



Issue Date	May 21, 2007
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Audit Report Number	2007-BO-0002
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TO: Joe Malloy, Acting Director, Office of Multifamily Housing Development, HTD

FROM: 
John Dvorak, Regional Inspector General for Audit, Boston Region, IAGA

SUBJECT: HUD Did Not Process MAP Applications within Established Processing Goals and the MAP Guide Is Outdated

HIGHLIGHTS

What We Audited and Why

We initiated a review of the U.S. Department of Housing and Urban Development's (HUD's) multifamily accelerated processing (MAP) procedures as part of our annual audit plan. HUD's Federal Housing Administration (FHA) insures billions of dollars in multifamily housing mortgage loans. A key feature of MAP is its delegation of significant responsibilities to multifamily housing lenders for underwriting the loans that FHA insures.

The objective of our review was to determine how effectively HUD implemented processes for reviewing and monitoring MAP lenders' underwriting of loans.

What We Found

MAP is an effective way of processing multifamily mortgage insurance applications. HUD has maintained a careful balance between expedited processing and ensuring an acceptable level of risk for its mortgage insurance programs. However, it did not process MAP applications within established timeframes and the MAP Guide is not current.

What We Recommend

We recommend that the acting director for the Office of Multifamily Housing Development examine the MAP processing timeframes to determine what practical improvements HUD can make to achieve faster processing and implement the improvements. We also recommend that HUD update and issue a revised MAP Guide, and implement a system to ensure that new requirements are implemented formally.

For each recommendation in the body of the report without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please also furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the draft audit report to HUD management officials on April 3, 2007, and requested a response by April 30, 2007. We discussed the draft audit report at an exit conference on April 6, 2007, and received HUD's written comments on April 30, 2007. HUD generally agreed with the report.

The complete text of HUD's response, along with our evaluation of that response, can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVES

Since 1937, the U.S. Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) multifamily mortgage insurance has been a major source of financing for affordable housing. Each year, FHA insures billions of dollars in multifamily housing mortgage loans to facilitate the construction, substantial rehabilitation, purchase, and refinancing of apartments and health care facilities. FHA mortgage insurance protects lenders against financial losses stemming from a borrower's default. When default occurs, a lender may elect to assign the mortgage to HUD and file an insurance claim with HUD for the unpaid principal balance. HUD processes multifamily loan insurance applications through its 51 multifamily hubs and program centers throughout the United States.

In May 2000, HUD implemented multifamily accelerated processing (MAP) procedures to establish a national "fast-track" process to (1) achieve faster processing; (2) reduce the amount of HUD review time; (3) establish national standards for approved lenders for preparing, processing, and submitting loan applications; (4) ensure consistency at each HUD multifamily processing office; and (5) carefully balance expedited processing and ensure an acceptable level of risk for HUD's multifamily mortgage insurance programs. A key feature of MAP is its delegation of significant responsibilities to multifamily housing lenders for underwriting the loans that FHA insures. Under MAP, the lender conducts the underwriting of the loan and submits a package directly to the hub or program center for mortgage insurance. The hub or program center reviews the lender's underwriting and decides whether to provide mortgage insurance for the loan. MAP may be used for Sections 221(d)(3) and 221(d)(4) (apartments), Section 220 (apartments in urban renewal areas), and Section 232 (health care facilities) for either new construction or substantial rehabilitation. Lenders may also use MAP under Section 223(f) for refinancing or purchase of existing apartments or health care facilities. To mitigate its financial risks, HUD developed controls and procedures designed to ensure that lenders participating in MAP are qualified and comply with FHA's underwriting standards.

For applications under MAP, the MAP Guide incorporates the majority of HUD handbook, notice, and form requirements for loan origination by the lender and for review by HUD staff. If there is a conflict between the MAP Guide and the handbooks, the MAP Guide takes precedence. The HUD office processing the lender's application is required to handle questions or conflicts. Where the MAP Guide is silent on a matter, old requirements are obsolete. HUD will make any future changes or clarifications to the MAP Guide in lieu of posting new frequently asked questions and answers on the HUD MAP Web site. The purposes of the MAP Guide are to ensure consistent processing at each HUD multifamily processing office and provide basic information required for loan origination for the lender and HUD staff.

The objective of our review was to determine how effectively HUD implemented processes for reviewing and monitoring MAP lenders' underwriting of loans.

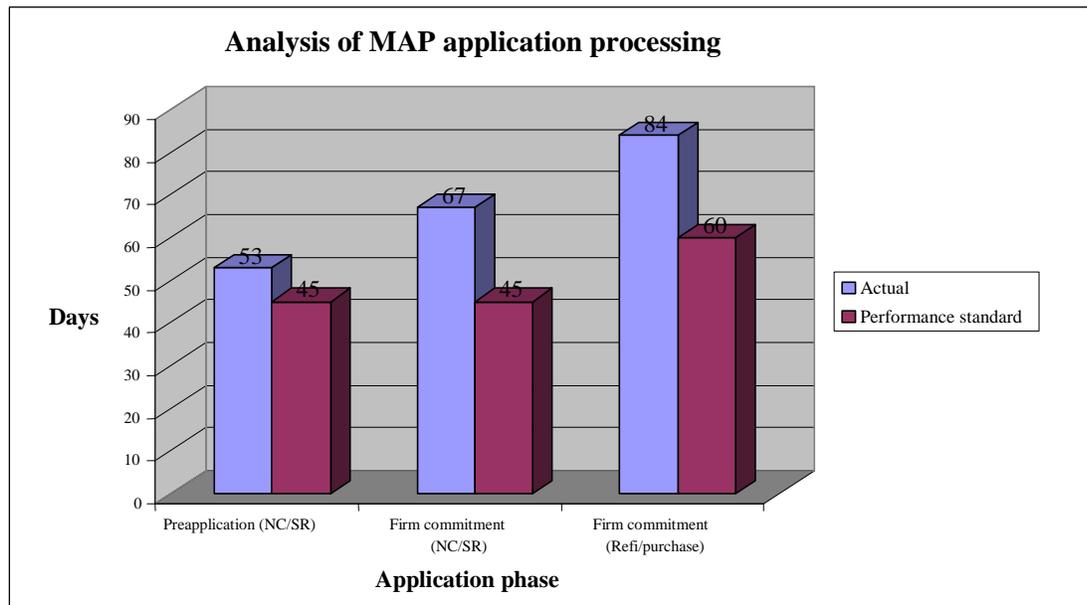
RESULTS OF AUDIT

Finding 1: HUD Did Not Process MAP Applications within Established Processing Goals

MAP is an effective way of processing multifamily mortgage insurance applications. HUD has maintained a careful balance between expedited processing and ensuring an acceptable level of risk for HUD's multifamily mortgage insurance programs. However, it did not process MAP applications within its established timeframes. The causes for delays include delays in clearing issues related to previous participation certifications (form HUD-2530), deficiencies in the application deliverables submitted by the lenders, and HUD-recommended modifications to MAP applications. Consequently, HUD may not always make timely decisions on multifamily mortgage insurance applications, potentially costing borrowers additional finance costs.

Application Processing Time Did Not Meet Performance Standards

HUD is generally processing multifamily housing mortgage loan insurance applications faster through MAP than through traditional application processing. However, on average, HUD did not meet the timeframes for processing MAP applications as shown below.

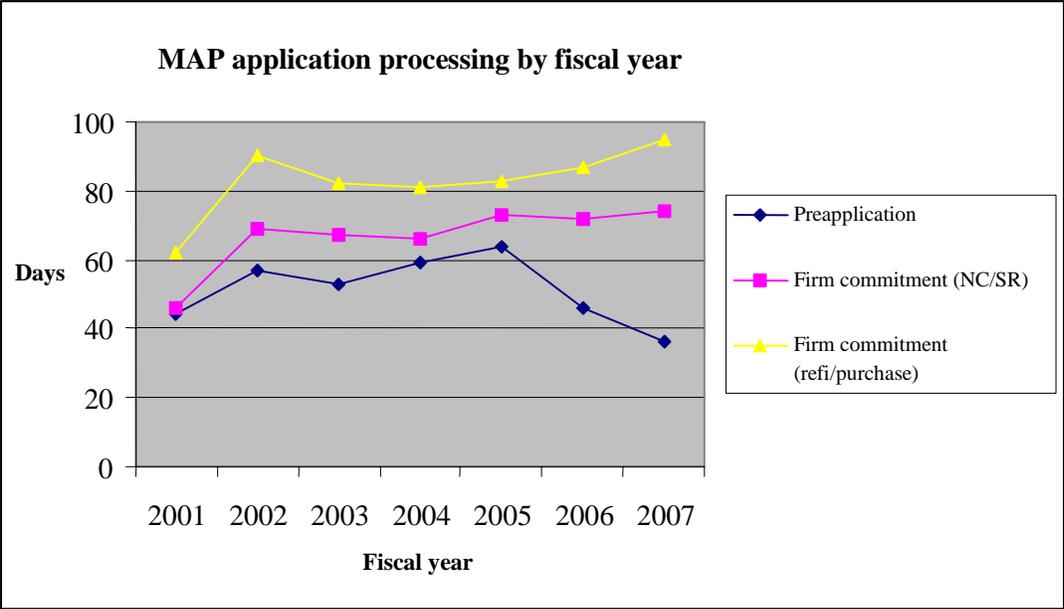


HUD took an average of 53 days (see appendix B) to complete the review of preapplications (eight days more than the 45-day performance standard). This

stage of MAP is measured in calendar days, and it begins when HUD receives a complete preapplication from an approved MAP lender and ends when HUD issues a signed letter that advises the lender whether to apply for a firm commitment. In addition, HUD takes an average of 67 days (see appendix C) to complete the review of firm commitment applications for new construction or substantial rehabilitation projects (22 days more than the 45-day performance standard). This stage of MAP is measured in calendar days, and it begins when HUD receives a complete firm commitment application and ends when HUD issues a signed commitment.

HUD also takes an average of 84 days (see appendix D) for existing property purchase or refinance firm commitment applications (24 days more than the 60-day performance standard). The performance standard for this stage is 60 days because there is no preapplication review for existing property purchase or refinance applications. This stage of MAP is measured in calendar days, and it begins when HUD receives a complete firm commitment application and ends when HUD issues a signed firm commitment letter.

The processing times varied by hub and program center (see appendixes B, C, and D), but the nationwide average remained relatively steady or slightly increased from fiscal year 2001 through 2007, with the exception of the preapplication review phase, as shown below.



Our analysis included projects with preapplication received or firm application received dates from October 1, 2000, to February 26, 2007. We excluded applications that the owner withdrew or that HUD rejected and later reopened. These projects had longer processing times, as expected.

Conclusion

MAP is an effective way of processing multifamily mortgage insurance applications. However, HUD did not always process MAP applications within its established timeframes. The causes for delays in processing include delays in clearing issues related to certifications (form HUD-2530), scores of deficiencies found in the application deliverables, and various modifications to MAP applications. Consequently, HUD may not always make timely decisions on multifamily mortgage insurance applications, potentially costing borrowers additional finance costs.

Recommendations

We recommend that the acting director for the Office of Multifamily Housing Development

- 1A. Examine the MAP processing timeframes further to determine what practical improvements HUD can make to streamline and achieve faster processing and implement the improvements.

Finding 2: HUD's MAP Guide Is Outdated

The MAP Guide is a comprehensive document and an essential reference for processing multifamily loans under MAP. However, the MAP Guide is not current because HUD does not have a system in place to ensure revisions to the guide are made when new requirements are implemented. As a result, guidance on significant changes in HUD policy are not reflected in the guide to ensure that HUD and MAP lenders consistently interpret and apply intended policies and procedures in the field. It may also contribute to delays in processing (see finding 1).

The MAP Guide Is Not Current

The current MAP Guide is dated March 15, 2002. Recent HUD highlighted program areas with unique characteristics, such as refinancing Section 236 projects and Section 202 direct loans, are not specifically discussed in the MAP Guide. For example, HUD headquarters must approve Section 236 projects with decoupled agreements/contracts. However, this requirement is not included in the MAP Guide.

In addition, the new automated 2530 submission requirement is not included in the guide. Effective July 1, 2006, all participants interested in new multifamily business are required to use the Active Partners Performance System to make requests for participation clearance; there are no exceptions in the regulations.¹ Applicants who cannot obtain a participation clearance may lose an opportunity to complete a pending business transaction. Delays in clearing 2530 issues are one of the impediments in processing firm commitment applications.

Conclusion

The MAP Guide is not current because HUD does not have a system in place to ensure revisions to the guide are made when new requirements are implemented. As a result, guidance on significant changes in HUD policy are not included in the guide to ensure that HUD and MAP lenders consistently interpret and apply intended policies and procedures in the field. It may also contribute to delays in processing.

¹ Internal HUD memorandum for all multifamily hub and program center directors, multifamily operations officers, multifamily staff and supervisors, owners, management agents, lenders, and other participants in HUD programs from the assistant secretary for housing—federal housing commissioner, dated April 21, 2006.

Recommendations

We recommend that the acting director for the Office of Multifamily Housing Development

2A. Update and issue a revised MAP Guide.

2B. Implement a system to ensure that new MAP requirements are formally implemented.

SCOPE AND METHODOLOGY

Our audit covered the period October 1, 2004, through September 30, 2006, but we expanded it when necessary. We conducted our fieldwork from November 2006 through March 2007. We primarily carried out our audit work at the local HUD Hartford (Connecticut) field office.

To accomplish our audit objectives, we

- Obtained an understanding of controls significant to the audit objectives and considered whether HUD had designed specific control procedures and placed them into operation. The controls significant to the audit included controls over (1) HUD reviews of MAP applications to ensure consistency with the requirements, (2) the validity and reliability of data, and (3) compliance with laws and regulations.
- Determined the extent to which we may rely on HUD computer-processed data from the Development Application Processing system to support our conclusions and the extent of data testing required.
- Identified, reviewed, and documented relevant reference material pertaining to MAP, including the applicable *Code of Federal Regulations*, HUD handbooks, the MAP Guide, housing notices, Government Accountability Office reports, and HUD Web sites, for use during the course of the review.
- Selected all 11 MAP applications that were initially submitted and received during our audit period and determined whether they were packaged and submitted in accordance with HUD requirements. There were 1,551 MAP applications submitted nationwide during our audit period; however, we limited the selection of multifamily projects for detailed review to those under the jurisdiction of the Hartford field office.
- Interviewed applicable HUD staff from the Office of Multifamily Housing Development in headquarters and the Hartford field office.
- Determined the average processing timeframes for MAP projects nationwide from October 1, 2000, to February 26, 2007, and performed a comparative analysis of MAP and traditional processing timeframes using data from the Development Application Processing system.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Controls over the reviews of MAP applications - Policies and procedures to ensure consistency with the requirements;
- Controls over the validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data (including computer-processed data) are obtained, maintained, and fairly disclosed in HUD reports and computer systems; and
- Controls over compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that the implementation of MAP processing is consistent with laws, regulations, and provisions of contracts or grant agreements.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe the following item is a significant weakness:

- HUD does not have a system to ensure that new MAP requirements are implemented formally. (see finding 2).

APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Memo To: Mike Motulski, ARIGA , Boston, MA
From: Charles H. (Hank) Williams, Deputy Assistant Secretary,
Multifamily Housing Programs
Date: April 30, 2007
Subject: Office of Multifamily Housing Programs Response

This is in response to the draft IG Audit on MAP. We appreciate the opportunity to respond. Our responses are as follows:

Finding #1- HUD Did Not Process MAP Applications within Established Processing Goals.

Comment 1

Response: We agree with the IG's conclusion that MAP is an effective way of processing multifamily mortgage insurance applications. We also agree that on average HUD did meet the targeted processing times. We disagree with the IG's conclusion that the traditional processing on existing property commitments is faster than MAP processing. As we pointed out in the exit conference, we believe that the IG did not conduct a valid comparison of traditional and MAP processing for existing property applications. We believe that the IG included Section 223(a)(7) applications along with Section 207/223(f) applications in its traditional processing sample. Section 223(a)(7) is refinancing of loans that are already FHA insured. An appraisal is not required and the process is streamlined (see Mortgagee Letter 06-03, dated January 19, 2006). The processing of Section 207/223(f) MAP applications should be compared only to traditional processing of Section 207/223(f) applications.

Recommendation #1A- The Acting Director of the Office of Multifamily Housing Development should examine the MAP processing timeframes to determine what practical improvements can be made to streamline and achieve faster processing implement the improvements.

Comment 2

Response: The original MAP timeframes were published (Mortgagee Letter 00-14, dated April 27, 2000), assuming that there would be multifamily staff in the field offices dedicated solely to MAP. With staff changes over the past 6 years, multifamily staff in many offices process both MAP and TAP applications so it is more difficult to meet the timeframes. We are currently working on several streamlining initiatives, particularly regarding processing of applications financed with Low Income Housing Tax Credits (LIHTC). In implementing the streamlining efforts, we will also be reviewing the accuracy and feasibility of the MAP timeframes considering current and future multifamily staffing levels.

Comment 3

Finding # 2- MAP Guide is Outdated .

Response: We agree that the Department does not have a system in place to ensure revisions to the Guide are made when new requirements are implemented. The lack of an updated Guide could also contribute to processing delays. At the time the original MAP Guide was published in 2000, the Multifamily staff assumed that minor underwriting or procedural changes to the Guide could be updated frequently with minimal or no clearance, similar to the process followed by GNMA in updating the Mortgage-backed Securities Guide. The Department has now decreed that Guides are required to undergo the same clearance process as Notices, Mortgagee letters and Handbooks. This results in a much more detailed process. This Office is now reviewing major changes to the Guide which incorporate policy and programmatic changes over the last 5 years and includes Section 202 refinances and the new automated 2530 system. Section 236 decoupling requirements are still being negotiated within Multifamily Housing.

Recommendation #2A – The Acting Director of the Office of Multifamily Housing Development update and issue a revised MAP Guide.

Response: Multifamily Housing expects that an updated MAP Guide will be placed into Department clearance by September 30, 2007. Under the current clearance process, the revised Guide could be issued by March 31,2008.

Recommendation#2B-The Acting Director of the Office of Multifamily Housing Development will implement a system to ensure that new requirements are added to the MAP Guide upon implementation or at least annually.

Response: We agree that new requirements should be implemented formally but disagree that annual updates to the Guide are the answer. The original MAP Guide incorporated almost all existing Multifamily regulatory and Handbook procedural, underwriting and program requirements. To meet the streamlining goals outlined in Finding #1 and Recommendation 1A, Multifamily has to review all of the existing requirements, taking into account current and expected staffing both in Headquarters and the field offices. We anticipate that future changes to the Guide (subsequent to the major update) and streamlining efforts will be implemented by Mortgagee Letters until the Department makes a decision on the future of the Guide and its clearance.

OIG Evaluation of Auditee Comments

- Comment 1** After further analysis, HUD is processing MAP applications faster than traditional processing. The refinancing of an FHA insured multifamily project mortgage pursuant to Section 223(a)(7) is a streamlined process and, therefore, HUD does not process this type of application using MAP procedures. We removed these loans from our analysis of traditional processed applications. We also performed an evaluation of firm commitment processing by comparing only 223(f) and 232/223(f) MAP applications to 223(f) and 232/223(f) applications processed under traditional processing procedures, and removed the comparison of MAP to traditional processing from the report. However, these changes did not affect the overall finding or the recommendation.
- Comment 2** We acknowledge HUD's streamlining initiatives and agree that HUD should review the processing timeframes given the available staffing, but HUD may also want to consider any potential impact these changes may have on the borrower's costs. No change to the recommendation was made.
- Comment 3** We recognize that subsequent to the revised MAP Guide issuance using Mortgagee Letters to ensure that new MAP requirements are formally implemented is appropriate. We revised the recommendation accordingly.

Appendix B

AVERAGE PREAPPLICATION PROCESSING DAYS BY HUB (October 1, 2000 - February 26, 2007)

Hub	Number of applications processed	Average number of days to process (performance standard = 45)
Atlanta	94	50
Baltimore	123	52
Boston	43	58
Buffalo	20	78
Chicago	80	69
Columbus	40	60
Denver	42	58
Detroit	31	55
Fort Worth	268	45
Greensboro	50	64
Jacksonville	84	51
Kansas City	56	59
Los Angeles	20	40
Minneapolis	22	41
New York	14	68
Philadelphia	13	36
San Francisco	87	54
Seattle	28	42
Totals	1,115	53²

² This is the weighted average.

Appendix C

AVERAGE FIRM COMMITMENT (NC/SR*) APPLICATION PROCESSING DAYS BY HUB (October 1, 2000 - February 26, 2007)

Hub	Number of applications processed	Average number of days to process (performance standard = 45)
Atlanta	84	61
Baltimore	106	81
Boston	23	73
Buffalo	14	94
Chicago	52	79
Columbus	17	91
Denver	52	69
Detroit	23	81
Fort Worth	243	52
Greensboro	37	78
Jacksonville	48	79
Kansas City	38	57
Los Angeles	7	59
Minneapolis	12	41
New York	11	90
Philadelphia	9	92
San Francisco	58	61
Seattle	21	64
Totals	855	67³

* New construction or substantial rehabilitation

³ This is the weighted average.

Appendix D

AVERAGE FIRM COMMITMENT (Refi/Purchase*) APPLICATION PROCESSING DAYS BY HUB (October 1, 2000 - February 26, 2007)

Hub	Number of applications processed	Average number of days to process (performance standard = 60)
Atlanta	83	73
Baltimore	62	82
Boston	84	104
Buffalo	24	101
Chicago	244	81
Columbus	83	96
Denver	57	101
Detroit	58	93
Fort Worth	170	69
Greensboro	32	96
Jacksonville	80	100
Kansas City	76	79
Los Angeles	107	76
Minneapolis	21	46
New York	33	97
Philadelphia	62	99
San Francisco	79	88
Seattle	90	64
Totals	1,445	84⁴

* Existing property purchase or refinance applications

⁴ This is the weighted average.