HUD has noticed a substantial increase in the number of applications and a decrease in the quality of applications submitted for mortgage insurance in the past several months, a trend accelerated by the unprecedented reduction in interest rates and the apparent objective of lenders to submit applications as soon as possible without conducting a thorough quality control review. This results in processing delays.

HUD is implementing a queue to better manage the national pipeline and to increase transparency to the lending community regarding the status of each application. This policy is intended to increase overall fairness in managing our pipeline by permitting only complete applications in the queue.

Therefore, HUD will enhance its initial screening to ensure all material documents necessary to complete application processing are included in the submission. If documents are missing or incomplete, HUD will give the lender five business days to cure the problem. (This “cure period” is short because it is intended to allow only correction of clerical or administrative errors, not substantive additions to an application, e.g., preparing a missing third-party report or inspection which should have been part of a complete application.) Once received and found acceptable, the application will enter the queue. Should a missing or incomplete document not be received within the allocated time, the application and the fee will be returned. Should resubmitted documents, upon a second screening, again fail to provide a complete application, HUD will reject the application and consider the application fee earned.

Below we provide examples of items which are frequently incomplete or missing, as well as application requirements (e.g. for the Capital Needs Assessment e-Tool,) which some lenders misinterpret or ignore. While common, these examples are not exhaustive, and other omissions from applications not mentioned here may render an application unacceptable for processing. This memo creates no new application exhibits, checklists or requirements and merely reaffirms current guidance found in the MAP guide or in the FAQ’s issued in response to Covid-19.
General Program Requirements

HUD will use (as should lenders) the program application checklists for each respective insurance program found in the MAP Guide. HUD will not return or reject applications due to *de minimus* errors that would not delay processing. (Even so, lenders should endeavor to submit complete applications).

Examples of substantive items often seen missing/incomplete in the past include: third party reports required within programmatic timeframes; forms 2530 for all controlling participants matching the organizational chart; and timely credit reports, financial statements and rent rolls provided for appropriate time frames.

Additionally, third party approvals (internal to HUD or external) must be included, such as evidence of Prepayment Request or Approval and/or evidence of the Section 8 HAP Renewal Request or Approved Section 8 Renewal Rents. If a project is seeking a real estate tax abatement, then the abatement approval must be submitted with the application.

HEROS and Environmental Reports

HUD will confirm that a complete HEROS submission (either directly in the HEROS system or all relevant partner worksheets) are included with the pre-application or application, as indicated by the MAP Guide. Ancillary reports such as a fall zone study or Phase II environmental report, if recommended by the environmental consultant must be included with the submission. Unaddressed environmental issues that would delay processing, including but not limited to historic preservation, wetlands/floodplain/floodway, noise issues and site contamination must be identified in the application with a proposed resolution and timeframe for completion.

Energy Star for Existing Buildings and Green MIP Certifications

HUD acknowledges that Green MIP and the requisite achievement of a green building certification is a new and technically complex portion of loan applications. Nonetheless, it is the lender’s responsibility to address Green MIP issues and requirements prior to application submission. Documents required: a) to qualify for a green building certification; b) to demonstrate to HUD the probability of such qualification; or c) to evidence an existing certification, must be signed and/or sealed by the relevant energy professional or architect.

Incomplete Analysis of Accessibility Issues Referred to Architect or Other Experts

Multiple lenders have submitted CNAs in which the needs assessor has declined to present specific remedies for observed accessibility deficiencies and has recommended that the owner or lender retain the services of an architect or accessibility specialist, and the results of such further professional services are not provided. Both lenders and needs assessor must understand that if a CNA does not propose detailed remedies for accessibility deficiencies, it is not a complete CNA and will be returned. The lender’s application for an insured mortgage is incomplete if the CNA is incomplete.
Virtual Inspections in Capital Needs Assessments (CNAs)

We have observed repeated instances of CNAs submitted relying on a virtual inspection, i.e., a CNA submitted without an in-person, physical inspection of the property. Often the virtual nature of the “inspection” is not apparent without reading the Narrative and consequently this unacceptable practice is not detected in a timely manner, if at all. In response to the COVID 19 pandemic we have issued Frequently Asked Questions on relaxed sampling requirements for unit and building inspections for CNAs. (April and July updates, See Q1 under Multifamily Production, in “Questions and Answers for Office of Multifamily Housing Stakeholders, page 32 at https://www.hud.gov/sites/dfiles/Housing/documents/HUD_Multifamily_Corona_QA_FINAL.pdf).

In no instance have we approved virtual inspections as a substitute for on-site, in-person inspection. When an on-site, in-person inspection of all vacant/model/down/make-ready units does not include a unit in each building and/or a unit of each type, then the needs assessor and lender are obligated to provide alternative evidence documenting the condition of the omitted sample as indicated in the FAQ. A virtual inspection of the omitted sample may be acceptable in such a situation, but not in lieu of on-site, in-person inspection of the site and of all vacant units to the extent of the MAP Guide required sample. A CNA for any Section 223(f), 223(a)(7) or 241(a) application with an unacceptable inspection is incomplete and should be returned.

Class of Work and Program Eligibility

Lenders must observe program eligibility limitations on proposed repairs and alterations each of which the needs assessor should label by class of work (i.e., repairs, and Level 1, Level 2 or Level 3 alterations as defined in MAP Guide 5.1.) For Section 223(f) applications with estimated repair costs exceeding $15,000 per unit or including Level 2 or Level 3 alterations require specific additional construction administration measures, such as the employment of a Project Architect. CNAs for refinance or acquisition transactions are incomplete when they do not address classification of work and required design and construction administrative documents. Also, if a General Contractor is not employed, lenders should make sure to include a trades contractor bid when any repair item or group of related repairs exceeds $25,000.