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Underwriting and Developer Capacity for HOME Rental Projects Webinar Transcript

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Operator: Good day and welcome to the HOME program Webinar on the consolidated and further continuing appropriations act of 2012 for acquired underwriting and developer capacity for HOME rental projects conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Miss Marsha Tonkovich. Please go ahead, ma'am.

Marsha Tonkovich: Thanks, Lynette and welcome, everybody, to this course in the series of HOME Webinars related to the 2012 requirements. We're glad to have you with us this afternoon, and just a quick heads up. If you would like to print out the slides, you could do it from the HOME TA Web site, or also from the list serve message that went out, or if you want to you can, on the bottom right hand corner of your screen you should see a little printer icon. It's sort of the fourth or fifth on the right hand side. You can click on that; it will print to a PDF and then you can print out that PDF if you would like to have that printed out now or at the end of the presentation.

So with that, let me move into introducing my co-trainers, and as I - before we do, as I mentioned, this is in a series of HOME Webinars. There are two more yet to go on general capacity and we will talk more at the end of this session about those Webinars coming up.

So without further ado, let me introduce my HUD colleagues, Marcia, and I'll let you guys introduce yourselves.

Marcia Sigal: Good afternoon, everybody, or good morning, depending on where you are. Here at HUD headquarters, this is Marcia Sigal. I'm the director of the policy division in the office of affordable housing programs. Ginny Sardone whose name is up on your slide actually couldn't join us, but we do also still have Earl Cook who's an affordable housing specialist in the office of affordable housing programs and Mandy Wampler who is one of our key coordinators of this Webinar series, and an affordable housing specialist with us as well.

Marsha Tonkovich: Great, thanks, Marcia, and my co-trainer today is Anker Heegaard from Compass Group, and Anker, I'll let you introduce yourself.

Anker Heegaard: Morning, everybody, or afternoon. I'm Anker Heegaard with Compass Group and I'll be doing the training today, so glad to be here.

Marsha Tonkovich: Great. So let me just - for those of you who may be new to these Webinars, some of you may have been on others. Some of you may be new to the HOME series, just a quick overview of how this looks logistically. We will take a mid-session break and then we'll take questions at the end, and you'll see - we'll let you know when we're ready to take those questions, although you can certainly get in the queue.

To get in the queue to ask a question, we ask you to do a couple different things. One is to change your status in Live Meeting. If you look at your feedback button on the top right hand corner you'll see that it's currently green. We ask that you change that to purple, and the reason we ask that is it gives us a sense of how many people are waiting to ask a question, and that way we'll have sort of an idea of what the volume is, but that won't get you into the queue.

So what you need to do is press star one on your phone, and that will get you into the audio queue, and then we'll take those questions in the order they are received. If someone else has already asked a question and you no longer need to ask it, press star two and that will take you

out of that queue. If you don't want to use the audio function of the questions and you'd rather write them in, at the top of the screen there's a Q&A header that you should see there, and you can click on that and you can type in and send your questions, and we'll also go through the questions that come into queue that way as well.

We are going to ask that you stick with questions that are related to the rental underwriting and developer capacity assessment for rental projects. We know there are a number of other requirements in the 2012 notice that people have questions about that were covered on previous Webinars or future Webinars. Because of our time constraint we're going to try to stick to those rental questions. We probably even with that will not have enough time to get to every question, so we may aggregate some questions together if they sound similar, if they're covering the same issue, or if we've covered it once we probably won't go back to it again.

We are going to do a set of FAQs that will come out on the HOME TA Web site after all the Webinars are done, so you'll get an aggregated set of FAQs. There have been some questions that have kind of cut across Webinars, so you'll get an organized set of FAQs by each of the topic areas that the Webinars have covered and that are covered in the 2012 notice.

In terms of our agenda for today, so we're going to very quickly go over the 2012 requirements, the breadth of the broader requirements, again, very briefly on that, and then a little more in detail about the specifics of the assessment for rental underwriting and developer capacity. We're then going to jump into some suggestions about how to look at developer capacity and some sort of construct about thinking about underwriting and good practices.

After a break, we'll then come back and we'll do a sample transaction, and there was a case study that was sent out on the list serve this morning. It was - it's also on the HOME Web site, and we will be showing it. We'll be linking to it. If you haven't printed it out, you may want to do

so. Again, you can go into the list serve message and just click on that link that was provided, and we'll walk through that sample transaction.

So I'm going to turn this over to HUD at this point to give us a little bit of the context.

Marcia Sigal: Thank you, Marsha, and again, good afternoon and good morning to all of you. I'm very pleased that you joined us. This is Marcia Sigal. I'd like to welcome you to this Webinar on Assessing Developer Capacity and Underwriting, very key important topic. As Marsha mentioned - the other Marsha mentioned - a moment ago, this is a Webinar series. We've had Webinars on how to analyze market. We've had Webinars about the new requirements of certifications in IDIS. We've had Webinars about underwriting for home buyer.

All of these are key important topics to meeting the requirements of the FY 2012 HOME appropriations law. The schedule for all the Webinars is up on the HOME page Web site. It's www.hometa.info, and I just want to go into a couple of caveats before we get started, context as Marsha called it, and as many of you know or I hope you all know by now, HUD has published a proposed rule in December 2011 that on the HOME program, that includes many of the changes in the 2012 appropriation are similar to some of the changes that we proposed back in December.

Congress in fact had a copy of our proposed rule and took some of those provisions that we were thinking about proposing and put them into the 2012 appropriations language. However, I want to stress, stress, stress, it's very important for all of us to remember that the proposed rule is still just that, proposed, and we're back here at headquarters very carefully and extensively reviewing the comments that you all sent in, but there's nothing in the proposed rule that is currently applicable to the HOME programs, and nothing in that rule becomes effective until HUD issues final rule-making.

That's the process we're involved right now, and we expect the final rule will be published this fall. So the focus here today on this Webinar and in this Webinar series on the 2012 appropriations for HOME is on the existing HOME regulations, and how the specific provisions of the FY 2012 appropriations law changed existing HOME program requirements.

One of the issues that Congress expressed their concern about with respect to the HOME program is the underwriting that is conducted when HOME funds are put into a project, when HOME projects are funded. They were very, very concerned about stalled projects, failed projects, and the connection to perhaps the lack of underwriting or insufficient underwriting that may have occurred that led to these projects being failed or stalled. They're very concerned about a proper evaluation of developer capacity and whether those developers that are receiving these HOME funds to develop projects you know, are fiscally sound.

And so you know, they put a requirement in the 2012 appropriations that says no funds provided may be committed to any project as part of the - unless the participating jurisdiction certifies that it has conducted an underwriting review, assessed developer capacity and fiscal soundness, and examined the neighborhood market conditions to ensure that there's an adequate need for the project, and part of underwriting is determining whether there's an adequate need for a project.

We did have a separate Webinar which is posted now on our HOME TA Web site about market analysis, about what data you looked at independently from the underwriting or as part of the underwriting, and I encourage you to listen to that Webinar. It had some great information about data sources and how you use their data to look at the market demand.

But today we're going to talk about underwriting, and about doing the underwriting yourself on staff, about reviewing the underwriting of others. We're going to have a really very good example of what you do when you underwrite a project that Anker's going to walk you through and talk a lot about developer capacity as a total package. You'll hear Anker refer many times to assessing

the risk and you know, when you're making an investment, you always want to assess the risk, and that's really essentially what a lot of underwriting is about.

And so I want to turn you over to Anker and Marsha, who are going to talk about developer capacity, the fiscal soundness of developer, how you assess a project, how you underwrite it, how you review the underwriting of others, and how you relate that to ((inaudible)). I know that underwriting sometimes has a mystique to it that can seem overwhelming or foreboding or you know, but this will be one Webinar that we offer and - but this won't be the only training and technical assistance we plan to offer to you as we go forward, both with the 2012 appropriations requirements, and once we issue the final rule.

HUD will provide a lot of training and technical assistance to help PJs and ((inaudible)) do a really good job in underwriting and assessing the developer capacity. Our goal here is to have HOME funds invested in projects that meet the needs of their communities and have - are structured for success, and you know, result in appropriate long term fiscal physical viability. With that I'm going to turn it over back to I guess, and I think Marsha Tonkovich.

Marsha Tonkovich: Yes. Hi, guys. So let's jump into an overview, then, given Marcia's context about what you have to do related to rental projects, and so we're going to boil it down into some very quick summary of the requirements, and then we'll jump into how to do it with Anker in just a moment. So the key thing is that there are three things you have to assess about every rental project that you fund.

And one of the things that's come up in past Webinars as we've talked about this is there's a confusion between assessing the project and the upfront work you have to do to set your program in place and make program design decisions. This isn't an assessment of your program, although your program has to obviously lead to effective projects. This assessment is every single project.

The requirement is for every single project that you fund before you enter into a legally binding agreement, and we'll talk about that timing in just a moment, you have to do these three things.

So one is that you have to assess the market, and you have to establish that there is really need and demand and a market for these units that you are developing. Two is that you have to ensure and you have to document and certify to the effect that the developer who you're funding has the capacity and the financialwherewithal to do this kind of a deal, and three, you're going to certify that you have in fact evaluated the underwriting or done underwriting of this project and ensured that it is in fact financially viable..

So you have to - not only the certification that you did these things, but you have to have back office documentation that in fact you did, that the certification is backed up. Now the timing as I said is you have to do all of that before you can enter into your HOME agreement, your funding agreement. So before you sign a firm commitment, your funding agreement, your HOME agreement, whatever you call it, with that developer, you must have done this analysis in order to then be able to certify an IDIS that we will talk about a little bit later.

In order to do that, as I said it does have to tie back to your program, and it has to tie back to the policies and procedures and the way you have designed your programs. So you can see how it will tie back to your underwriting criteria for your programs, the process you use to collect data from others, the process that you use to select developers and do applications and all of that. All that has to be documented to feed you into being able to do these three things that I talked about.

So you want to ensure you have written policies and procedures in place that answer questions like, when is the underwriting going to be done? Who at my agency is going to do it? Who's going to review it? How are we going to decide whether this project is in fact a go or a no go? What criteria are we going to use for the underwriting or for the developer capacity? So those sorts of things and much more need to be in your policies and procedures that your staff then follow.

This is going to apply then to all the rental projects that you fund, whether or not you're doing acquisition, rehabilitation, new construction, any combination of all of those things, and furthermore this is one of the key questions we've been getting. It doesn't matter how the HOME ((inaudible)) feels. If it's a rental deal and there's somebody in it you have to do it.

So even if you owned a place and the land and some other source is paying for the construction, doesn't matter. If you've got HOME money in there and a rental deal, you are going to have to do this assessment. It is okay for you to go ahead and contract that out with a third party or to use a tax credit agency's underwriting if you want to defer to another party's underwriting, but you do have to make sure that you have carefully reviewed it, and we'll talk a little bit later in this session about how to carefully review.

You remain legally on the hook for having this certification, having looked at, so it's not enough to just say, yay, the date that you dated it. And then you're going to certify to the effect that you did all these things, that you've done those key three things, market, developer capacity, underwriting, and that that's backed up by policies and procedures when you fund each of these projects in IDIS.

So here's the IDIS certification. There's language in there that you have indeed sworn that you have done these and it'll be virtually signed by someone who is allowed to do that signing. It's going to come up and it's applicable to all projects that are set up in your 2012 action plan, all rental projects, for your 2012 action plan. Now because of IDIS peculiarities, it's actually going to show up for all projects, all IDIS activities, and all years of funding.

And you can just click yes for those other ones because it's not applicable to them. It's only actually applicable to 2012, although obviously we encourage you to use a similar process for all

of your activity. So with that I'm going to go ahead and turn it over to Anker, who will get us into how to search rental developer capacity.

Anker Heegaard: Thanks, Marsha. So to start I just want to give everybody a little bit of an overview about how we've structured this. We're going to start with a fairly high level overview of both assessing developer capacity, and conducting underwriting. Granted, we only have a short period of time to cover some fairly complicated material, so the decision was that we would do a high level overview, and then we would take questions and answers for a period of time, and then in order to ground the high level overview into something practical, we'll illustrate a lot of these principles in a practical application and an actual deal memorandum. And then we'll take questions and answers again, and that should conclude the session.

So let's start now with a few slides about assessing rental developer capacity and fiscal soundness. And the best way to begin thinking about this is to talk about a framework for how you're going to undertake doing it and a framework for how you're going to think about it. So ultimately in order to assess developer capacity, you're going to need to get information. It sounds obvious, but the information that you get will come through your RFP or your submission requirements.

So in a sense, the answers that you get and the knowledge that you obtain is going to be a function of the quality and nature of the questions that you ask and when you ask those questions within your overall process, so be specific and ask specifically for what it is you need in order to make the assessments. I say that in contrast to trying to make the assessment without having obtained the information. That's obviously more difficult.

So just as you're going to base your decision on the information that you get, you're going to base your decision by looking at the information that's provided and contrasting it against the standards

that you employ, so one of the obvious requirements is that you're going to want to have fair and consistent standards for what's required.

Secondly, you're going to want to use those fair and consistent standards to avoid the bad outcome of approving one developer and denying another against substantially similar fact patterns. So let's talk a little bit about standards. Standards in the case of rental housing development are going to be very contextual. That is, the standards that you impose are going to flow from the risk factors in the deal that you're considering funding.

For instance, you might have different informational requirements and standards for a five-unit 100% HOME-funded project than you might have for a 100-unit home light tech project that's got multiple funding sources and a lot of different forms of complexity in the deal. So the assessment would be related to the project that you're considering funding, so you might consider things like developer capacity with respect to the number and types of sources and the complexity in getting them to show up and work together in the financing of the deal, developer capacity with respect to the cost and size of the deal overall.

In other words, all else equal, bigger deals take more technical operational and financial capacity than smaller deals. Another area you might think about is developer capacity with respect to market risk. Does the developer have the ability to rent and operate these units to this target population? So remember, and this'll come up a lot as we go through additional slides, you're underwriting to address your risk factors in the deal, and one of your biggest risk factors is whether the developer has all of the skills to succeed and has the capacity to get the deal done.

So what specifically do you consider? At a meta level, you're looking at things like years in business, staffing, organizational strength as opposed to personality strength, and the words I like to use here are recent, similar, successful experience. So if they've got recent, relevant, similar

experience, deals of the nature that you're considering funding, then that's a good indication that they'll be successful in those aspects with your deal.

If they don't have recent, similar, successful experience in a particular area or with a deal of that type, it doesn't mean you can't do a transaction with them, because you obviously want to grow the capacity of your development partners. But it does mean that you'll want to find other ways of establishing that they've got the qualifications to succeed. So let's move to the next slide.

This pie chart illustrates the different areas of development teams and what they might have to undertake, the types of skills and types of expertise that's necessary to be successful. So for instance, you'll want to look at their experience managing affordable rental projects that are similar in nature and size and complexity to the one that you're looking to fund. You want to look at their experience in developing affordable housing that's similar in nature and size, types of construction, the combination of multiple subsidies.

These are all different areas. In other words, it isn't one sort of flat perspective. Any one developer is going to have strengths in some areas and weaknesses in others, and the risk factor that you're looking to address comes in terms of identifying where there's - those weaknesses are, and how those weaknesses can be mitigated through either partnering or through training, technical assistance, guarantees, additional mechanisms for reducing your liability as a PJ that the project could fail because of a capacity issue. Move on.

I think this slide well illustrates the various - the extreme breadth of skills necessary for someone to be successful at developing a complicated federally subsidized affordable multi-family rental project. You need to have good project management. You need to have the capacity to undertake and apply, understand, and act upon market analysis. You need to obtain a good site and control that site. Property management, planning and construction, design, architecture, and engineering - these are all areas of expertise that are critical to the overall success of a development partner.

So your application or funding should require that your development partners or your applicants for funding speak to their capacity in these areas, and friendly advice, you want to make this as easy as you can on yourself by asking specific questions, rather than having them submit rings of information in terms of capability statements that require you to filter through that information and synthesize it in order to make that assessment.

So in other words the better your question the more efficient and easier the answer will be to deal with. So let's talk a little bit about fiscal soundness. It's important to have development partners that are financially capable of supporting the project through both development and its operating future. Those are two different things, of course. One of the things you'll want to request from development partners is financial statements that will get - that will give you a perspective on their current financial status.

We acknowledge of course that developers don't always have a lot of cash on hand, but their cash is working, and you wouldn't necessarily always expect or it wouldn't necessarily be a good idea to always rely upon only development partners who have a lot of liquidity. However, you still need to be able to answer a basic question, which is if there's a cost overrun in the development of the deal or if there's an operating deficit in the long term operations of the deal, would your development partner be able to rise to that obligation and assist financially in supporting the property for some period of time?

One of the thing that we want to make sure we point out here is that developers usually have portfolios of properties as you're aware, and in assessing a developer's overall fiscal soundness, it then becomes essential to look at their overall portfolio. You might have a developer who's got 10 properties, and 8 are struggling, and the development organization is feeding those 8 properties. That's a fact pattern that should cause you some concern.

One of the things that you can ask for in these sorts of situations is for a projection of overall unrestricted positive or negative cash flow for all of the properties. In other words, try and get a overall picture of the financial condition of the properties and how that relates to the financial obligations of the developer. We've certainly seen many times in the past where a development entity will undertake doing a deal because they need the cash to support their portfolio. You should take that as a warning sign that that deal is supporting the developer and not the other way around, and you want to have situations in which you can rely on developers to support the deals.

When you're assessing new developers with whom you haven't worked before or developers who haven't undertaken the type of deal that you're looking to fund, you can't necessarily rely upon a standard of recent, similar, successful experience. I mean, that's okay, because in many cases one of the things that the PJ is doing is trying to build the capacity of their development environment, so you - in these cases if you can't look at recent, similar experience, you want to evaluate the capacity of the staff and one of the key things to look at is whether they have organizational capacity or whether they are dependent on certain individuals in their organization.

As small development organizations grow, the successful ones migrate from being dependent upon the contributions of certain individuals to being organizationally independent of any individuals, and organizations that have that strength don't carry with them the risk factor of having somebody leave or be unavailable or otherwise, you know, change careers or become sick.

You want to evaluate whether they can use experts to fill the gaps in their own expertise, whether they have good partnerships in terms of architectural engineering, project management. Lots of small development entities will bring in financial advisors to help them pull together the complicated aspects of underwriting and financing a transaction, and that's okay and in that case that's one of the things you're going to want to assess.

In other words, you're looking at the overall team not just the developer entity. Warning signs, I just want to go through a couple of warning signs that you might think about. It's okay to ask other PJs what their experience is with that development entity or the housing finance agency or low income housing tax credit allocator. You might find that they report delays or compliance issues or administrative issues, and if that's the case, it doesn't necessarily mean you can't or shouldn't do the deal with that entity, but it does mean that you're going to have to get clarity about why that isn't going to occur in the context of your deal.

Another warning sign would be some recent history of high or material staff turnover. Another warning sign is difficulty in getting financed. The private first mortgage lenders with whom you're partnering in these deals are often looking at the very same thing you are, and the inability for a development entity to get private financing in a transaction could be a warning sign that the financing entities - prior financing entities have the same concerns about capacity that you should be having.

And then lastly, and as I mentioned before, a key warning sign is whether the development entity is expressing to you or coming across to you in some way as needing the transaction. Sometimes when you need the transaction you tend to do a deal that you wouldn't otherwise do. That's a problem in and of itself, and needing to do a transaction signals quite strongly and loudly that they don't have the financial capability to support the deal and instead as I said before they need the deal to support them.

Okay, so that covers sort of an introductory overview of some concepts and considerations regarding a framework for looking at assessing developer capacity. We're going to talk very big picture about key elements of underwriting first. So underwriting should flow from public policy, and underwriting should start with meta level considerations about the community housing needs, who the developer community is and what their capacity is, what the market is, and internally with

the PJ and the political environment and administrative environment in which it operates, what's the tolerance for risk?

So let's talk about these individually. Community's housing needs - in order to understand what your community's housing needs are, you could do a formal or informal housing needs assessment that begins to parse out, you know, not just that you need affordable housing at a base level, but more -with more granularity, what kinds of housing do you need? Do you need housing that serves seniors or families? Does the housing need to provide supportive housing resources?

With the affordable housing, what depth of affordability is most needed to be addressed in your community? Do you need to provide a deep subsidy or deep affordability, or is the community more in need of moderate affordability or what we might call work force housing? Are there transportation issues within your community's housing needs? In other words, how do people get to and from, and can the housing be situated in such a way that it works in a healthy and productive way with respect to transportation?

Are there neighborhood renewal considerations? So let's move onto developer community. You know, who are the for and non-profits that are capable of sponsoring deals in your jurisdiction? What are the strengths and weaknesses of these partners, and how can you tap the strengths and counterbalance the weaknesses? Your housing priorities, in other words, have to dovetail with what your development community is capable of getting done. To put it in a very simple way, it doesn't make any sense to have a housing priority about supportive housing in your community if there's no development capacity in a practical way to get that built and operating.

In terms of market, is your market driven by condition issues? Is there adequate supply of inadequate quality housing? Is there inadequate supply in certain sectors? Will the market support the types of housing that you want it to support, or that you want to develop? And then

lastly in terms of tolerance for risk you've got construction period risk, operating finance risk, and we're going to talk about a number of risk factors, but the meta level risk factor to consider is what's the PJ's affordability loss risk? In other words, what's a tolerance for being put on the hook to repay a HOME investment back to HUD in the event that the project fails to comply with the HOME affordability period and restrictions?

So once you've thought about the meta level public policy issues in terms of what it is that you want to accomplish and what is the topography and fabric of the housing needs that you're facing, how do you get that done? And the terminology we like to use is intentional underwriting. And the idea behind intentional underwriting is that you're underwriting flows from your vision for rental housing. You've considered, in other words, the outcomes you want and the risks that you're willing to take to get there, and then you make deal specific decisions against that framework.

So let's talk about risk level overall, because this is sort of a large issue with respect to how you approach underwriting. Overall, more funding per project will equal low - I mean, by more funding I mean more soft funding, more HOME money - per project, all else equal, would result in lower risk, or would also result in fewer units produced. It's a coin, and if you flip it the other side says that less funding per project, all else equal, equals greater risk but also equals a greater number of units produced.

There's no right or wrong answer to that. However, in the construct of intentional underwriting, it's very important to make a conscious decision about how you're going to approach the tradeoff between volume and quality. The second thing to say about risk level overall is with respect to foreclosure proof use agreements, you need to make as PJs a conscious decision whether you're going to have your affordability period deed restricted so as to survive foreclosure of the first mortgage.

The problem with that is that sometimes banks don't like it but on further investigation what we've found is that the banks simply feel that it constrains the LTV, the loan to value against which they're going to loan funds. In other words, they believe that it reduces the value of the property as security for their loan, which can be okay. The offset to that is you might have to put in more soft money and less private first mortgage money into a multi-family transaction, and you might essentially as a consequence of that have to buy a foreclosure proof use agreement.

The decision to do that traces back to your comfort with the overall risk level of transactions and your own priorities and concerns. Some other key considerations in developing an underwriting policy, how green do you want to approach the development or rehab of housing? Green can cost more up front, but can save money on utility costs down the road. Sometimes green housing investments are not necessarily economically self-justifying, but they can provide health and societal benefits.

That's a conscious decision made in the context of developing an underwriting policy about how the PJ will approach green housing. Another one might be preservation versus new development. In your community, is it important to invest in the preservation of existing housing, or is new development a better and different alternative? And each answer is going to be very locationally specific so that we're not saying there's a right or wrong answer, but there is a benefit to having thought about this and having intentionally selected an approach.

Geographic targeting, what neighborhoods, what types of neighborhoods maybe, what project types, elderly families, special populations, and then in terms of targeting income levels or maybe there would be a preference or a desire to invest HOME funds into mixed income properties that have a greater amount of diversity economically.

Marsha Tonkovich: Now, Anker, just to give you a quick time update, we have about 13 minutes to the break for questions, so for folks who are on the phone, if you do want to get in the queue, please press star one to get in the queue to ask a question, or write in your question at the Q&A.

Anker Heegaard: Thanks, Marsha. Okay, so we'll be okay, I think. So let's talk about underwriting to risk areas, because that's how we'd like to approach this discussion from a fairly high level. So one way to look at underwriting is underwriting is the job of identifying everything that can go wrong in the investment end and development of and operation of a multi-family property that has all kinds of compliance requirements, and then figuring out how you can get comfortable that there's a relatively low likelihood that those things are going to go wrong or to the extent that they do go wrong, that you've identified how you're going to solve that problem and you've left yourself an option.

So sponsor risk as a key risk area is really all about our earlier discussion with respect to assessing developer capacity and fiscal soundness, so we sort of already covered that. Market risk - is it a feasible location? Is there a level of demand for these types of units at these rents in this location? Is there a positive demographic data? In other words, is the population growing? In other words, is demand increasing relative to supply? Is it a transportation efficient site?

Another area of underwriting risk is HOME compliance risk. From an underwriting perspective, we're talking about things like is this an eligible activity? Does it include at least the minimum number of HOME assisted units? Does the pro forma use the correct HOME rent? In terms of other federal requirements, you know, have things like lead based paint, Davis-Bacon, URA, environmental, have they all been addressed?

And to a certain extent, all of this HOME compliance risk as you'll probably have figured out is also related to sponsor risk. If you have a sponsor who's got a lot of developmental capacity in terms of technical know-how and experience, then your HOME compliance risk would be

reduced. Design risk is another area that you want to address in your approach to underwriting. So does the - not only does the architecture fit into the neighborhood, but can the buildings be constructed in a cost effective way?

Will the materials be long-lasting? Are the unit sizes appropriate to the target population? Are the features and amenities of the property the right features and amenities for that type of property in that location for that type of market tenant population? And importantly, and this can often be a huge problem, you know, has the property met accessibility requirements of 504 and ADA? I should mention here with respect to design risk that the HOME rule requires - the existing HOME rule requires that PJs have written standards for rehab, and the place to impose those written standards is well in advance of construction bids.

In other words, you don't want the construction to be bid and then you look at whether the bid matches your written standards for rehab. You want to publish your written standards for rehab as an exhibit to your NOFA for instance, and require that any work conform to that. The earlier you stick your requirements out there, the more likely they are to be followed and the more strength that you have in enforcing them.

And then lastly, the last bullet on this is environmental risk. You know, has the environmental review been completed, lots of sort of alphabet soup here, LBP, ACMs, PCBs, and my favorite which is LUST, which is leaking underground storage tank, which can be an environmental risk of no small measure. So let's move on to the next slide. I've basically got a few slides on underwriting to risk areas.

Another risk area is revenue risk. Are the rents feasible? Do you know what the true market rent is for these units in this location? It's obviously not ever enough to rely on the HOME restricted or low income housing tax restricted rent without paying careful attention to whether the market rent is lower, because of - as a practical matter, not as a regulatory matter but as a practical matter,

you simply can't rent the units for more than the market rent, and there have been a number of HOME projects that have given short shrift to measuring or assessing the market rent potential, and they've underwritten to the affordable rent only to find out that the actual market rents were lower and the project couldn't generate enough revenue to stay operationally viable.

Operating expense risk - this is obvious in a certain sense. Can the project be operated successfully at or below the underwritten expense level over the HOME affordability period? You'll want to look deeply at things like the real estate tax estimate, the insurance estimate, and the utility cost estimate, because these are what we call uncontrollable expenses, meaning that you know, they are what they are and no amount of management efficiency is going to change them with some exceptions. But generally they're not easily controlled by the managing agent.

You know, other questions with respect to operating expense risk, you know, is this a special population project? Is there a feasible plan for funding the needed supportive services? And what's the risk that you could have to incur security expenses on the property, security expenses being in many ways sort of the nuclear of operating expenses? Because when it hits, the project usually doesn't have the operating cushion to survive.

Another area that you want to consider in your underwriting approach, a risk area that you want to make sure gets addressed in your overall approach to underwriting is capital needs risk. What are the likely major repair and replacement needs of the project over the long term? Is there an acceptable likelihood that those needs can be met through the proposed reserves, projected cash flow, or the potential future refinancing of the project?

A lot of rehab projects have failed because the rehab was insufficient and of course a high level of rehab is not a cure all. The ongoing reserve deposit still has to be sufficient, so let's also talk about cash flow risk, which is where you know, revenue and operating risk collide. Is the project

reasonably likely to produce enough cash flow to cover debt, capital needs, that can't be funded from the reserve, and provide an adequate cushion in return to the owner?

So more risk areas, risk of inadequate sources - so the previous slide we were talking about sort of operating risk issues. This slide talks about development risk issues. Are the projected sources of funds in total enough to fund the estimated uses with an appropriate cushion for contingency, and if the project exceeds the availability of sources and cushion and other resources, you know, is there a strong financial partner behind the deal who can step into the breach?

And this is one of the reasons why we spent a lot of time earlier talking about establishing that your development partners are fiscally sound. It's a good time to mention the importance of the subsidy layering analysis. The PJ has to have a policy with respect to this, and the goal of the subsidy layering process at large is to ensure both that the project is not unnecessarily oversubsidized with public funds, and at the same time that it's not unsubsidized. In other words, it's got enough money to survive through the period of affordability as quality housing, and that there aren't unrealistic expectations about development costs, operating costs. There aren't inadequate cushions, and there isn't an unacceptably high risk of failure.

On the flip side of inadequate sources are overly adequate uses or additional uses beyond those which were planned. There are the projected uses of funds in total, sufficient to develop and lease a successful project with this design in this location with this developer, etcetera. I think at this point we should mention that the PJ has to review uses, ie. the construction costs or cost reasonableness. That might involve having a third party look over the costs. They could be based on historical cost data that the PJ has accumulated, or maybe a rule of thumb that's been proven out by experience, but at a minimum the PJ has to have some process.

A couple more risk areas I'll just talk about very quickly, construction risk. The developer has to have the capacity to manage the process. Simply because there's adequate sources and uses

overall doesn't follow necessarily that there's going to be adequate sources and uses at every stage of the process, which is why you have a development period budget month by month to show sources and uses and their availability and timing over the period of construction until the project is placed into operation.

Lease out risk, how long it's going to take to lease out the property, is there a good plan for this and is there a reserve that will fund the difference between the revenue that the property will be generating while it's not yet fully occupied, and the revenue that the property needs to generate in order to be stable? Last slide I want to talk about here in terms of reviewing others - well, two more slides.

This one is about reviewing the underwriting of others, and we want to stress for you that reviewing the underwriting of others does not mean substituting their underwriting for your obligations to do underwriting. A PJ still must have its own standards, and must still apply those standards consistently and reviewing the underwriting of other organizations or entities or partners in the deal means looking at that organization's underwriting and seeing how it stands up against the PJ's own standards.

The PJ also additionally has to document that it's done this review, so it can't simply say that the HFA underwrote the deal and they usually do a pretty good job and therefore that should be the end of it. They have to get what it is that the HFA did. They have to look at it and document that it was adequate in that it met the underwriting standards of the PJ, and in the event that it didn't, what the PJ did about it.

I'm only got one opportunity here to talk about process, and it's a fairly important topic. Process is extremely important to being able to ensure that all of the sort of high level vision and standards and expectations and risk factors have been run through the machine in a sense and have been handled and implemented in a reasonable way. A good process ensures that the information has

been collected. A good process ensures that it's been considered to assess risk and determine the fitness of deals against the policy framework that was at the sort of high level of this whole discussion.

So when CPD says procedures are required, an RFP is a good place for a lot of those procedures to live. So a couple of words about how RFPs work or notices of funding availability or application guidelines or whatever you call it. Threshold criteria is really this - the - what types of deals the PJ is going to consider or not consider at all. Is there a required proximity to transportation? Is there a required level of affordability? Are there specifically required, objectively measured developer qualifications? What are the specific limitations on funding, whether those are expressed in terms of per unit, per deal, per developer.

And be very careful in terms in RFPs in terms of distinguishing between the words must and should, because they mean very different things. In a practical sense they mean different things and in a legal sense they mean different things. Another area in which process lives in an RFP is the whole issue about timing considerations. When are applications due? When are decisions made? Is there a process for resolving deficiencies? If so, how does that fit into the overall timeline?

With respect to application intake, when applications arrive to you, you do an initial review. The initial review would focus on threshold criteria obviously, because you shouldn't be funding deals that don't meet the threshold criteria that you've set out in your RFP itself, but there's also the issue of some deals - in fact, it's almost always the case that applications don't contain all of the information that you need in order to make an intelligent and informed decision about funding. It's rather rare that they do.

So what's the process that you've set forth for going back to developers, inquiring about additional information, whether it was because they forgot to put something in their application or

instead if it was because it occurred to you that you needed further information in order to make a decision? With respect to final review and decision-making, we're going to - after we take some Q&A, we're going to show you just a sample presentation to a loan committee, at least the written submission that a loan committee might look at in order to make a go, no-go type of funding decision.

And your process should spell out, you know, how that works, what it is that's required to be submitted and who it is that makes those decisions and how it is that concerns are addressed in the form of contingencies on the funding.

Anker Heegaard: Okay, thanks. I'm very excited about this section of the presentation. It's something we haven't done before. It's a little bit of an experiment, but we'll be interested in your feedback. Maybe there's an applause button you can hit or something on your screen. I haven't found it yet. But the challenge that we faced was that we wanted to talk about underwriting at a fairly high level, given the time constraints, but at the same time we recognize that talking about it only in the form of high theory could leave people wondering how do you actually put that into practice, and how do you make the rubber hit the road in that sense?

So we're going to move to - if I can find - I have to switch it over to my PC here, right? Oh, share? Or, program? There we go. All right. I've got this set up for a size that I think is good for viewing purposes. Is that showing up for you all? It - okay. So what we're looking at here is roughly 20 pages that is a sample of how a deal might be presented internally for approval at a PJ after having been underwritten, whether that underwriting was entirely done by the PJ or whether that underwriting was done in part by reviewing the underwriting of others.

And you sort of have to imagine that you're sitting in a loan committee and somebody has underwritten this deal and they've put this together and you've pre-read it, and the next 20 minutes, someone's going to walk you through what this transaction is, what its risk factors are,

and whether it should be approved or not, and if it should be approved, what types and nature of conditions should be imposed on it.

And so the way this functions a little bit is that I'm just going to go through and I'm going to highlight various sections of this and I'm going to talk about them. In your loan committee you might consider, you know, who has voting and who doesn't have voting rights, whether there's a quorum requirement, you know, how many at a minimum people who are members of the committee need to attend and vote. You'd want to consider making sure that in your approval of transactions, different areas of your organization are represented.

If you only have one perspective in a deal, you leave yourself exposed to a lot of risk factors that other perspectives might be more attentive to. Another thing that I want to point out here in the overall picture of this is that the underwriter's job or the person who prepares and presents the deal, their job is not to sell the deal, but their job is to fairly and impartially present its pros and cons in a way that supports good decision-making by the organization. Here's what you should know, here's what's edgy about the deal. Here's what might bite you later and how you might counterbalance that. So that's kind of my overview.

I just also want to make sure that I reinforce for everybody that this is not a required or even recommended format. It's being used here as an illustration of the way that the concepts in the first part of this session can be put into practice in a real practical on the street sort of way. So start with an overview.

Overview, somebody can digest in a moment or two, and it gives them enough of a picture that they understand what kind of transaction financially and physically we're talking about. In the executive summary, you can get beyond the sort of bricks and mortar description and you can get into a description of what kinds of risks the project reflects. You'll notice that there's a statement in here that says the project meets all the funding criteria in the PJ's NOFA. That's a useful

statement, because it establishes sort of a written record that the PJ has submitted something for internal consideration that's consistent with its own requirements.

That's basic, but it's important. It has a brief discussion about affordability. You'll see later there's a lot more on unit mix, but here you get a little bit of a gist of how many HOME units we're talking about, what the overall affordability is, that there's no market units, it's not a mixed income property, so those two sentences or that one sentence tells quite a bit.

I personally like to talk about risk very directly and not indirectly, so in this sample, we talk about pertinent risk factors, and then we cover them: market construction. This is a very highly summarized approach. You don't want a loan committee presentation that somebody's going to have to read 100 pages on. You'll never get through the work, and nobody will ever read it anyway. But if you sort of explicitly summarize what the risk factors are and present them in a coherent way, people can ask the right questions and make reasonably intelligent decisions based on those risk factors.

You'll also notice here the way it's written says market risk is low, but then it says why market risk is low. In this case, market risk is low because market rents are sufficiently above low income housing tax credit rents, and additionally the market is strong and the project is well-located, so those are all features of why market risk would be low. So let's move on to the next page.

Vincent Grady: Anker, before you do that, this is Vinny, since people are having a bit of trouble viewing the screen, so I just wanted to comment and say that below this page there is a scroll bar, and you can kind of center the page yourself so it fits your screen and you can see the whole thing.

Anker Heegaard: Right, you're talking about there's a scroll bar for all the participants to use.

Vincent Grady: Correct.

Anker Heegaard: Okay. Yes, we - in fairness we tried this out on a few monitors, but we weren't sure how this was going to work for everybody, so apologies if you're not able to see it as clearly, and please also be aware that it is available for download, and Vinny, you can confirm this, but I think the downloadable version is the enhanced PDF with all the clickable little notations.

Vincent Grady: That's correct.

Anker Heegaard: Okay. So we have covered sort of a brief half-page description of the various risk areas, and where those risks exist. There's a property description, and then there's a development entity and capacity description, so your obligation as PJs for assessing development capacity and fiscal soundness would be integrated into your underwriting decision and your funding decision, and therefore would be integral to a document like this.

Let me move forward. In this case we talk about developer capacity in four areas in this particular template. Prior developments - have they done recent similar deals successfully? Remember that as being one of our criteria. Here it talks about recent similar deals and the ways in which they are or are not similar. Current operational capacity - even the best developers can overextend themselves; even developers with a high level of sophistication organizationally and technically when it comes to affordable housing will sometimes tell you I can't close that deal for a year because I'm backed up.

It's a nice problem to have if you're a developer, but it also is not good as a PJ if you've got expenditure obligations that you've got to meet, so you want to know how the deal fits into their current workload and capacity, and you'll integrate that discussion into a document like this. Financial strength - you know, where does this deal fit into their portfolio? Are they doing this deal because their portfolio is struggling? If so, the deal needs to be super conservative, because the

portfolio can't be relied upon to help and instead the deal must be super-strong in order to in turn help the portfolio.

And then the last section in this section is guarantees. Once you've established that they're financially strong, so what? What's next? So here there's a discussion about what types of completion and operating guarantees might be reasonable to require of the developer as a contingency of funding the deal. Next section is location and market dynamics, and of course we didn't get into a market - assessing market discussion here. That was on a Webinar that was held on June 11th, but that Webinar is available as a recorded experience for everybody, so if you feel that you need that training, please go and take that.

But ultimately when you're looking at location and market dynamics, you're looking to establish whether the deal is in a good location. Is it positive or negative with respect to the property? Here, there's a discussion that says that the property is in an area where population is increasing. That's a good factor, so the various bells and whistles are being hit here. I won't go through every one of these notations in the interest of time, but we're getting to the point where we're starting to see a comprehensive discussion of the characteristics of the deal, the decision points for the deal, and the risk factors of the deal.

Another section is physical character and issues, so you've got a mention of existing buildings, but then a further mention that there's no URA or LBP issues, so that's good. In this particular transaction there's a desire to do some green development, and there's a discussion of that, and then there's a limited discussion of the proposed financial structure. One of the things I like to point out is that I've learned from experience that if you put too much detailed numbers into a narrative, you wind up having to waste a lot of time changing those numbers every time a small number in the transaction changes, and it travels throughout the deal.

So it's usually good to talk in round numbers that's sufficient for purposes of a presentation, and more detailed numbers would appear in the underwriting itself. Then we get to underwriting, section A, and we can get into more detail about what the affordability mix is. Now in the case of this transaction, they're asking for $2 million of HOME financing, and the memorandum states that that requires a minimum of 14 units, 14 HOME units, and of course because 20% of them have to be low HOME, no fewer than three would have to be low HOME units and the remainder could be high HOME units.

There's some further discussion about the functioning of low income housing tax credits, and there's a discussion about market rents, in this case the discussion indicates that the market rents as they've been determined methodically through and rank recoverability study are sufficiently above the use restricted rents so as to not give rise to concern that the use restricted rents wouldn't be achievable.

Trending is very important as an underwriting construct because basically - simply because a property can operate successfully in its first year doesn't mean that it can operate successfully in its 20th year, and in new construction HOME projects there's a 20-year affordability requirement. Lots of properties get into trouble because of the failure to run this simple projection, and the failure to consider that the cushion in the first year is inevitably going to be absorbed through the relationship between income and expense trending over the life of the property.

We discussed vacancy and bad debts. There's a very limited discussion of operating expenses which simply alludes to the model, and then there's a very important discussion here where it says the proposed reserve deposit is $250 a unit a year. This is what the state housing finance agency is requiring. However, we don't think that this is consistent with the viability of the project over the period of HOME affordability, and see section 11 in the memo for more discussion on this. So we'll come back to that as we get to that point.

And here there's a discussion about resulting net operating income for debt service. It does point out that the trend tends to move negative, but it's not so negative - I'm talking about the trend in cash flow or trend in debt service coverage - tends to deteriorate over time but not so negatively that the underwriter feels that it's a problem for the transaction, so good information and nuanced information.

Here there's a discussion importantly about how the HOME loan is intended to be or proposed to be structured. Here it's going to go in a zero - it's proposed to go in at zero as a cash flow loan with 50% of the cash flow payable on that HOME loan, and an indication of how much that might mean to the PJ in terms of program income. We'll come back to that in a moment.

Here there's a discussion about the affordability value of the investment. It's not necessarily required or even expected that PJs calculate the relationship between affordability and the investment. It's just an interesting way of looking at the deal and it happens to be with this sample PJ likes to think about. There's a conclusion that recommends approval for a $2 million soft second HOME loan.

Then it says, however, sees the optional consideration and the underwriter has taken it a step further and said essentially even though the developing sponsor has requested $2 million, we don't think that the reserve deposit that they've used is adequate to ensure the replacement of capital items over the 20 year affordability period, and therefore we're going to recommend that the committee consider actually giving them more than they asked for. Can you believe that?

And in this case also at the same time requiring a higher reserve deposit that's more consistent with the long term viability of the deal so that it doesn't become a physical liability during the period of affordability, just a list here of the documents that are attached, and I'm going to do a quick walkthrough of what they are.

So the prior six or seven pages was really just a narrative summary of the deal that was built off of an underwriting model, and in this case the underwriting model that I've used is one of my own, and it has a highly summarized page here that just shows the first mortgage underwriting variables, which makes it easy to sort of look at that aspect of the deal.

And then the second page is a more elaborate summary that includes the rent mix, what the rents are for different unit configurations and affordability configurations, what the HOME funds maximum permissible is, what the debt underwriting is, which was the prior page you just looked at, how the tax credits are calculated, and what the summarized sources and uses are in the transaction, so a very useful sort of one-page cheat sheet for everything, all of which is expanded on more fully in the following pages.

So for instance, you've got these next two or three pages are the rent underwriting, so you've got your unit mix, 22 one-bedroom units at 60% AMI, 12 at high HOME rents, and one at low HOME - sorry, I'm misreading my own numbers. Four at high HOME and one at low for a total of 27 one-bedrooms, so this kind of grid shows what number of units are - what number of units there are at each unit size, at each affordability level, at each rent level.

We're going to skip that and move on. Some notes on the underwriting, in this case the note's interesting. It's automatically driven by the model and it calculates what percentage of market the use-restricted rents are at, so in this case what it says is that the rents that would be use-restricted by HOME and tax credits average 70% of AMI, and that means that to the extent that they're rented to people at less than 70% of AMI, they're affordable.

This is just a breakdown here of what rents apply, and it automatically calculates rents as being a lesser of the use restricted or the market rent, and then of course, it continues for both two and three bedrooms. In this case this is the expense underwriting that was referred to earlier, and the thing I like to point out about this is that it does a series of breakdowns to assist with analysis. In

this case it shows the amount that is proposed per year for that item, and then it also shows how much that is per unit per year, and per unit per month.

And the reason that that's valuable in assessing expenses is because you know, some expenses you tend to look at as a total amount, and some expenses you tend to consider the cost reasonableness of it or the appropriateness of that expense projection from the perspective of how many dollars per unit it is, or how many dollars per unit per month, so a good format can be very helpful in terms of doing good analytical work. The format is your friend.

So this goes on - in other words, the prior page was a continuation of the operating expense underwriting. This page here is the mortgage underwriting for the first mortgage, and what's important about that is you are indirectly underwriting the amount of the first mortgage when you're doing gap loan underwriting, because your job is to see how much the gap is, and in order to get to a reasonable determination about the size of the gap, you have to get to a - first get to a reasonable determination about the size of supportable debt in a project to the extent there is non-HOME funds in the deal.

This is the all-important pro forma, and this shows what the operating dynamics of the property, income and expenses and debt service and cash flow, are going to look like every year over in this case a 20-year period. And in this case we can look later at the next page and see that the cushion between cash flow - the cushion that is the ratio of cash flow to operating expenses starts to deteriorate over time.

Here we have the cash flow projection, and we just for illustration purposes, we've shown that they're modeled in such a way that the PJ gets 50% of that cash flow, and it bears pointing out to everybody here that because 10% of program income can be taken as an admin fee by the PJ, this project would get $364,000 at least as modeled of PJ cash flow, and the admin share of that would be 10%, or $36,000, or $1800 a year, so as constructed, although this project would cost

the PJ an investment of $2 million, it would contribute $364,000 or $36,000 a year to the program income of the PJ and in turn would be net contributor to the PJ's admin budget.

This is the second page of the 20-year pro forma, which is just a continuation through year 20. This page just is a tax credit calculation, not suggesting and nor does HUD expect that PJ should be calculating the yield or the equity investment off of tax credits. It's just that in this particular model that's done, and as a way of sort of back-checking the numbers that are provided by the sponsor. This is a very important page. This is the total sources and uses.

And in this case, there's a few things I'll point out about the format. First of course, your sources have to equal your uses. Sources are here. Uses are at the bottom and continue on to the next page. You'll also notice from the format that we have the total amount, and then we also show those amounts in terms of dollars per unit, percent of the total or percent of the category, just as with operating expenses, it can be extraordinarily useful to have multiple perspectives on an amount in order to determine the cost reasonableness of that number.

You could also add columns in to show historically what some of those per unit or total amounts have been so that the PJ in reviewing a source new statement has the information already in that format to support that type of analysis. So let me just use this opportunity to try out the polling tool, which many of you want to pull down the poll, or maybe I should ask the question first while people are looking at it.

So the question is, once you've considered the $2 million HOME investment which is here, what is the remaining gap in the deal that needs to be solved? So the poll will come up, and if you want to take a look at the sources and uses and see if it jumps out at you as obvious or a little bit of investigation, what is the gap in this transaction as it's been constructed? And of course, let me - where did my polling thing go? Ah.

Okay, so HUD take comfort that more than 4 out of 5 folks are on the right track. I've got to pull up my presentation again. One second. Oh, content. Sorry. Okay, there we go. So let me just move along real quickly to the last pieces of this. This is the continuation - by the way, the poll is - the poll answer is 382 - $382,000. I can't even read on my own screen. I've got it reduced here. I have to zoom it in. $382,802, so correct?

And that might be solved in this particular deal by either increasing the amount of HOME funds or requiring that the developer take some deferral of fee. You'll notice that there's no deferred developer fee currently modeled, or requiring that the developer find some additional sources elsewhere.

Last page in this particular model is the cheat sheet that I used to calculate the maximum amount of HOME investment, which is going to be the lesser of the D3 limit or the fair share. In this case the lesser is going to be based on fair share, and it's $2,286,000, and the $2 million therefore is okay. If the transaction was going to require more than that amount of HOME funds, it would of course require more HOME units.

By the way, if the transaction were also going to increase the reserve deposit to offset the risk of the property didn't have enough money to pay for its capital needs in the later years of the affordability period, that increase to $2.2 million that was called for by the underwriter wouldn't require an additional allocation or an additional number of HOME units, because it would still be below the number here for the 15.

So let's move back to the slide, which is here, and we can go to another Q&A session, so Marsha, can I hand it back to you?

Earl Cook: Okay, well, I think we're out of time, and I think Marsha, you have a few closing words. Appreciate both of your assistance and appreciate the two hours that all of our PJs and various folks have you know, hung in there. So Marsha?

(Crosstalk)

Earl Cook: Marsha T.

Marsha Tonkovich: Okay, great. All right, well thanks everybody for joining us. I hope this Webinar has been helpful, and let us know if you'd like the format of the exercise and whether you thought that was helpful and any suggestions that you have for additional tools. I know that some folks wrote in about wanting a pro forma and things like that, and I think certainly HUD is looking into doing that, so please when you write the evaluations let us now what would be helpful to you as you come at these 2012 requirements.

We also do have a list of other resources that we wanted to refer you to that relate to other operating guidance, operating templates and other things like that that we think would be helpful to you and so these slides will be available on the Web site if you'd like to be able to download it and to be able to resource - access some of these resources. So I think, Anker, you had some closing thoughts you wanted to provide as well.

Anker Heegaard: Well, yes, I mean, they were up on the slides before and they're basically just sort of a high level recap of many of the things that we said before. As a final thought, everybody should be oriented toward and engaged in developing an approach to their underwriting based on their goals, the resources that they're working with in terms of their own staff and in terms of the development community that they have to partner with, and the risk factors and how they prioritize those risk factors.

Of course ensure that you've addressed developer capacity within that framework, and have a process. We unfortunately only had time for a single slide on process, but there's a lot to be said about RFPs and timing requirements and the implementation of all of this and also we've illustrated that in terms of part of the process of renewing transactions is documenting how you've considered those risk factors and that was one of the reasons why we wanted to develop that memorandum for everybody, and hopefully that was helpful.

And understand that all of the theory that we discussed can be grounded in practical application, and the memo was intended to be an illustration of that so that you could move forward in an operating kind of way with all of this.

Marsha Tonkovich: All right, well, thanks, Anker, and again, I'm going to show the evaluations, so please fill out the evaluation and let us know what you thought, and let us know what other tools and things would be helpful to you. So our next Webinars will be happening - HUD folks, what's the dates of the next one?

Marsha Tonkovich: Sure, okay, well I will just actually - I will show - Vinny's going to show this slide with the dates for the next Webinar just in case everybody...

Anker Heegaard: July 10th is the date that was on the slide, Marsha, so Tuesday July 10th is assessing CHDO development capacity, and Thursday July 12th is CHDOs, understanding the CHDO development capacity requirements. So one is for - the first is for PJs and the second's for CHDOs.

Marsha Tonkovich: So the schedule is now up on the screen, so please come back and join us for the last two Webinars. Thanks, everybody. Good afternoon.

Anker Heegaard: Bye. Thank you.

Operator: That does conclude today's teleconference. We thank you all for your participation.

END