Full Speed Ahead

HUD Continues Revamp of Multifamily Loan Business

After another year of heavy mortgage volume, the U.S. Department of Housing and Urban Development (HUD) is about to begin implementing another step in its multifamily "transformation plan" to cut FHA loan processing times even further and boost the agency's share of financing for low-income housing tax credit (LIHTC) projects.

Ben Metcalf

"We are going to shift from a first-in, first-out model for any application that comes into a [HUD] office, which gets picked up by the first person that has capacity, to one where we move into specialized teams servicing each of our future five regions," says HUD Deputy Assistant Secretary for Multifamily Housing Ben Metcalf.

Under the transformation plan, set to be completed by 2016, HUD will consolidate its current 50 Multifamily offices into five future Hubs (Atlanta, Chicago, Fort Worth, New York, San Francisco), each of which will serve one geographic region and be supported by a satellite office. HUD will relocate Multifamily field employees to the remaining Hub offices, provide Multifamily staff with new job descriptions, and train them in their new roles and a new risk-based business model.

Under this model, a central underwriter in each regional Hub offices will essentially perform a "triage" function on incoming applications for FHA multifamily mortgage insurance. This person will pull out those for more complicated or potentially riskier transactions requiring greater time and attention to review, such as tax credit projects, and assign them for processing to specialized underwriting teams made up of individuals with the requisite technical skills and knowledge. Meanwhile, more "plain vanilla" applications will be processed by other staff, allowing them to move through more quickly and not be held up by more complicated transactions.

"We're going to implement each of those five regions on a wave by wave basis over the next two to three years," says Metcalf.

He said the first "wave" is scheduled to begin in mid-February 2014, with field office Multifamily staff relocating to the Fort Worth Hub office or its Kansas City satellite office at the beginning of May or June. During a transition period, a "fair amount" of incoming multifamily applications will be outsourced to contract support or other Hub offices for processing, Metcalf said.

Twin Goals

The goals of the new business model are to further reduce FHA multifamily processing times while handling heavy volume, and retaining and expanding FHA's ability to take on more complicated or mission-rich transactions.

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FHA Multifamily Mortgage Volume

Firm Commitments for FHA Full Insurance and for Risk-Share Loans by Housing Finance Agencies, Fannie Mae, and Freddie Mac

	No. Loans/ Projects	No. Housing Units	Total Mortgage Amount (millions)
FY 2013	1,821	283,664	$17,836.4
FY 2012	1,558	234,264	$15,546.0
FY 2011	1,351	200,899	$13,017.2
FY 2010	1,087	180,725	$11,851.6
FY 2009	805	104,876	$6,775.0
FY 2008	637	71,284	$3,708.8

Source: HUD

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"We're presuming that the kinds of deals that we're going to continue to do," says Metcalf, "are these larger loans, more complex deals, often mixed-finance or multi-layer deals."

He said HUD has already cut FHA multifamily processing times by nearly half over the past few years by process improvements and other steps. "Equally important…we've given more certainty to the marketplace so that processing times are consistent across the country. We have very minor variations office to office."

Much of the faster pace is the result of the implementation of a "national workload sharing model" that Metcalf indicated has virtually eliminated backlogs of FHA multifamily applications at Multifamily Hub offices. If one office begins to get backed up, applications are outsourced for processing to another Hub office that has the capacity, then returned to the host office for closing.

Metcalf also reported that HUD has achieved an average processing time of 86 days in its new FHA LIHTC pilot program, under which the Department and pilot program lenders expedite the processing and origination of new Section 223(f) mortgages for 9% or 4% tax credit projects. He said 19 deals have closed, another 94 projects with more than 8,900 units are in the pipeline, and "we're continuing "to make policy changes to facilitate more deals coming into this channel."

Robust Pipeline of Business

HUD's annual multifamily mortgage volume has surged since the recession, rising from roughly \$3.7 billion in FY 2008 to nearly \$18 billion – a record high – in FY 2013.

Metcalf said FHA currently has a robust multifamily pipeline but anticipates that the volume for FY 2014, which ends September 30, will be a little bit less than FY 2013, largely because of a sharp reduction in originations of FHA Section 223(a)(7) refinance mortgages. He said FHA loans financed 3,400 properties nationwide in the last two years.

According to HUD data, in the first four months of

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FY 2014, Section 223(a)(7) mortgages accounted for 12% of the total number of FHA multifamily loans and 10% of the aggregate dollar amount of all loans, down from 45% and 39%, respectively, in FY 2013. Meanwhile, Section 223(f) loans for acquisition/refinance, with or without rehab, jumped from 40% of all loans and 42% of the aggregate mortgage amount in FY 2013 to 69% and 71% in FY 2014 through December 31. Section 221(d) loans for new construction or substantial rehabilitation projects – Section 221(d)(4)'s by far are the most popular – rose a bit to 14% of all loans and 15% of the total mortgage amount in the first four months of FY 2014, while there was little change in activity for multifamily "risk-sharing loans" coinsured by FHA and housing finance agencies, Fannie Mae, and Freddie Mac.

In FY 2013, excluding the LIHTC pilot program and the new Rental Assistance Demonstration (RAD) program, about 40% of FHA Section 221(d)(4) loans, about 6% of standard Section 223(f) loans, and about 70% of Risk Share loans were for housing credit projects, Metcalf said.

"What we're hearing from our lenders and seeing in our pipeline," he says, "is that a lot of the business that we are retaining is in the tax credit space."

He said that FHA's multifamily volume and share of tax credit deals will be boosted by the RAD program, which permits the conversion of public housing and certain HUD-assisted properties to affordable rental housing projects receiving project-based rental assistance or vouchers. He said about 36% of the proposed RAD transactions submitted to HUD plan to use tax credits, of which the large majority are expected to use 4% housing credits.

"Right now we're working on 124 FHA-insured RAD deals," says Metcalf. "We expect that out of all the applications that ultimately move forward, we're looking at 277 of them that have indicated that they want FHA financing. That is a huge amount of business that's going to be coming in through that RAD channel." TCA