests and change orders; reviews and approves cost certifications.

What We Think

Supervisory Project Manager/MAP Team Leader:

“What makes our work so interesting is that we are working on and closing some of the most difficult MAP deals in the country. We are trying our best to meet production time-frames, close as many deals as we can, while also using sophisticated analyses to help balance risk to the tax-payers with public needs. No day here is ever the same as situations with projects are constantly changing and evolving.”

Our rules and understanding of underwriting issues are also changing over time, and this also makes the job interesting since we can improve our own underwriting expertise and provide the service of assisting our MAP lenders in becoming more effective underwriters, too. We don’t underwrite in a Production vacuum, and are always aware that the deal we close today will be serviced by our Asset Management staff tomorrow.”

Multifamily Housing Representative:

“I enjoy group dynamics and interaction with the team. It’s also challenging for me working on solving problems, dealing with obstacles in order to be able to meet the deadline, or close the project. While, I think most of the work is technical, it’s important to help add a human touch to the work. We should not forget that it takes people to make the project a home, not the materials.”

Architects:

“As architects, we like to make sure that HUD projects are safe, secure, affordable and pleasant places to live and work. Working with project costs and evaluating the well-being and socio-economic aspects of housing design are the central part of my work. I like to be associated with housing projects through their life cycles. Housing projects seem to take shape as a youth who is full of hope and promise, who then ages and matures overtime; much as we hope the people who live in them would do.”

“As an advocate of elderly and handicapped both in and out of the office, I see to it that the design is sensitive to their needs. The place they can call “home” for the rest of their lives.”

Appraiser:

“Often, the only person from the MAP team to visit the property is the appraiser. I enjoy getting out into the field to see the projects we are insuring. Based on the on-site inspections, the appraiser can make recommendations that will influence the longevity, marketability, and safety of the project. In that way, I feel I can make a meaningful contribution.”

Mortgage Credit Analyst:

“The Mortgage Credit Analyst (MCA) is one discipline that is actively involved in the entire development cycle of a project. From the time the Pre-Application is submitted, through processing the underwriting analysis, right through the construction period, the MCA is continuously involved. During construction, the draws of mortgage proceeds are reviewed along with all change orders and the releasing of escrow funds. The MCA reviews the Cost Certification, determines the maximum insurable mortgage, and participates in the Final Closing.”

Development Information

Handy Tips for a Smooth Closing

It is said that time is money. This is true when it comes time to close on your new FHA Insured mortgage. You've gone through all the steps to get the mortgage you requested and now it becomes important to close in a timely manner. Too often important tasks are overlooked that delay closings. Here are some tips provided by Mark Levy of the Law Offices of Levy, Levy & Levy, at the 2005 Lender's Conference in Las Vegas:

1. Know your HUD Team and who the primary contact is for the closing in Multifamily Production. Understand the procedures of the office to ensure that all parties receive a closing package. Follow up with that individual to ensure that all the submitted closing documents were received. Stay in contact to determine the status of administrative clearance.
2. Ensure that complete closing packages are submitted. Partial packages can cause delay and confusion on the part of the reviewers. Include all title exception documents and a final draft of the mortgagor's attorney's opinion.
3. It is important to get things done prior to closing. Don't count on being able to resolve issues and fix documents on the day of the closing.
4. Lenders and borrowers should coordinate with third parties (title company, surveyor, city/county, and mortgagor's attorney). For surveys, the legal description in the survey must be identical to the legal description in the title policy; all easements reflected on the title policy must be reflected on the survey and vice versa. Make certain that the survey has been updated within 120 days of closing.
5. Make sure that the applicable HUD language is inserted into any organizational documents.
6. The zoning and building code letters should be within 30 days of closing.

Now it's no guarantee that these tips will get you a quicker closing, but they will assist in a smooth transition from a Firm Commitment to closing.

HUDclips and MAP FAQ's

Be sure to start project specific planning with a visit to HUDclips at: <http://www.hudclips.org/cgi/index.cgi> for the latest versions of forms, notices, and other guidance. If it's a MAP deal, check the MAP Guide and also the FAQs to get the latest take on MAP requirements and clarifications. The MAP Guide is at: <http://www.hud.gov/offices/hsg/mfh/map/mapguide/mapguide.cfm> The Frequently Asked Questions to the MAP Guide can be found at: <http://www.hud.gov/offices/hsg/mfh/map/mapfaq.pdf> Keeping up to date with these resources can give you a solid foundation of program requirements.

Construction Reference Guide

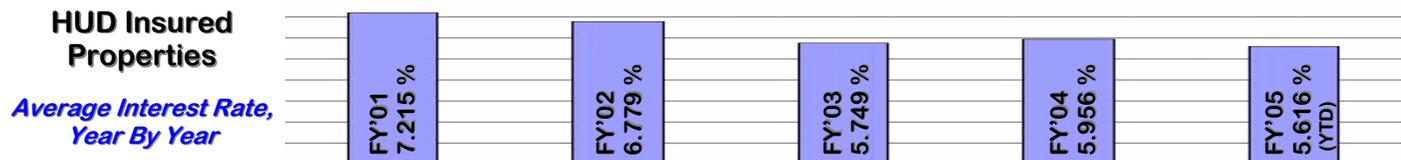
The San Francisco Multifamily Housing Hub has created a document (in Microsoft PowerPoint) that clearly communicates and demystifies HUD/MAP policies, procedures, forms, requirements and instructions used during the construction period for New Construction and Substantial Rehabilitation (Sections 232, 221(d)4, 221(d)3, 202, 811). A similar document for refinance (Sections 223(f), 232 pursuant to 223(f) and 223(a)7) will soon be completed.

This document has become a useful reference guide for lenders, owners, architects, contractors, HUD Inspectors and HUD staff. This tool has helped our Hub:

- Demystify HUD requirements during construction.
- Communicate all our construction requirements clearly, completely and concisely.
- Standardize our construction procedures across offices and between staff.
- Make our Trip Reports, forms, instructions, etc. more easily accessible.

We continue to edit and improve this document with input from all parties, as we incorporate best practices and improve our procedures.

The most recent version of the HUD Preconstruction Conference Manual is available on-line at <http://hud.opae.net> or through the HUD Contract Inspector's websites at www.aesdesign.com, www.camadesign.com and www.wadearchitecture.net



Development Information

**Construction Inspectors of San Francisco
Multifamily Housing HUB's**

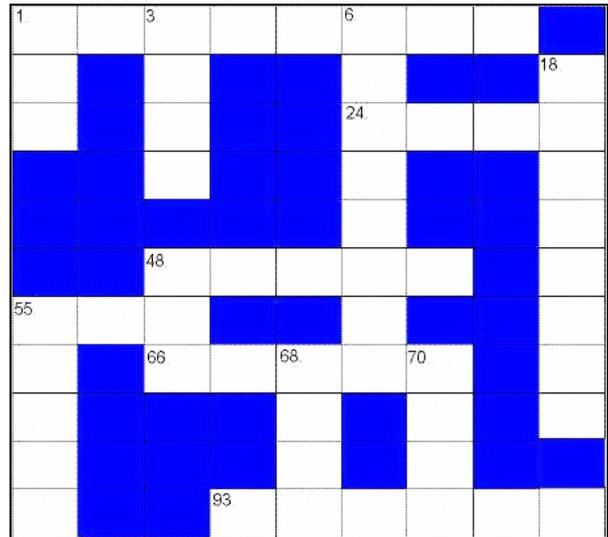
HUD contracts for construction inspection services. In the San Francisco Multifamily Housing Hub, we contract for construction inspection services by State rather than Hub-wide. We have found that contracting with licensed architectural/engineering firms in each State provides us with better quality services, oversight, accountability, and risk management. Because these HUD inspectors are licensed professionals, they also have the capacity and experience necessary to evaluate the services of a project's Supervisory Architect in addition to the Contractor's operations, organization and supervision.

The firms hired to provide construction inspection services are Section 8(a) certified businesses with the U.S. Small Business Administration (SBA). The SBA 8(a) Business Development program helps create jobs by helping small or disadvantaged businesses grow by gaining access to government contracts. We have contracted with the AES Design Group for inspection of projects located within the State of Hawaii <http://www.aesdesign.com>, Clifton A. Marshall Architect, Ltd. for projects located in the State of Nevada <http://www.camadesign.com>, and The Wade Design Group for projects located in Northern California <http://www.wadearchitecture.net>.

In Arizona, DFW Group, Inc, has the contract for inspection services. David Jasso is the contract Manager. THE DFW Group currently provides the inspection services in the Forth Worth HUB, the Baltimore Area Office, the Denver Office and the Arizona Office. Scott Lowery is their Field Inspector in Arizona. He has had to deal with some unique construction issues including a project that never got to Final Closing. They can be contacted through their web page or electronic address: DFWGroup@dfwgroup.com



Crossword Puzzle



Across

- 1. What HUD's FHA program insures.
- 24. Contact with this state official is part of the environmental review process
- 48. Provides affordable rental housing (abbreviation)
- 55. ___ La La
- 66. Means of providing funds for mortgages; also a famous baseball player
- 93. Sec. 223(a)(7) project name Found on Page 3 "Kings _____ Apts, Hanford, CA

Down

- 1. Program designed to provide quicker results to HUD's clients
- 3. One of the uses for the Section 223(f) program
- 6. _____ Living
- 18. Written agreement
- 48. Testing Room
- 55. The Orient Express
- 68. HUD uses this method to announce programs
- 70. Purchased

Crossword answers on Page 17



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Privacy statement: We believe in protecting your privacy. When you register for a mailing list, we won't share your email address with anyone outside of HUD Multifamily.

(continued from Page 1)

Ponderosa Estates is a 56-unit cooperative built around 1965 in Marin City, California. By the early years of this decade, the project began to suffer from disrepair and deferred maintenance. Water penetration of units was evident and no adequate meeting space for the co-op members use was built when the project was originally completed. In addition, contributions to the Replacement Reserve had not been adequately increased during the project's

life and there were inadequate funds available to deal with the deterioration. The application to refinance the property's loan and provide money for renovation also included funds to build a new leasing office/community building rather than trying to make a hillside unit/office accessible. Repair and renovation required many months to complete and involved temporary relocation of some owners. As with many Substantial Rehabilitation projects, concealed defects were uncovered during construction that had to be addressed as work progressed.



Photo courtesy of Hilliard Architects

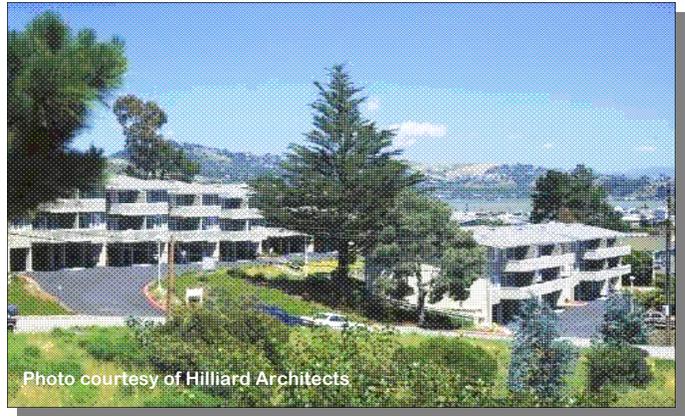


Photo courtesy of Hilliard Architects

Development Corner

Section 202/811 Initial Closings

Casa Mia, Section 202, 64 units, Phoenix, Arizona
Mercy Oaks Village, Section 202, 63 units, Redding, California
Salvation Army Tulare Silvercrest, Section 202, 60 units, Tulare, California
Boulevard Apartments, Section 811, 15 units, Petaluma, California

Section 202/811 Final Closings

Vista de Montana, Section 202, 59 units, Phoenix, Arizona
Mountain Vistas, Section 202, 57 units, Redding, California
Jefferson Street Senior Housing, Section 202, 78 units, Napa, California
Mountain Valley Haven, Section 202, 10 units, Hayfork, California

Initial/Final Endorsements

Park Lee Apartments, Section 221(d)(4), 523 Units, Phoenix, Arizona
Allegro at Foothills Gateway, Section 223(f), 264 units, Phoenix, Arizona
Santa Rosa Convalescent Center, Section 223(f), 141 beds, Tucson, Arizona
Oro Valley Estates, Section 221(d)(4), 138 units, Oro Valley, Arizona
Oasis Apartments, Section 223(f), 184 units, Sierra Vista, Arizona
Hacienda at Sunnyslope, Section 221(d)(4), 150 units, Phoenix, Arizona
Albert Einstein Residence Center, Section 223(f), 78 units, Sacramento, California
Chico Hospital, Section 223(a)(7), 184 beds, Chico, California
Fairway Apartments, Section 223(a)(7), 74 units, South San Francisco, California
Pleasant Valley Pines, Section 223(a)(7), 52 units, Coalinga, California
Montgomery Plaza Apartments, Section 223(f), 50 units, Hayward, California
Ashland Village Apartments, Section 223(f), 142 units, San Leandro, California
Kings Garden Apartments, Section 223(a)(7), 100 units, Hanford, California
Surf Apartments, Section 542(c), 46 units, San Leandro, California
Flores Gardens Apartments, Section 223(a)(7), 72 units, San Mateo, California
Ponderosa Estates, Section 221(d)(4), 56 units, Marin City, California
Timber Ridge at McKinleyville, Section 232, 48 beds, McKinleyville, California
Fremont Vista, Section 232, 130 beds, Fremont, California

“Surviving the Winds of Change”
2005 Lender’s Conference

The four western multifamily Hubs (Denver, Los Angeles, Seattle and San Francisco) participated in the 6th annual Western HUD Lenders Conference, sponsored by the Western Mortgagee Council, April 11th to 13th in Las Vegas, Nevada. These conferences are useful forums for lenders and HUD to discuss how to more effectively use HUD/FHA mortgage insurance.

Although HUD multifamily insurance continues to have positive growth, including another record year of endorsements (approximately 1500 projects, with over \$7.5 billion dollars of mortgage insurance) there was recognition that maintaining the status quo is not advantageous for business. We collectively need ongoing efforts to improve product delivery. This year’s theme “surviving the winds of change” sought to reflect both the frustration and potential of living through product improvement.

MAP 101 Training was run concurrently with the conference. The training was to provide MAP underwriting instructions to more junior mortgagee staff and get them certified to do MAP work. They also had the opportunity to listen to Todd Buchholz, the keynote speaker, who discussed “How to Compete in a Chaotic Economy;” and Michael McCullough, Director, Office of Multifamily Development, who discussed the “big picture” regarding HUD’s multifamily insurance.

The hot issues discussed during the conference included:

1. Uniform Federal Accessibility Standards (UFAS) for elderly 223(f) projects; primarily 232 pursuant to 223(f). MAP FAQ has subsequently addressed this matter;
2. Proposed MAP Closing Documents. There are delays in implementing the proposed revisions.
3. Notice 95-66 regarding limited liability corporations has expired and is no longer applicable for any insured deals.
4. Senior housing projects that seek to use Section 221 cannot restrict their projects from having children or under age 62 spouses. Section 231 allows restrictions to seniors only (age 62 and above.)

Various presentations included:

1. Section 202 refinancing. Ways to use HUD programs to refinance existing 202s with HUD direct loans are discussed in this newsletter. We are seeing increased activity for this component of the market.
2. Construction Management. Jim Myers, discusses the “Construction Reference Guide” in this newsletter. (Page 6).
3. Closing/Legal issues. In addition to the discussion of the closing documents, panel members discussed how to facilitate easier transactions. This newsletter shares Mark Levy’s “Handy Tips for Smooth Closings.” (Page 6)

MAJOR CHANGE IN SECTION 202 and 202/8 DIRECT LOAN REFINANCES

In November 2004, HUD issued Housing Notice H04-21 which makes significant changes to the way HUD refinances existing Section 202 and 202/8 Direct Loan properties. These changes now make it more advantageous for owners of Section 202 Direct Loan properties to refinance their properties, and make them both physically and economically sustainable for up to 35 years.

Key changes include the following: Project may be underwritten based on existing Section 8 or comparable rental subsidy contract rents -- even when those rents exceed market rents; Developer Fee is now available; underwriting debt coverage ratio is now reduced to 1.1; greater flexibility on funding up-front 3rd party report costs using the Replacement Reserve Account.

Advantages of refinancing TODAY include the following: Lower interest rates to today’s historically low interest levels resulting in more robust cash flow for the long-term; potential reductions in rent as a result of better cash flow; improved physical condition of property; improved quality of life for residents who are the ultimate beneficiaries; Developer Fee.

California has over 300 Section 202 properties, Arizona has 50, Nevada has 11, and Hawaii has 30. Considering the fact that FHA financing offers fixed-rate, non-recourse, long-term reliable financing that will improve cash flow, help improve the physical condition of the property and resident’s units, and puts properties in a better position short-term, long-term for both owners and residents... Perhaps, the *real*/question for Section 202 owners is: “What FHA-approved Lenders should I now call”? To find the answer to that question, please see the MAP Brochure contained in this Newsletter. Please also see Notice H04-21 and H02-16. A Mortgagee Letter will be forthcoming that will provide additional guidance on this exciting new development in the preservation of our Section 202 affordable housing resources.

Del Prado Apartments, North Las Vegas, Nevada

Project/Location:

1237 Alexander Road
North Las Vegas, NV

Description:

193 Units

Project Size:

160,922 square feet (Gross)
1 story
15.41 Lot Acres (gross)
12.49 acres (net)

Unit Size:

62—1-bedroom, 1-bath
131—2-bedroom, 2-bath

Status:

Construction completed
October 2004

Lender:

Love Funding Corporation
Washington, D.C.

Architect:

Gearing Architecture LTD
Las Vegas, NV

Contractor:

Hardy Construction, Inc.
Las Vegas, NV

Funding Source:

HUD Section 221(d)(4)
New Construction:
\$13,150,000 mortgage
6.05% interest
40 year term



Located in sunny North Las Vegas, Del Prado Apartments is a newly constructed 193-unit multi-family housing complex. This apartment facility offers 62 one-bedroom/one-bath and 131 two-bedroom/two-bath units for a total of 193 units housed in 21 one-story buildings. There are 193 carports and 256 open parking spaces for a total of 448 parking spaces.

Amenities include a clubhouse located adjacent to the main entrance. It includes the leasing office, a full kitchen, a business room, a state of the art fitness center and storage areas for use by management. Next to the 2,449 square foot clubhouse is a swimming pool and spa. There are several recreation areas throughout the property of which two will include a gas grill and one in the center of the site will contain a playground.



EQUAL HOUSING
OPPORTUNITY



California State Office San Francisco Multifamily HUB

Whether you're thinking new construction, considering refinancing or purchase of an existing property, HUD and our approved MAP lenders can help.

For more information on MAP contact a MAP pre-approved lender

The list of pre-approved MAP lenders is at: hud.gov/offices/hsg/mfh/map/aprvlend.cfm

A variety of information about MAP is available at HUD's Website

Visit the frequently asked questions page at: [Hud.gov/offices.hsg/mfh/map/mapfaq.cfm](http://hud.gov/offices/hsg/mfh/map/mapfaq.cfm)

Take a look at MAP data, statistics and program guidelines at:

hud.gov/offices/hsg/mfh/map/maphome.cfm

For information on other HUD programs and services visit HUD's main web page at: <http://www.hud.gov>

The San Francisco Multifamily HUB has overall responsibility for processing multifamily mortgage insurance applications for Arizona, Hawaii, Nevada and Northern California



Equal Housing Opportunity

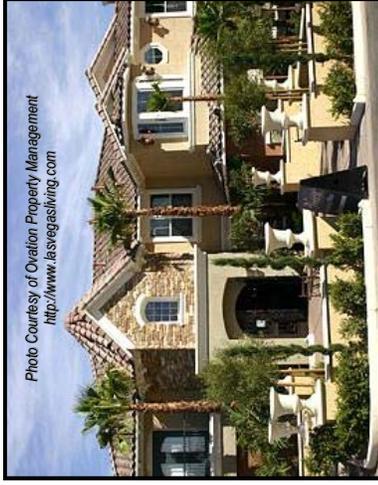
From: _____

Place
Stamp
Here

Multifamily Accelerated Processing

FINANCE YOUR PROPERTIES WITH MAP

*Efficient
Reliable
Cost Effective*



Venicia, 3644 So. Fort Apache, Las Vegas, NV 89147

TAKE A LOOK AT WHAT MAP CAN DO FOR YOU

U.S. Department of Housing
and Urban Development
San Francisco Multifamily Hub
Janet L. Browder, Director

Terms:

New construction and substantial rehabilitation:

- 40-year term or 75% of remaining economic life
- LTV 90% (95% for non-profit sponsor)
- DSC 90% (95% for non-profit sponsor)

Refinance or acquisition:

- 35-year term or 75% of remaining economic life
- LTV 85%
- DSC 85%

Note:

- In all cases, net income reflects return to realty/non-realty only and must be reduced by the amount of income attributable to the business portion of the entity.
- Equity takeout is not permitted on 232/223f transactions or 223f transactions involving Section 202 projects.
- "Founders fees", "life care fees" or similar charges are not permitted.
- New Construction and Substantial Rehab require a two stage processing, as with 221(d)(3), 221(d)(4) and 220 projects.

MAP Timeframes

For projects involving pre-applications, HUD will issue a Firm invitation letter within 45 calendar days of receipt of a complete application package. The lender has 120 calendar days to submit the Firm Commitment application. The HUD Director may approve up to three 30-day extensions; HUD Headquarters may issue one additional 30-day extension. Extension requests must be supported by documentation from the Lender that the conclusions in their underwriting are still valid. For projects involving pre-applications, HUD will issue a Firm Commitment within 45 calendar days of receiving a complete Firm application package.

For applications involving the purchase or refinance of an existing property, HUD will issue a Firm Commitment within 60 calendar days of receiving a complete application package. In all cases, Firm Commitments are good for 60 calendar days, and may be extended for two additional 30-day periods. Once a Firm Commitment has expired, it may only be re-opened under very limited circumstances, and payment of an additional processing fee is required.

**MAP Works
YOU BE THE JUDGE**

The MAP program was inaugurated in July 2000. MAP has resulted in huge increases in productivity for HUD multifamily mortgage insurance programs. Here is a synopsis of MAP activity, both in the San Francisco Hub and nationwide, from October 2000 through May 2005, in terms of projects endorsed, number of units/beds, and dollars of mortgages insured:

Section 220, 221(d)(3), 221(d)(4)
(Apartments; new construction / substantial rehabilitation)

San Francisco Hub
Projects: 43 - Units: 10,188
Dollars Insured: \$ 679,029,000

ALL HUBS
Projects: 661 - Units: 12,300
Dollars Insured: \$ 8,281,466,900

Section 223(f)
(Purchase/refinance of existing multifamily projects)

San Francisco Hub
Projects: 44 - Units: 7,510
Dollars Insured: \$ 320,125,300

ALL HUBS
Projects: 499 - Units: 73,310
Dollars Insured: \$ 2,671,487,100

Section 232
(Health Care Facilities; new construction / substantial rehabilitation)

San Francisco Hub
Projects: 14 - Beds: 1,336
Dollars Insured: \$ 140,389,200

ALL HUBS
Projects: 119 - Beds: 11,207
Dollars Insured: \$ 1,031,407,500

Section 232/223(f)
(Purchase/refinance of existing Health Care Facilities)

San Francisco Hub
Projects: 40 - Beds: 4,984
Dollars Insured: \$ 257,466,100

ALL HUBS
Projects: 619 - Beds: 73,048
Dollars Insured: \$ 3,551,967,493

Total Production

San Francisco Hub
Projects: 141 - Beds/Units: 24,018
Dollars Insured: \$ 1,397,009,700

ALL HUBS
Projects: 1,898 - Beds/Units: 281,365
Dollars Insured: \$ 15,526,338,993

Internet Resources

The HUD MAP Guide is available on-line at:
<http://www.hud.gov/offices/hsg/mfi/map/mapguide/mapguide.cfm>

A list of HUD-approved MAP lenders:
<http://www.hud.gov/utilities/intercept.cfm?offices/hsg/mfi/map/apr/leand.pdf>

For more information on RC/EZ/EC's, including maps of designated areas, see:
<http://www.hud.gov/offices/cpld/economicdevelopment/programs/rc/index.cfm>

**A special thank you to Wettenganger Architects of Bellevue, Washington, for allowing the use of their artist's rendition of The Plaza at Punchbowl, Honolulu, Hawaii*

Eligible Mortgageors:

- 221(d)(3): Non-profit sponsor/mortgageors only
- 221(d)(4): For-profit and Non-profit mortgageors

Terms:

- 40-year maximum term or 75% of remaining economic life
- LTV 90% (up to 100% for non-profit owners under 221(d)(3))
- DSC 90% of net income (up to 95% for non-profit owners under 221(d)(3))

Commercial space and income restrictions:

- Limited to 10% of gross floor area and 15% of gross income
- The 221(d)(3) and 221(d)(4) programs may be used to finance projects designed specifically for independent seniors (age 62 and over); however, congregate living facilities (i.e., Retirement Services Centers) are not eligible under 221(d)(3) or 221(d)(4) and no mandatory non-shelter services are permitted

- Two-stage application process (applies to all applications involving new construction and/or substantial rehabilitation):

1. Pre-application. HUD reviews project rents and expenses and inspects site for acceptability and freedom from environmental issues. A firm invitation letter is issued.
2. Firm Commitment. Complete processing, including an appraisal is submitted for HUD review and issuance of a firm commitment.

Section 223(f)

Rental housing refinance and acquisition

Details:

Properties must be at least 3 years old (unless constructed with HUD-insured financing) and must remain rental housing for at least 5 years after initial/final endorsement.

- Fixed interest, market rate
- Non-recourse
- Assumable
- 5 or more units
- No cap on number of units or loan amount
- Statutory per unit limits vary by location
- No Davis-Bacon wage rates for required repairs
- Equity take-out possible if LTV is less than 80%

Eligible mortgageors:

Owners or prospective purchasers (profit-motivated or non-profit) of eligible multifamily properties.

Terms:

- 35-year term or 75% of remaining economic life
- LTV 85% (90% for 223f transactions involving existing Section 202 projects)
- DSC 85% of net income
- No separate LTV or DSC for non-profit owners
- Commercial space may not exceed 20% of gross floor area; commercial income may not exceed 20% of gross income

There is no pre-application processing stage for 223(f) or 232/223(f) projects.

Section 232 & 232/223(f)

New Construction, substantial rehabilitation and refinance/acquisition for nursing homes, intermediate care facilities, assisted living facilities and board and care facilities.

Details:

- Fixed interest, market rate
- Non-recourse
- Assumable
- No statutory limits
- Construction financing is also insurable (at lender's option)
- Davis-Bacon wage rates for new construction and substantial rehabilitation
- Facility must be licensed/certified by state or local agency
- Nursing homes, intermediate care facilities with 20 or more beds
- Assisted living, board and care facilities with 5 or more beds
- Up to 25% of beds in board and care facilities may be independent living (additional debt service reserves are required for facilities with independent living units)

Eligible mortgageors:

- Investors, builders, developers, public entities (nursing homes) and private non-profit corporations and associations. For nursing homes only, applicants may be public agencies that are licensed or regulated by a State to care for convalescents and people who need nursing or intermediate care

WHAT IS MAP?

Multifamily Accelerated Processing (MAP) is a process employed by HUD's Multifamily Housing Division that allows approved lenders to prepare, process and submit loan applications for Federal Housing Administration (FHA) multifamily mortgage insurance.

WHY GO WITH MAP?

MAP has standardized HUD's underwriting process by applying national standards which provide greater lender responsibility and control. The result is a process that creates more timely and consistent results.



HOW CAN MAP HELP YOU?

MAP provides insured mortgages for new construction, substantial rehabilitation, purchase or refinance.

WHAT IS HUD FHA MULTIFAMILY MORTGAGE INSURANCE?

HUD FHA mortgage insurance protects the lender if a borrower defaults on the insured loan. The Federal Guarantee results in a AAA rating on financing, which is eligible for securitization by Ginnie Mae and provides credit enhancement for tax exempt bonds and Low Income Housing Tax Credits (LIHTC's).

PRIMARY MAP PROGRAMS

Section 220

New construction and substantial rehabilitation for rental housing

May only be done in eligible areas:

1. Existing slum clearance and urban redevelopment projects covered by a Federal aid contract before the effective date of the Housing Act of 1954.
2. Approved urban renewal areas under Title I of the Housing Act of 1949.
3. Disaster urban renewal projects assisted under Section III of the Housing Act of 1949.
4. An area of concentrated code enforcement being carried out under Section 117 of the Housing Act of 1949.
5. A concentrated development area, approved by the HUD Field Office, in which concentrated housing, physical development and public service activities are being carried out in a coordinated manner, pursuant to a locally developed strategy area (e.g., Neighborhood Revitalization Strategy Areas, Renewal Communities, Urban Empowerment Zones, and Enterprise Communities, also referred to as RC/EZ/EC's) for neighborhood improvement, conservation or preservation. The locally developed strategy shall:
 - a. Provide for a combination of physical improvements, necessary public facilities and services, housing programs, private investment and citizen self-help activities appropriate to the needs of the area;
 - b. Coordinate public and private development efforts;
 - c. Provide sufficient resources to produce substantial long term improvements in the area within a reasonable amount of time, taking into account the severity of the area's problems.

Details:

The same as 221(d)(3) and 221(d)(4) with some exceptions:

- Commercial space is limited to 20% of gross project area and 30% of gross income.
- Apartments specifically designed for the elderly and/or limited to elderly occupancy are *not* permitted under Section 220.

Eligible mortgagors:

- Private, profit-motivated entities, public bodies and others who meet HUD requirements for mortgagors.

New construction and substantial rehabilitation for rental housing

Section 221(d)(3) & 221(d)(4)

Details:

- Fixed interest, market rate
- Non-recourse
- Assumable
- 5 or more units
- No cap on number of units or loan amount
- Statutory (per unit) limits vary by location
- Construction financing is also insurable (at lender's option)
- Davis-Bacon prevailing wage rates apply to all 221(d)(3) and 221(d)(4) projects
- Under 221(d)(4), construction soft costs will include BSPRA (Builder/Sponsor Profit and Risk Allowance where there is an identity of interest between builder and sponsor); otherwise, construction costs can include SPRA (Sponsor Profit and Risk Allowance)
- Under 221(d)(3), construction soft costs will not include BSPRA or SPRA, but will include a Developer's Fee
- Pre-payment restrictions permitted under 221(d)(4); prepayment under 221(d)(3) requires HUD approval

Sycamore Lane Apartments, Davis, CA



Sycamore Lane Apartments is a 182 –unit apartment complex that was built in the late 1960’s in Davis, California. It was reconfigured to provide 158 units after substantial rehabilitation, which is now nearing completion. The project comprises 94 one-bedroom, 40 two-bedroom and 24 four-bedroom units. The latter included the conversion of 48 two-bedroom units into 24 four-bedroom units by the removal of common walls between 48 of the two-bedroom units, and by completing a general upgrade of the existing floor plans. Pre-demolition lead and asbestos surveys were performed and recommendations for the removal of identified hazardous materials were a part of the required rehab. The project includes Community/Office/Laundry building, BBQ and pool areas.

From a marketing prospective, it was imperative that construction be complete for the beginning of the academic calendar. Since no new unit approvals were required, the City entitlements were assured and the development process was shortened. It is a tribute to all involved that, in this instance, everything has come together to produce a successful project, soon to be ready for occupancy to provide much needed housing in the City.



Project/Location:
614 Sycamore Lane
Davis, CA 95616

Description:
158 Units

Project Size:
132,351 square feet
2 stories
4.83 acres

Unit Size:
94 One-Bedroom
40 Two-Bedroom
24 Four-Bedroom

Status:
To be completed
September 2005

Lender:
Pacific Commonwealth,
Tiburon, CA

Architect:
Kodama Diseno, Inc.
San Francisco, CA

Contractor:
J & J Pendulum Construction,
Inc., Davis, CA

Funding Source:
HUD 221d(4) New Construction/Substantial Rehabilitation:
\$18,979,200 mortgage
6% interest
40 year term
Rehab Cost: \$9 Million



EQUAL HOUSING
OPPORTUNITY

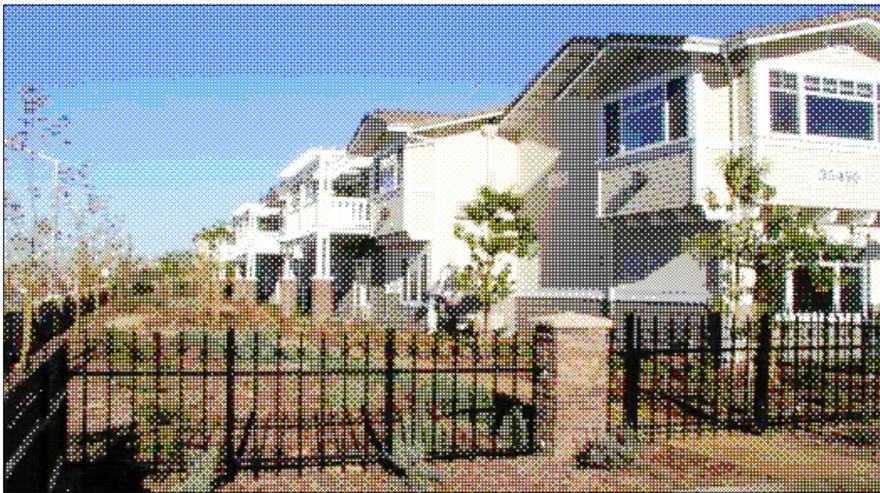
Fremont Vista, Fremont, CA



Fremont Vista, a newly constructed 232 Assisted Living facility is one of the more recent facilities to be built in Fremont. Located at 35490 Mission Boulevard in Fremont, this is a 100 unit/130 bed facility that was designed with the tenants in mind.

Beautifully landscaped and offering an interior courtyard with an outdoor patio and deck, this project provides the resident with the ability to take advantage of the many glorious days available in the greater Bay Area. Other amenities offered are a café/dining room, senior club/media room, a central kitchen, staff, laundry and maintenance areas

Many of these units have their own balcony or patio. Each studio, deluxe studio and one-bedroom features a fully appointed bath, wall-to-wall carpeting, convenient kitchenette, emergency monitoring system and telephone and cable TV hookups. Fremont Vista community common areas include two finely appointed dining rooms, crafts rooms, libraries, video game room, and spacious lounges for informal gatherings.



Project/Location:
35490 Mission Boulevard
Fremont, CA 94536

Description:
100 Units
130 Beds

Project Size:
61,888 square feet
2 story
Lot 2.9 acres (gross)
2.82 acres (net)

Unit Size:
70 Studios
10 Deluxe Studios
20 One-Bedroom

Status:
Construction completed
December 2004

Lender:
Pacific Commonwealth,
Tiburon, CA

Architect:
Kodama Diseno, Inc.
San Francisco, CA.

Contractor:
Broward Brothers
Woodland, CA

Funding Source:
HUD Section 232 New Construction/Substantial Rehabilitation Assisted Living:
\$13,892,000 mortgage
6.375% interest
40 year term



EQUAL HOUSING
OPPORTUNITY

Other News from Around the Hub

**Revised Procedures
for Submission of HUD-9807
Mortgage Prepayment**

In June 2004, HQ issued Mortgagee Letter 2004-21, which streamlined requests for insurance termination. The Deputy Assistant Secretary for Multifamily Housing Programs delegated specific authority to Multifamily Hub Directors for review and approval of certain selected FHA-insured loans. The selected mortgages include: Section 232; Section 241; Section 207; and Section 220. The Mortgagee Letter also contains Appendix 1 that lists each program type and whether or not prepayment authority has been delegated to the Multifamily Hubs.

If an owner is anticipating prepayment of their insured mortgage, the mortgagee should first determine whether Headquarters or the Hub has prepayment authority. If authority has been delegated to the Hub, the mortgagee should fax form HUD-9807 to the Hub Director. To expedite the review process, these requests should be faxed to the San Francisco Multifamily Hub at 415-489-6608, Attention: Janet Browder

Upon receipt of a request for prepayment, staff in the Multifamily Hub will verify that the Hub Director has prepayment authority and initiate internal HUD processing of the request. This Mortgagee Letter is the first in a series that will revise the HUD 9807 submission requirements.

RHIIP and You

The Rental Housing Integrity Improvement Project (RHIIP) webpage has been recently updated. Two of the new items on the website are the Winter issue of the RHIIP newsletter as well as a Summary of Questions received regarding Handbook 4350.3 REV-1 requirements. The Summary of Questions has been categorized by topic and is a very useful tool for managers when researching occupancy issues. The RHIIP website also contains a Calendar of upcoming RHIIP training and seminars. The RHIIP website is at: <http://www.hud.gov/offices/hsg/mfh/rhiip/mfhrhiip.cfm>



Revised Management Fee Schedule

Effective July 1, 2005, the San Francisco Multifamily Field Office implemented an updated management agent fee schedule. The basic rate was increased from \$38.50 per month to \$48.00 per month. Some add-on fees were also increased. If you do business with the San Francisco Office and have not received your copy of the updated fee schedule, please contact your Project Manager.

Fee schedules will be updated for other Hub offices in the near future.

Service Coordinator Extension Requests

The latest news for those projects with existing Service Coordinator Grants is that funding for the Service Coordinator Program is getting tighter. This year, when submitting extension requests, the amount requested cannot be increased more than 3% over the amount received for the previous year. As always, extension requests must be accompanied by the Multifamily Housing Service Coordinator One-Year Budget, form HUD-91186-A, and must be received by your local Hud office no later than August 10.

*U.S. Department of Housing
And Urban Development
600 Harrison Street, 3rd Floor
San Francisco, CA 94107-1387*



INDUSTRY MEETING
The next HUD property management industry meeting will be held on October 20th
10:AM to 12:PM
600 Harrison Street, 3rd Floor
San Francisco, CA 94107

Crossword Puzzle from Page 7

1	M	O	3	R	T	G	6	A	G	E	
	A		E					S			18
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A Great Day for Residents of Paradise Shadows

September 6, 2004, was a GREAT DAY for the residents of Paradise Shadows, a subsidized 67 unit family property with a struggling neighborhood networks center. That was the day Bill Nunes was hired as an on-line service coordinator to manage the Neighborhood Networks Center. Bill Nunez graduated from Arizona State University with a Bachelor's degree in Piano Performance and had worked in community centers for 20 years. Bill knew exactly what the residents needed..... a music and performing arts program.

He began this program with one guitar and one keyboard and gave private lessons to each child who completed homework for the week. The population of Paradise Shadows is very culturally diverse, but it was the Middle Eastern refugee families who were particularly interested in the music lessons and encouraged their children to participate. That was a good start - but who would have known one guitar and one keyboard could make such an impact on the residents of Paradise Shadows

When a local store in Phoenix heard about this unique music program, they donated three brand new classical guitars. One thing lead to another, and before long one of their middle school students started a high-energy hip-hop dance group with three boys and two girls. What started out as a fun after-school program, developed hidden leadership skills, and nurtured teamwork in the children. Two of the children who have lived in Paradise Shadows



for years will be receiving certificates for their leadership skills and the energy they have brought to the program.

But this was just the beginning. Bill's music and performance program attracted more talent, when he discovered Chuck, the maintenance man for Paradise Shadows, played the guitar. Bill invited Chuck to join the program and before long Chuck and Bill were both giving music lessons to children.

The word spread, and a husband and wife from Christians in Commerce donated a new guitar and keyboard. With all this newly discover talent and donated musical instruments, what better way to show it off than to have a talent show. The talent show was so successful, Bill decided to expand the program and hold a talent show / recital every three months to give the children avenues for progress and performance. Bill is thinking about expanding the program to include a singing group and a drama group.

And what does Bill Nunes have to say about this musical explosion? "The children at Paradise Shadows are very special, talented, intelligent, and a fun group to work with. The effects this program has had on the children and the parents living in Paradise Shadows has been phenomenal! Behavior and perceptions have changed on both sides and several of the children have made their school's Honor Roll!

What a great tribute to Bill Nunes and the residents of Paradise Shadows.

City Towers Opens Neighborhood Networks Center

City Towers Apartments located at 1065 Eighth Street in Oakland, California celebrated the grand opening of their new Neighborhood Networks Center on Friday, May 13, 2005. Kicking off the big event was Mr. Raymond Harper from KDF Communities who introduced the guest speakers. Mr. Richard Rainey, Regional Director for the Department of Housing and Urban Development delivered a speech of HUD programs in the community and Ms. Diana Mann, HUD's Neighborhood Networks Coordinator welcomed them to the Neighborhood and provide insight into the history of the initiative and



City Towers staff and HUD's Regional Director, Richard K. Rainey, cut the traditional Grand Opening ribbon.

benefits the center and the community can gain from having a Neighborhood Networks Center in their community. Ms Mann also awarded City Towers with the Neighborhood Networks plaque that contained their official certification as part of the Neighborhood Networks Initiative. The staff and other participants were give recognition for their contribution into this endeavor and congratulated them on their hard work and effort. A ribbon-cutting ceremony followed the presentation with Mr. Rainey from HUD doing the cutting. Guests were given a tour of the center.

Contract Renewals, Rent Adjustments and Utility Allowances—Oh My!

Submitted by CAHI

California Affordable Housing Initiatives, Inc. (CAHI) has processed 63 contract renewals and 97 rent adjustments in the 7 months that we have been the PBCA for Northern California. Per HUD, CAHI has sixty days to complete contract renewals and thirty days for rent adjustments. Our goal is to process all requests as quickly as possible.

In order to ensure a timely turn-around on contract renewals and rent adjustment requests, must be received at least 120 days prior to the expiration or anniversary date of the contract. It is imperative that all required documentation is included in the renewal or rent adjustment submission. Information on what constitutes a complete package can be found in the Section 8 Renewal Guide. For most contract renewals, it is extremely important that Attachment 3, a one-year notification, RCS and utility analysis (UA) if applicable, and a 30-day tenant comment letter are included with the renewal request. Rent adjustment submissions vary according to option eligibility. A request for funding only (i.e. no increase in current rents) means that it is not necessary to include a UA or 30 day comment letter with the rent adjustment request. Budget-Based line item requests that exceed 5% or \$500 should always be accompanied by the appropriate documentation.

Arriving at utility allowances that are most representative of actual costs is very important. In accordance with Chapter 7, Section 7-24, of the U.S. Department of Housing and Urban Development's Handbook 4350.1, Rev.1, "... for each request for an increase in the HUD authorized rent potential, the owner must recommend a utility allowance for each unit type. The recommended utility allowance should represent the owner's best estimate of the average monthly utility cost for the year." The utility allowance is not meant to pay all actual utility costs, but rather it is to reimburse a prudent utility consumer for their utility expense. Both the proposed and current allowance levels should be included in the notices to the tenants.

In order for utility allowances to be acceptable, a summary for an increase or decrease in the utility allowance must be provided. In addition, the type of utilities covered by the utility allowance must be identified; whether any utility rate increases or decreases were implemented during the past 12 months or are expected to be implemented in the next 12 months and the amount of those increases or decreases; a statement documenting how energy consumption initiatives have or will impact consumption is required.

Please feel free to contact the Central Contract Specialist at CAHI with any questions you may have regarding contract renewals, rent adjustments or utility analysis.

Service Coordination: Putting the Pieces Together

Back by popular demand, the third annual Service Coordinator Conference "Service Coordination: Putting the Pieces Together" will be held August 31, 2005 at the Embassy Suites Hotel in Walnut Creek.

This year's keynote speaker is Terry Allton, Vice President of Support Services, National Church Residences. Terry works with more than 154 Service Coordinators at 194 properties across the United States and Puerto Rico. She is also the Chair of the American Association of Service Coordinators. Terry will talk about building quality assurance programs for Service Coordinators as well as ethics in service coordination.

This year's conference will provide several educational tracks on diversity, senior and multi-family housing, community building and HUD issues. Each of these tracks is sure to meet your needs in providing services to affordable housing residents.

Registration materials are now available at <http://www.aging.org>.

Calculating Imputed Income

It has come to our attention that not all properties are calculating imputed income from assets the same way. Handbook 4350.3, Chapter 5, specifies in paragraph 5-7.F.1.b. "A percentage of the value of family assets based upon the current passbook savings rate as established by HUD." This paragraph also states that HUD has established this passbook savings rate at 2%. Please make sure your properties are using the correct imputed income rate when calculating tenant income.

TRACS Updates

Historically, TRACS has considered as active any tenant certification that is not more than 15 months old. Under the TRACS automation rule, the formula for calculating percent compliance has used a 14-month window. TRACS will soon change the formula to use a 15-month window. This will mean that more tenant certifications will be considered active and that fewer vouchers will have payments withheld for failing to meet the TRACS compliance standard.

News from HUD Headquarters

Successful Loan Sale

The Department held a successful sale of mortgages in its March 16, 2005, Multifamily and Healthcare Loan Sale 2005-1. Closings were scheduled to take place by March 31. Here are some statistics:

Number of Loans Offered:

49 - Unpaid Principle Balance (UPB) of \$397,078,527

33 - Multifamily Projects

12 - Assisted Living

1 - Nursing Home

3 - Assisted Living/Nursing Home

Number Sold: 49

Total Gross Proceeds: \$ 255, 090,521

Overall Sales Price: 64.2% of UPB

Total Bidders: 20

Total Successful Bidders: 7

The Department sells both multifamily and single family mortgages to the private sector to liquidate its inventory of HUD-held mortgage loans and to generate budget savings. In addition, reducing the HUD-held mortgage inventory reduces the burden on staff. As the burden is lifted, multifamily asset management staff can better focus on their primary function of overseeing the physical, financial, and operating condition of the privately-held multifamily projects with FHA-insured mortgages and on meeting HUD's core mission of providing affordable housing. Our goal is to hold two sales each year. The next sale of unsubsidized loans is being planned for September 13, 2005.

Visit HUD's Multifamily and Healthcare Loan Sale website at: www.hud.gov/offices/hsg/comp/asset/mfam/mhls.cfm for further information and past sale results.

Active Partners Performance System (APPS) Is Going Live!

Beginning October 11, 2005, all forms HUD-2530, Previous Participation Certification, must be submitted electronically; as of that date HUD will no longer accept paper copies of form HUD-2530. Prior to that date, HUD is asking all its multifamily industry partners to access the Active Partners Performance System (APPS) under Secure Systems on the Internet and enter their baseline data. Baseline data consists of the partner's contact information (name, phone number, etc.), organizational structure (names, addresses, SSNs or TINs, phone numbers, percent of ownership, etc. of all principals), previous

participation (loan status, physical inspection score, management review rating for each property), and comments. Business partners who do not enter their baseline data in APPS will not be able to submit 2530 clearances starting October 11.

An APPS Industry User Guide and document titled "APPS Quick Tips" are available for downloading or printing on the Internet by clicking on "Multifamily Industry" on the right-hand side of HUD's homepage (www.hud.gov). The link for APPS is the first entry on the Multifamily Industry page. Chapter 6 of the APPS Industry User Guide explains in detail how to enter baseline data.

We encourage our industry partners to enter their baseline well in advance of October 11 because there will always be questions and system glitches that have to be worked out whenever a new system is implemented.

Please note that until October 11 forms HUD-2530 must still be submitted in paper form even if a participant has entered its baseline information in APPS.

Questions about the new procedures should be addressed to the APPS Project Manager, james_e._collins@hud.gov.

Use of Reserve for Replacement Funds for Section 202 Refinancing

We have received a number of requests for the use of Reserve for Replacement funds by Section 202 projects to fund third party Lender reports for the refinance of these projects using the Section 223 (f) program. HUD Headquarters has advised that the provisions of Notice 2002-16, Revised Prepayment of Direct Loans on Section 202 and 202/8 Projects with Inclusion of FHA Mortgage Insurance guidelines allow for the use of these funds under the following conditions:

- Replacement Reserve funds may be withdrawn only by the Owner, and only to pay for appraisal, PCNA, or other third party Lender reports directly applicable to the Section 202 project being refinanced.
- Withdrawal may not exceed \$20,000 per project or actual cost whichever is lower.
- The Owner must provide a current 10-year Replacement Reserve schedule.
- The requested withdrawal must not lower the end-of-year Replacement Reserve Account

News from HUD Headquarters

balance below \$500 per dwelling unit at any time over the 10-year period.

- Only the Owner may withdraw funds from the Replacement Reserve for third party Lender reports. The Owner may not withdraw funds from the Replacement Reserve to pay for pre-development costs.
- These procedures are available only to Section 202 projects to be refinanced pursuant to Section 223(f), and not to refinancings under other Sections of the National Housing Act or conventionally refinanced projects.

Operating Cost Adjustment Factor (OCAF) Clarifications

Headquarters recently clarified how OCAF adjustments for properties that have completed a Mark-to-Market restructuring should be handled. The debt service on the **new** amortizing mortgage should be used in the OCAF calculations.

Revised Policy – Pension Plans for Front-Line Staff

On February 25, 2005, the Office of Asset Management issued a change to Handbook 4381.5 REV-2, Chapter 6.38e(2)(c.), "Retirement Accounts for Front-Line Staff." The significant issues included in this change are:

- An increase in maximum contributions to pension accounts from five percent to ten percent maximum; and
- A decrease in the number of hours an employee must work to be considered full time for pension purposes.

Further information can be obtained from HUD-Clips.org, Notice H 05-08.

Headquarter's List of Useful and Interesting Information

Recently Headquarters provided field staff with a list of useful information we'd like to share with our readers. This list is in no particular order.

- It's important that owners understand the REAC inspection process. If they know the 3-2-1 cycle of inspections they can prepare for an upcoming inspection. They should know that every year the random sample of units will be different so they

should not just fix what was broken on the last inspection.

- If a property is under HUD approved rehab, we can postpone an inspection. We don't want to inspect while major work is in progress. However, we will not postpone an inspection in anticipation of rehab, TPA, HAP transfer, OHAP restructure, refinance or prepayment.
- If a property gets two REAC inspection scores under 60, we **WILL** take some kind of enforcement action. So if they get a first score UNDER 60, they should take the NOV/NOD from the DEC seriously. Again, they should not just fix what was on the previous inspection as we do an entirely new inspection with a new/different sample.
- Before we approve something in Headquarters or consider enforcement action for a troubled property, we review the administrative record. We now have more than 7 years of physical and financial information at our fingertips in REMS.
- We no longer will tolerate troubled properties. Our policy is to foreclose or sell the note or take appropriate enforcement action.
- If, when doing an inspection, the owner is unable to open a unit to be inspected because keys are not available, we will give a zero for that unit. Owners should have keys for all units for emergencies.
- Lots of interesting REAC information is on the REAC web site. One in particular is what items of inspection cause the most problems during an inspection. Reading this will help owners prepare for an inspection.
- We flag in 2530 if a property gets a score under 60 or fails to certify after an EH&S and referral to the DEC.
- We do not waive financial statements. Failure to file results in an immediate referral to the DEC. Again, the administrative record is important when considering enforcement action by the DEC.
- Overall REAC scores are improving. More scores above 90s, above 80s and fewer failing. That's the good news.
- As for as the REAC inspection is concerned, we make no exception for COOPs.

Occupancy Questions

- Q.** *Are the medical bracelets and necklaces with a call button an allowable medical expense? These are devices used for emergencies, if you fall or hurt yourself you push a button on the bracelet or necklace and it calls a center to dispatch an ambulance.*
- A.** The cost of medical bracelets, necklaces or a lifeline with a call button, for emergencies, should not be considered a medical expense. An allowable medical expense is an item that treats or alleviates a medical condition. The above items do not qualify as a medical expense since they do not have an impact on an actual medical condition.
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- Q.** *Can a husband and wife presently living in the same unit as head and co-head occupy two units without being divorced or legally separated? They want to live in separate apartments as two heads of family. Is this allowed?*
- A.** Handbook 4350.3, paragraph 3-5.D states "The unit for which the family is applying must be the family's only residence." Therefore, if the husband and wife are not divorced or legally separated, they cannot both receive subsidy.
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- Q.** *What is the difference between a service animal, a pet, and a companion animal?*
- A.** An assistance animal (also referred to as a "service animal," "support animal," or "therapy animal") is defined as an animal that works, provides assistance, performs tasks for the benefit of a person with a disability, or provides emotional support that alleviates one or more identified symptoms or effects of a person's disability (Chapter 2, Paragraph 2-44). These animals perform many disability-related functions, as indicated in Chapter 2, Paragraph 2-44. Pets are not assistance animals and do not meet the definition of assistance animal. See the Glossary for the definition for Assistance Animals and for Common Household Pet. While HUD does not have a definition for companion animal, the animal could be treated as an assistance animal if it meets that definition. If the animal does not meet the definition for an assistance animal, it would be considered a common household pet.
- Q.** *Chapter 4, Paragraph 4-12, F.2, states that the owner must review the Affirmative Fair Housing Marketing Plan (AFHMP) every five years and update the plan whenever there are substantial changes and seek HUD approval. Does the owner have to prepare a new AFHMP every five years or just whenever there are substantial changes?*
- A.** The owner has to review the AFHMP every 5 years and update as needed to ensure compliance with HUD's Affirmative Fair Housing Marketing Regulations at 24 CFR 200.620. The plan must be revised whenever a substantial change takes place or the local Consolidated Plan is updated. If an owner makes changes to the plan, he/she must submit a revised plan to HUD for approval. If there are no changes to the plan, then the owner needs to document project records to indicate that the AFHMP was reviewed but no changes were necessary. In addition to the Handbook reference Paragraph 4-12, F.2, see form HUD-935.2, AFHMP, item 8, Review and Update.
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- Q.** *In a basic asset management course, it was stated that if the property staff (i.e., maintenance/manager) reside onsite, then the staff must meet all eligibility requirements for the programs at the property. Unlike that provided for police officers and security personnel, the revised Handbook does not address onsite staff and eligibility requirements for the program at the property.*
- A.** Onsite staff who receive rental assistance must meet the program eligibility requirements for the project. Onsite staff who do not receive rental assistance do not have to meet the program eligibility requirements for the project. See Paragraph 3-8, D for admission requirements for security personnel and police officers.
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- Q.** *Are co-ops with Section 8 units required to use a waiting list?*
- A.** Yes. Co-ops with Section 8 are required to use a waiting list.

Issuances

Notice H 05-08, Revised Retirement Accounts for Front-Line Staff

Notice H 05-06, Reinstatement and Extension of Notice 97-31, Lead-Based Paint: Notification of Purchasers and Tenants in HUD-Insured, HUD-Held, and HUD-Subsidized Housing

Notice H 05-05, Reinstatement and Extension of Notice 96-19, Telecommunications Service Contracts between Telecommunications Service Providers and Project Owners

Notice H 05-04, Reinstatement and Extension of Notice 97-49, Backing-Out Trustee Sweep Savings Before Calculating Annual Adjustment Factors for Projects which Originally Received a Financial Adjustment Factor and whose Bonds were Refunded

Notice H 05-03, Guidance on Asset Management Issues Concerning Bond Financed Section 8 Projects

Notice PDR-2005-02, Transmittal of Fiscal Year 2005 Income Limits for the Public Housing and Section 8 Programs

Notice PDR-2005-3, Transmittal of Fiscal Year 2005 Income Limits for the Section 221(d)(3)BMIR, Section 235, and Section 236 programs

Federal Register, May 19, 2005, Privacy Act of 1974; Notice of a Computer Matching Program

Federal Register, May 16, 2005, Uniform Relocation and Real Property Acquisition for Federal and Federally-Assisted Programs; Fixed Payment for Moving Expenses; Residential Moves

Federal Register, February 28, 2005, Fair Market Rents for the Housing Choice Voucher Program and Moderate Rehabilitation Single Room Occupancy Program; Fiscal Year 2005; Notice

Federal Register, February 28, 2005, Final Report of HUD Review of the Fair Housing Accessibility Requirements in the 2003 International Building Code; Notice

Mortgagee Letter 05-24, Electronic Payment of the Annual Recertification Fee and Downloading of the Yearly Verification Report via the FHA Connection

Mortgagee Letter 2005-23, Amended Late Request for Endorsement Procedures

Mortgagee Letter 2005-21, HUD's Energy Action Plan and Energy Efficient Mortgages

Mortgagee Letter 2005-20, Electronic Payment for Section 236 IRP Contracts

Mortgagee Letter 2005-10, Increase in High Cost Percentage for FHA-Insured Multifamily Housing and High-Cost Areas

**HUD Announces New Assistant Secretary for Housing -
Federal Housing Commissioner**

On June 13, Brian Montgomery was sworn in as the new Assistant Secretary for Housing—Federal Housing Commissioner by HUD Secretary Alfonso Jackson. “Brian has the executive skills, background and talent to fill this vital position and help meet the challenges facing the Department,” said Secretary Jackson. “His extensive managerial experience in both the public and private sectors will be a tremendous asset to HUD as we work each day to increase housing opportunities for all Americans.”

Prior to coming to HUD, Mr. Montgomery served as Deputy Assistant to the President and Cabinet Secretary since January 2003.



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CALENDAR

August, 2005

- 28 - 30** - Certified Occupancy Specialist, NCHM, Sacramento, www.nchm.org
- 30** - "Putting the Pieces Together," Third Annual Service Coordinator Conference, Pleasant Hill, CA, www.aging.org

September, 2005

- 21 - 23** - Northern California AHMA Annual Meeting, San Ramon, CA
- 21 - 23** - Certified Manager of Housing, AHMA Annual Meeting, San Ramon, CA

- 28 - 30** - Certified Occupancy Specialist, NCHM, Sacramento, www.nchm.org

October, 2005

- 5 - 7** - Tax Credit Specialist, San Francisco NCHM, Sacramento, www.nchm.org
- 11 - 12** - Tax Credit Compliance Training and Certification for Front-Line Managers San Francisco, Quadel, www.quadel.com
- 12 - 14** - Certified Occupancy Specialist, Oakland, NCHM, www.nchm.org

