

APPENDIX 3. QUESTIONNAIRE

Responses to this questionnaire fulfill the documentation requirements pursuant to 24 CFR 266.10 (d)(4)(iii). All Housing Finance Agencies (HFAs) seeking approval to participate in the HFA Risk-Sharing pilot program who do not have "top-tier" designation or an overall rating of "A" on their general obligation bonds from one of the nationally recognized rating agencies must complete this questionnaire.

The questionnaire addresses 7 different aspects of the HFA and are consistent with conditions set forth in Section 542(d)(2) of the Housing and Community Development Act of 1992. Applicants should be careful to craft responses so that they clearly address the issues and the Acceptability Standards set forth in the body of this Notice. Responses should represent a summary of the detailed information that may be found in the HFA's operating, administrative and quality control manuals. In order to ensure that the Department can expeditiously review and approve applications, ALL NARRATIVE RESPONSES ARE LIMITED TO 15 PAGES. Responses to questions related to the portfolio (item II) may be presented in tabular form, where appropriate, and attached as exhibits to the 15 page narrative responses. The Department encourages HFAs to prepare responses in a manner similar to that which might be used for the HFAs Annual Reports and reports to the Board of Directors.

I. ORGANIZATIONAL HISTORY

Describe the history and organizational background of the HFA. Indicate how long it has been in existence, what is the HFA's mission, when it began to finance multifamily loans, the legal basis for issuing bonds and/or tax credits, and an overall description of its multifamily lending activities.

Describe the HFA's relationship to the State or local government, as appropriate. Describe State or local government interaction with the HFA to address housing needs; the department or division of the State or local government to which the HFA reports. State whether or not state or local government officials serve on the HFA's board of directors and describe, if any, the role state or local officials play in the HFA's program operations.

Discuss any State or local appropriations for the past 5 years and any anticipated appropriations over the next 3 years to support the HFA's housing goals. Describe how the HFA's budget is developed and approved and any State or local approval required to issue bonds or otherwise allocate HFA resources to projects or housing programs.

Identify any problems the HFA or any of its in-house staff or contract employees may have experienced in previous HUD programs and the types of functions performed. Indicate how the HFA will prevent recurrence of such problems.

II. PORTFOLIO INFORMATION

Indicate how many multifamily loans have been financed within the past 10 years (dates specified), by year. Include the number and type of projects (family, assisted living, cooperative, etc.) and units in each, type of loan (first mortgage, second, gap loan, credit support, new construction, rehabilitation, refinancing with or without repairs, etc.) and original mortgage amounts, outstanding principal balances, status (current, default, foreclosed, workout) and location (urban/suburban/rural).

If the HFA has processed fewer than 25 multifamily loans in the past 5 years, indicate how many loan applications the HFA received that were not approved, the reasons they were rejected (include information about type of project, project size, mortgage amounts and locations proposed).

For the multifamily loans currently in the HFA's portfolio, indicate how many are HFA owned, owned by other public agencies, nonprofit organizations, privately owned and other ownership types.

Describe the types of residents served in your projects (family, elderly, etc.). Indicate the median income within the HFA's operating jurisdiction, the percent of units occupied with incomes below 80% and 50% of that median and what is the average size of families served in projects not targeted to the elderly.

III. STAFF CAPACITY

Identify the skills (general background and years of experience in that skill and with the HFA) [Do not attach resumes.] of personnel currently employed by the HFA who will have key responsibilities under the pilot program. Include in-house loan processing, loan management and technical staff (e.g., architects, engineers, construction inspectors, cost analysts, mortgage credit analysts, appraisers, market analysts, loan management, servicing and property disposition personnel), technical review personnel, the person(s) responsible for making overall underwriting decisions (the chief underwriter) and the person responsible for overall loan management, servicing and disposition, including workouts.

Indicate how long this staff capacity has existed in the HFA and the amount of attrition and turnover during the past two years, especially any turnover in key management positions.

Identify any loan processing or management functions performed by contract personnel, HFA qualification requirements for such personnel, procedures followed by the HFA for monitoring performance of, and for reviewing and evaluating work products of, contract personnel, and the experience of the HFA personnel responsible for the monitoring, review and evaluation of contract services.

Describe the counsel on staff or retained by the HFA who are experienced in real estate transactions, bankruptcy, litigation and foreclosure to conduct mortgage loan closings, assist in the

preparation of endorsement packages, and provide legal services in dealing with underwriting and servicing matters requiring legal advice or action.

IV. TECHNICAL CAPACITY

A. Architect, Engineering and Cost

Describe the A&E and Cost services the HFA provides in the development of plans and specifications and the role it plays in reviewing the final plans and specifications submitted for the project. Describe the depth of review (i.e., does the HFA tend to accept documents or reject them until satisfied).

Describe any construction/repair inspection procedures and requirements for project completion and guarantee/warranty/latent defect inspections. For loans involving construction advances, describe the process and criteria for releasing advances.

If any architectural, engineering or cost functions are contracted out, describe the qualification and experience requirements for contractors in each skill.

Describe the controls in place to ensure quality work performance and products whether performed by in-house staff or contractors.

B. Valuation

Describe the qualifications of the HFA's appraisers and their experience in preparing appraisals for multifamily housing. Provide the qualifications of the individual responsible for reviewing those appraisals and his/her authority to make changes in the appraisal documents and/or conclusions.

When any appraisal functions are contracted out, describe the qualification and experience requirements for contract appraisers and the HFA controls in place to assure quality work performance and products.

Describe the controls in place to ensure that all appraisers, in-house or contract, meet program certification and licensing requirements and that all appraisals will be completed pursuant to the Uniform Standards of Professional Appraisal Practice.

C. Market Analysis

Describe the HFA's practice for ensuring that a market exists for the proposed project. State whether the HFA conducts its own market analyses or relies upon studies submitted by the developer/sponsor. Describe who (position) reviews the studies, whether prepared inside of or outside of the HFA, the qualifications of that individual and state whether market findings of principal analyst can be modified or overridden and by whom.

D. Mortgage Credit

Describe the background, qualification and experience in banking, accounting, financing or commercial lending of the individual responsible for the financial analysis portion of loan processing. Describe how the credit/financial analysis will be integrated with the overall underwriting analysis and whether, and/or under what conditions, the analyst's recommendations or findings may be modified.

State whether HFA conducts its own mortgage credit analyses or uses contractors and the HFA's controls to ensure quality performance. Describe whether or not the conclusions can be modified or overridden and by whom.

V. OPERATING PROCEDURES

Provide a flow chart indicating how project-related decisions are made within the HFA. Include the following elements and a brief description of the HFA's operating procedures for each: the HFA's loan origination, processing, market analysis, underwriting, loan approval, closing, cost certification, construction administration, loan management, and loan servicing and property disposition functions. Indicate who (position) is responsible for what functions and when those functions are performed. Describe the HFA's internal controls to assure compliance with HFA procedures.

A. Cost Certification

Describe the HFA's cost certification process and its controls to ensure the absence of fraud and misrepresentation. Describe how the HFA will ensure that costs are legitimate and that all project improvements are in place prior to accepting the certification. Indicate how the cost certification process addresses mortgage excesses and if there are mandatory mortgage prepayments.

B. Loan Approval

If loans are approved by a loan committee or similar body (including the board of directors), state whether the committee can override recommendations of the chief underwriter. If so, describe under what circumstances and what documentation is required to support the override. Describe the composition of the committee.

If there is a loan amount below which loans are not referred to committee or other circumstances under which loans are not so referred, describe the circumstances and describe that approval process.

If loans are normally not referred to a committee, indicate who has the approval authority and his/her position/role/function within the HFA.

If loans are subject to review and/or approval by an entity outside of the HFA, describe such circumstance and the

review/approval process.

C. Loan Servicing

Describe the HFA's overall loan servicing system including its ability to track loans individually, any delinquent loan servicing system, procedures to physically inspect and evaluate mortgaged properties, to control and monitor borrower bankruptcy proceedings, claims filing procedures, and foreclosure monitoring. Describe how the HFA will enforce the regulatory agreement.

Describe the degree to which portfolio oversight is computerized and periodic reports are provided to management, including the board of directors.

Describe the background and experience of the individuals responsible for loan servicing. If contract personnel are used, describe the in-house monitoring procedures used to assure quality performance by the contractors.

Describe the HFA's requirements for project audits and reviews, qualifications for auditors and procedures for resolving management review and financial audit deficiency findings.

D. Workout Procedures

State the number of workout plans the HFA has developed over the last 5 years. Describe several (at least 5) cases where the HFA developed and implemented workout plans for defaulted projects during the last 5 years, the circumstances that led to the workout, the elements of the workout agreement and how well that project is performing against the workout plan. If an agency has had no experience with workouts, describe how workout plan would be developed and identify any tools or strategies, the agency would propose to use to establish the elements of a workout agreement.

VI. FINANCIAL CAPABILITY

Describe the amount and sources of funds the HFA has available to support multifamily housing programs. If funds are earmarked for specific projects or programs, or otherwise have a contingent liability, indicate how much and for what purpose. Indicate how much of the funds are unrestricted, how those funds are governed (e.g., approval of the board of directors or state or local government) and the eligible uses of these funds. Identify any funding sources available to supplement less than break-even projects.

Indicate the overall percentage of total unrestricted funds to total debt and the percentage of liquid unrestricted funds to total mortgages outstanding.

Describe the collateral the HFA will use if it does not have the authority to pledge its full faith and credit to back debentures issued against claims.

Describe how the HFA intends to fund the dedicated account, its procedures for ensuring required balances are in place at all times and that the amounts are increased at each loan closing. Describe the funding source (all funds in the account must be liquid) for the dedicated account and identify the financial institution in which the HFA proposes to maintain these funds.

Describe the circumstances or conditions under which other governmental entities or public bodies have access to the HFA's funds.

Describe briefly, the types of financial and quality control audits performed on the HFA. Indicate the State or local HFA or authority that has responsibility for conducting the annual financial audit and when that audit is conducted.

Describe the mechanism for disposing/resolving audit findings.

Identify any periodic reports required for the board of directors and/or other organizational oversight body.

VII. INVESTMENT POLICIES

Describe how investment decisions are made within the HFA and the level at which they are made. Identify the institutions in which funds are invested, by amount and type of investment. Describe the procedures in place to generate financial reports, changes in fund balances, and changes in financial position. Describe procedures in place for the prompt notification to HUD of negative changes in the HFA's financial position.