
CHAPTER 11. MANAGEMENT ANALYSIS

11-1. INTRODUCTION

- A. At the firm commitment stage the lender's management analyst must:
- 1) determine the acceptability of the proposed management agent and the agent's proposed procedures for managing project operations;
 - 2) assess the reasonableness of the proposed management fee; and
 - 3) verify the appropriateness of the appraiser's and mortgage credit staff's:
 - o income and expense estimates
 - o assumptions on the rate of rent-up
 - o conclusions as to the need for an operating deficit escrow.
- B. To do so, the management analyst must review the management documents listed in paragraph 11-3 and consider information on the operation and management of comparable projects.
- C. The management analyst must document in the application file the observations, analyses and conclusions developed at each step.

11-2. IMPORTANCE OF MANAGEMENT STAFF'S REVIEW. The lender's property management/loan servicing staff must review and comment on coinsurance applications for the following reasons:

- A. As loan servicers, they will have to live with the loan.
- B. Their experience in reviewing operating expense statements and will help in assessing the reasonableness of projected expenses --both in terms of the nature of the project and in comparison with other projects.
- C. Their knowledge of property management practices will help In assessing the acceptability of the agent, the adequacy of the management program and the reasonableness of the management fee.

11-3. MANAGEMENT EXHIBITS. The applicant must submit the following management documents at the firm commitment stage.

- (11-3) A. Form HUD-2530, Previous Participation Certification, prepared on the management entity. A copy of the form and instructions are in Appendix 7.
- B. Management Agent Profile. While the profile must include all of the information in Appendix 10, the management agent may develop its own format for submitting the profile. If the lender already has a profile for the proposed agent, the applicant need only assure that it is still accurate.
- C. Proposed management fee. Quote the management fee in the manner required by paragraph 4-8 of HUD Handbook 4566.2. The applicant must indicate the proposed fee's estimated dollar yield per-unit per-month. In converting the yield to a percentage fee, the applicant must estimate apartment rent collections at 95% of rent potential.
- D. List of staff whose salaries will be charged against the project operating account. Include: job titles; salaries and fringe benefits; the number of hours worked per week; a statement of duties (if not obvious from job title); and a statement of whether those employees will receive reduced rents or rent-free apartments.
- E. Information on proposed management program and procedures
- 1) Describe how you will advertise and market the units and how you will train staff on civil rights and fair housing laws.
 - 2) The lender may require the applicant to submit more information, if such information will help determine acceptability of the agent and management program.
 - a) If the lender is familiar with the proposed agent's operating procedures and the agent has satisfactorily managed projects similar to the one under consideration, an explanation of how operating and oversight procedures for this project will vary from those the agent normally uses.
 - b) If the lender has had no experience with the agent or is unsure of the agent's ability to manage the project, a statement explaining how the agent will handle the management tasks listed on Form HUD-9838, Management Review Report for Unsubsidized Multifamily Housing Programs (Appendix 67) and/or a copy of the agent's procedures manuals.
 - c) If the project will need specialized management services (e.g., an elderly project with a meals program and social services), a statement explaining how the agent will provide and oversee those services.
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- (11-3) 3) If the project will receive any form of HUD subsidy, HUD's Office of Fair Housing and Equal Opportunity may require information on the policies and procedures the agent will use for accepting and processing applications, selecting tenants and assigning units. Applicants must contact the HUD Field Office's Fair Housing and Equal Opportunity Division to determine the scope of these requirements.
- F. Proposed operating budget. Show the following for the first two years of project operation:
- 1) projected monthly income and expenses
 - 2) quarterly occupancy assumptions and collections as a percentage of gross rent potential
- G. Proposed lease must:
- 1) comply with State and local laws
 - 2) not conflict with the regulatory agreement, HUD regulations or handbook requirements
 - 3) be HUD's Model Lease (Appendix 19a of HUD Handbook 4350.3) for any units that receive HUD subsidies. Owners may edit the model lease only as provided in paragraph 4-2 of HUD Handbook 4350.3 CHG-1.
- 11-4. DETERMINING ACCEPTABILITY OF PROPOSED MANAGEMENT AGENT. In evaluating the agent's qualifications, the management analyst must:
- A. Review and process Previous Participation Certification (Form HUD-2530).
- 1) Make certain the information provided is complete and accurate.
 - 2) If you know that a proposed principal is currently suspended or debarred by HUD or has violated civil rights laws, you must advise that person that HUD will not approve their participation.
 - 3) Attach your comments on the proposed agent's previous participation.

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- (11-4)
- a) For each of the proposed principals of the management entity, state whether, to the best of your knowledge, the proposed principal has been involved with a project that did not comply with HUD's regulations or administrative procedures.
 - b) If the proposed principal has been involved with a project where there was non-compliance, You must give the information listed below:
 - o the nature of the non-compliance
 - o whether the principal was involved with the project when the non-compliance occurred
 - o how the principal was involved
 - o whether and how the non-compliance was resolved
- 4) Keep a copy of the 2530 and your comments in the project file. Send the following to the HUD Field Office:
- a) a cover letter explaining that the 2530 is submitted in connection with your review of a proposed management agent
 - b) original copy of the 2530
 - c) comments required by paragraph 11-4.A.2
- 5) When HUD returns the 2530, it will indicate whether HUD has cleared the agent's previous participation in HUD programs.
- a) If HUD clears the agent, take the other steps described below to determine the agent's acceptability.
 - b) If HUD withholds clearance, you must require the applicant to propose a new agent.
- B. Review the Management Agent Profile (Appendix 10). Use this information to help determine the agent's experience and capabilities.
- 1) Determine whether the agent
- a) has effectively managed comparable projects; and
 - b) will be able to provide effective management now, as shown by the strength of its professional staff and management procedures.
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- (11-4) 2) Determine whether the agent's policies practices and experience show that the agent
- a) does not discriminate in its
 - (i) employment practices (profile item 7b)
 - (ii) marketing or tenant selection (profile item 20 and information required by paragraph 11-3. E.1)
 - b) can train its staff on civil rights and fair housing laws and practices (profile item 16b)
- C. If you need more information to determine the agent's acceptability
- 1) use the project and HUD Field Office references in the Management Agent Profile
 - 2) visit one or more of the comparable projects listed in the Management Agent Profile

11-5. DETERMINING ADEQUACY OF PROPOSED MANAGEMENT PROGRAM

- A. Carefully evaluate the applicant's proposed management program and procedures in light of project size, nature, and design and the agent's track record at other projects.
- B. Assess the adequacy of the proposed management program in each major area of management responsibility listed on the Management Review Report (Appendix 67).
- C. Reach agreement with the applicant on what procedures will apply after the mortgage is endorsed for coinsurance, and document that agreement in the application file.
 - 1) If the proposed procedures cover all areas of concern to you and are acceptable, you may decide that no more documentation is needed. Otherwise, you may require the applicant to expand previous submissions to cover those management tasks.
 - 2) You may require the applicant to rewrite the description of the proposed management program to incorporate needed changes.

11-6. ASSESSING REASONABLENESS OF PROPOSED MANAGEMENT FEES. Follow Chapter 4, Section 3 of HUD Handbook 4566-2. However, disregard paragraph 4-12's guidance on timing the review. Initial management fees for all projects must be reviewed before firm commitment.

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11-7. REVIEWING INCOME AND EXPENSE PROJECTIONS

- A. Review both the applicant's proposed budget and the appraiser's income and expense projections. Determine if the appraiser's projections are appropriate in light of:
 - 1) the project's architectural plans and specifications
 - 2) operating procedures agreed to based on paragraph 11-5
 - 3) known operating expenses of similar, successfully operating projects
 - 4) project location and type of tenant body
 - 5) the applicant's and your assumptions on occupancy and collections
- B. Pay particular attention to line items related to bringing the project to sustaining occupancy. For example, if intensive marketing will be needed during rent-up, check to make sure the budget for advertising and other marketing is adequate.
- C. If you believe changes in the operating budget are needed, discuss them with the appraiser and the applicant so they can make appropriate revisions.

11-8. VERIFYING ADEQUACY OF OPERATING DEFICIT ESCROW

- A. Review the amount and assumptions used in calculating any such escrow. Review and comment on:
 - 1) the date that full rent-up (sustaining occupancy) is expected
 - 2) incremental progress toward that date
 - 3) size of deficit expected during the period
- B. Consider the conclusions reached in the earlier steps of management analysis (i.e., paragraphs 11-4 thru 11-7). Make certain that assumptions underlying the deficit calculation correspond with agreements reached on marketing and ongoing operating procedures.
- C. If you determine that the escrow must be increased, document this in the application file and discuss it with mortgage credit staff.

11-9. REVIEWING PROPOSED LEASE. Determine if the lease meets the requirements in paragraph 11-2.G.

11-10. DOCUMENTING MANAGEMENT ANALYSIS

- A. Develop and use a checklist to document your review and approval or disapproval of management agents and fees and your conclusions relating to each step required by this chapter.
- B. Set up management agent files to facilitate future agent reviews. These files should include copies of:
 - 1) Previous Participation Certifications (Form HUD-2530)
 - 2) Management agent profiles
 - 3) On-site review reports with below-average or unsatisfactory ratings and related correspondence
 - 4) Correspondence relating to serious irregularities discovered during financial statement reviews
 - 5) Audit reports and related correspondence
 - 6) Notices of denial of participation, agreements on corrective actions and related correspondence
 - 7) Management agent review/approval checklists

11-11. DECISION LETTERS

- A. If HUD approves 2530 clearance and you find the agent and management fee acceptable, you must give the applicant written approval. Your letter must:
 - 1) Summarize any agreements reached pursuant to paragraph 11-5.C.
 - 2) State the approved management fee
 - 3) Require the applicant and agent to execute and submit the Management Certification shown in Appendix 11a or 11b. The applicant and agent may not change the wording of the certification.

NOTE: Appendix 11a applies to owner-managed projects; Appendix 11b applies to projects with either independent fee managers or identity-of-interest agents.

(11-11) B. If you disapprove the management agent, your letter must advise the applicant that:

- 1) the project may not pay, or incur any obligation to pay, management fees to the proposed agent
and
- 2) the applicant must select another agent.

11-12. PRE-OCCUPANCY REQUIREMENTS.

A. Notification of Intent to Begin Marketing. The owner or management agent must submit this notice to the Field Office Fair Housing and Equal Opportunity (FHEO) Division at least 90 days before beginning marketing activities.

B. FHEO Actions. Upon receipt of the notice describe in Paragraph 11-12.A., the Field office FHEO Division must:

- 1) Review the previously-approved Affirmative Fair Housing Marketing (AFHM) Plan.
- 2) Notify the lender if it wants to participate in the pre-occupancy conference described in Paragraph 11-12.C.

C. Pre-Occupancy Conference. Upon receipt of the notice described in Paragraph 11-12.A., the lender must contact the project owner and management agent to schedule a pre-occupancy conference. The conference should take place before the owner and agent finalize the project's marketing program.

- 1) At the conference, the lender must explain HUD's management and financial reporting requirements and the owner must explain management's plans for marketing and ongoing management of the project. Exhibit 11-1 provides a suggested agenda.
- 2) If an FHEO representative participates, he or she will discuss the implementation of the AFHM plan and determine if the owner's proposed marketing plan must be revised to achieve the objectives of the AFHM regulations.
- 3) The lender must document:
 - o names of persons attending
 - o items discussed

11-13. PARTICIPATING IN CONSTRUCTION COMPLETION INSPECTION. The lender's development staff must notify the management analyst of the date of the construction completion inspection so the analyst can accompany the inspecting architect and/or engineer.

- (11-13) A. Participation in this inspection will enable the management analyst to become familiar with the design and construction of the project.
- B. First-hand knowledge of any incomplete work items will help the analyst in administering any completion escrows after final endorsement.

EXHIBIT 11-1

ITEMS TO DISCUSS AT PRE-OCCUPANCY CONFERENCE

- I. INTRODUCTION
- A. Purpose of conference
 - B. Controlling documents
 - 1. Coinsurance Regulations 24 (CFR Part 251)
 - 2. HUD Handbooks 4566.2 and 4561.2
 - 3. Regulatory Agreement
 - 4. Management Certification
- II. FINANCIAL MANAGEMENT
- A. HUD accounting requirements
 - 1. Uniform Chart of Accounts
 - 2. Comingling
 - 3. Investing project funds
 - B. Fidelity bond requirement
 - C. Mortgage payments
 - 1. Components of payment
 - 2. Late charges
 - D. Operating budget
 - E. Financial reporting
 - 1. Annual statements - when first is due
 - 2. Monthly accounting reports
- III. DISTRIBUTIONS TO OWNERS
- A. Frequency
 - B. Conditions for payment
 - C. Computation of Surplus Cash, Distributions and Residual Receipts

IV. RESERVE FOR REPLACEMENTS

- A. Limitations on use
- B. Procedure for withdrawals
- C. Periodic analysis and adjustment of monthly deposits

V. RENTS

- A. Rent Schedule
- B. Initial rents
- C. Procedures for periodic adjustments

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VI. INITIAL RENT-UP

- A. Marketing plan and schedule
- B. Affirmative Fair Housing Marketing Plan
- C. Permission to occupy

VII. ADMINISTRATION OF SPECIAL ESCROWS

- A. Operating deficit
- B. Construction completion

VIII. OCCUPANCY REQUIREMENTS

- A. Lease
- B. Tenant files
- C. Tenant security deposits
- D. Annual occupancy reports
- E. Nondiscrimination in tenant selection

NOTE: If the project will receive any tenant-based subsidy from HUD, the lender must give the owner and agent copies of HUD Handbook 4350.3, Occupancy Requirements of Subsidized Multifamily Housing Programs (11/81) and 4350.3 CHG-1 (3/85).

IX. MAINTENANCE

- A. Unit inspections
 - 1. Before occupancy, by agent and tenant
 - 2. Recommended annual inspection by owner/agent
- B. Preventive maintenance
- C. Maintenance of as-built drawings on-site

X. PROCUREMENT OF MATERIALS AND SERVICES

- A. Identity-of-interest concerns
- B. Shopping and comparing prices
- C. Taking advantage of discounts

XI. LENDER OVERSIGHT

- A. Guarantee inspections
- B. Annual physical inspections
- C. Management reviews
 - 1. Initial six-month review
 - 2. Periodic based on project conditions and agent performance