

MULTIFAMILY ACCELERATED PROCESSING (MAP)  
LENDER GUIDELINES FOR QUALITY CONTROL PLAN

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Changes are denoted by gray background highlights.

**I. BACKGROUND.**

As a condition of receiving or continuing to receive Multifamily Accelerated Processing (MAP) privileges, Lenders must have and maintain a Quality Control Plan (QC Plan) for underwriting and construction loan administration, if applicable, of insured mortgages processed under the MAP procedures. Each MAP Lender must develop and maintain an acceptable QC Plan and conduct quality control using the guidelines below.

On January 30, 2004, the Department issued Mortgagee Letter 2004-06, a revision to Chapter 6 (Quality Control Plan) of HUD Handbook 4060.1, REV-1 CHG-1, Mortgagee Approval Handbook. Part A (Overall Requirements) applies to multifamily Lenders as well as single-family mortgagees, but is written primarily for single-family operations. Parts B, C, and D are for single-family mortgagees only. This Quality Control Plan of the MAP Guide incorporates, for MAP Lenders, parts of Part A of Mortgagee Letter 2004-06 which are relevant to multifamily or health facilities lending. Part E (Quality Control for Multifamily Servicing) of Mortgagee Letter 2004-06 is applicable to MAP Lenders as well as other multifamily mortgagees.

**II. SUBMISSION OF QUALITY CONTROL PLANS.**

A. A QC Plan is a required exhibit in the MAP application package, Exhibit N.

B. A MAP Lender:

1. Create, maintain and implement a QC Plan.

a. Implement means

1) For a lender that has underwritten less than 10 MAP loans during a 12-month period, it must:

a) Complete the required number of quality control reviews by the end of the year; and

b) Present the findings and recommendations to the senior management committee.

2) For a lender that has underwritten 10 or more MAP loans during a 12-month period, it must:

a) Complete half of the required of quality control reviews every six months; and

b) Present the findings and recommendations to the senior management committee.

**Note:** Implementation requirements established by the January 5, 2005 version the QC Plan Guidelines are modified for a lender that has underwritten 10 or more MAP loans. The date has been moved from **March 31, 2005** to **July 1, 2005**. The implementation date for a lender that has underwritten less than 10 MAP loans remains unchanged. It is July 1, 2005.

b. The MAP Lender, not HUD, chooses the 12-month period in which the loans were underwritten.

2. In accordance with D, below, a copy must be sent to:

US Department of Housing and Urban Development  
Lender Qualification and Monitoring Division (LQMD)  
Office of Multifamily Development  
451 7<sup>th</sup> Street, SW, Room 6138  
Washington, DC 20410

The electronic copy should be sent on a compact disk to the same address.

3. The Office of Multifamily Development will not review the Lender's QC Plan at the time of submission, but will review it before an LQMD team monitors the Lender's operation. As a result of that review, changes may be required.

D. Submit the QC Plan in both paper and electronic formats. An authorized signatory of the Lender must sign the paper copy. Furthermore, whenever the QC Plan is revised updated paper and electronic copies must be sent to LQMD.

E. A MAP Lender must develop its own QC Plan. QC Plans developed by contractors are not acceptable.

**III. POLICY OBJECTIVES.**

The primary objectives of the QC Plan are to assure:

- A. The MAP Lender operates at a high quality performance level in the origination, underwriting, construction loan administration, and closing of MAP processed multifamily insured loans.
- B. The MAP Lender operates in full compliance with the National Housing Act (NHA), HUD-FHA and MAP requirements and its own policies and procedures.
- C. The MAP Lender adheres to the MAP Guide policies and procedures, the MAP Forms Book and clarifications and revisions in Frequently Asked Questions (FAQ), applicable regulations, Mortgagee Letters, HUD Notices and HUD Handbooks, and internal controls.
  - 1. These policies and procedures are distributed to and consistently followed by its personnel.
  - 2. These policies and procedures are supported internally by appropriate training and staff development activities.
- D. The MAP Lender's third party contractor(s) involved in a MAP project are familiar with, understand and adhere to the MAP Lender's policies and procedures regarding quality control.
- E. The MAP Lender's operating procedures are revised in a timely manner to:
  - 1. Accurately reflect any and all changes in HUD-FHA and MAP regulations, policies, directives or instructions;
  - 2. Keep all affected, accountable personnel informed and trained so as to guarantee an immediate compliance thereto; and
  - 3. Assure that all employees and third party contractors are held accountable for performance failures, errors and omissions.
- F. The MAP Lender utilizes a program of internal and external audits that provides for an independent review by MAP Lender's staff and/or contractor(s) who are knowledgeable and have no direct MAP loan origination, underwriting or construction loan administration responsibilities.

**IV. GENERAL REQUIREMENTS OF A QUALITY CONTROL PLAN.**

The QC Plan must clearly describe the requirements for the MAP loan origination, underwriting and construction loan administration, if applicable. The QC Plan must also state the actions the MAP Lender will take to assure acceptable management and comprehensive risk reduction in the lending process.

- A. Each office of the MAP Lender, including its branches if applicable, must maintain or have direct access to copies of the NHA and all HUD issuances, including Part 24 CFR regulations, HUD handbooks, Mortgagee Letters, HUD Notices, MAP Guide, MAP Forms Book, MAP Frequently Asked Questions (FAQs), etc. which are relevant to the MAP Lender's HUD-FHA MAP origination, underwriting and/or construction loan servicing activities.
- B. The quality control review must confirm the following about the Lender's place of business:
- Operations are conducted in a professional, business-like environment. If located in a commercial space, the office is properly and clearly identified, has adequate office space and equipment, and is separated from any other entity by walls or partitions (entrances and reception areas may be shared. If located in a non-commercial space, the office has adequate space and equipment. If it's open to the public, it should be accessible to people with disabilities, including those with mobility impairments.
- C. The documents in A. above must be:
1. Accessible to all employees and third party contractor(s);
  2. Periodically reviewed with appropriate staff and third party contractor(s); and
  3. If maintained in paper format, kept current.
- D. The MAP Lender has procedures in place to:
1. Distribute any electronic information received from HUD to the appropriate employees and third party contractor(s).

2. Notify LQMD of any change in the MAP Lender's:
  - Point-of-contact for the MAP procedures;
  - Name;
  - Address;
  - Email address;
  - Telephone and/or FAX numbers;
  - Underwriter(s);
  - Construction loan administrator(s), if applicable; and
  - Authorized signatory(s).
  
3. Provide annual certifications signed by an authorized signatory of the MAP Lender.
  - a. The annual certification must be submitted to LQMD in Washington no later than June 30<sup>th</sup>.
  
  - b. The certification must:
    - 1) List the names of the lender's approved MAP underwriter(s), construction loan administrator(s), and authorized signatory(s) to bind the lender on MAP loan applications.
  
    - 2) State that
      - a) All MAP underwriters have attended MAP Lender training.
  
      - b) The MAP Lender is currently a HUD approved multifamily mortgagee.
  
    - 3) Contain the following language: **WARNING: "HUD will prosecute false claims and statements. Convictions may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)."**
  
  - c. Submit the certification to:

US Department of Housing and Urban Development  
Office of Multifamily Development  
Room 6138  
451 7<sup>th</sup> Street, SW, Room 6128  
Washington, DC 20410

- E. The MAP Lender maintains or has access to the latest Limited Denial of Participation list (LDP) available on the Internet at:

<http://www.hud.gov/offices/enforce/ecldp.cfm>

- F. The MAP Lender, for each application, checks the latest Debarment list available on the Internet at:

<http://epls.arnet.gov/>

***Note: The Excluded Parties Lists System (EPLS) is the electronic version of the Lists of Parties Excluded from Federal Procurement and Nonprocurement Programs (Lists), which identifies those parties excluded throughout the U.S. Government (unless otherwise noted) from receiving Federal contracts or certain subcontracts and from certain types of Federal financial and non-financial assistance and benefits.***

- G. The MAP Lender does not:

1. Conduct FHA-HUD related business with any person, as defined in 24 CFR 24.105, who is debarred, suspended or subject to a Limited Denial of Participation (LDP).
2. Employ or contact with any individual or firm to perform FHA-HUD related services in origination, processing, underwriting or construction loan servicing who is restricted from participation in HUD/FHA programs. To this end, the MAP Lender must check their employee list and third party contractors every six months to ensure compliance with this requirement.

- H. The MAP Lender retains a copy of the entire case file pertaining to the MAP loan origination, underwriting and/or construction loan administration, either in hard copy or a generally accepted electronic storage format, for example microfilm or scanned and stored on CD Disk, for at least five years from the final endorsement date.

- I. The QC Review:

1. Is sufficient in scope to enable the MAP Lender to evaluate the accuracy, validity and completeness of its MAP operation.
2. Provides for independent evaluation of the information gathered or developed by the MAP Lender for use in the

MAP origination, underwriting and construction loan administration decision processes.

3. Documents whenever deficiencies in processing, underwriting or construction loan administration are found.
- J. Procedures exist for expanding the scope of a QC Review where instances of alleged fraudulent activities or patterns of deficiencies are identified. Other entities or individuals may need to be made part of any ongoing investigation of suspected fraudulent misdeeds to protect their interests as well.
- K. The QC Reviewing official(s) defined in Section III.F. above, will:
1. Document all findings - positive and negative in writing; and
  2. Present each project's QC Review at the next designated committee meeting.
- L. Senior management committee meeting.
1. The meeting must be scheduled to meet on a semi-annual basis to hear the findings and recommendations resulting from the QC Reviews or more frequently if serious quality control issues are present.
  2. Committee members must receive written notification of deficiencies cited as a result of a QC Review before the meeting.
  3. At the meeting, the committee will carefully review and analyze the results of a QC Review and will undertake corrective actions as necessary, including:
    - a. Prompt initiation of corrective actions to address all deficiencies, including procedural problems, as identified;
    - b. Formal documentation of the corrective actions taken by citing each deficiency, identifying the cause of the deficiency, and providing management's response or actions taken;
    - c. Affected third party contractor(s), employees and departments will be notified in writing of such findings, and corrective actions taken to assure



senior management that repetitive or recurring actions will not reoccur;

- d. Prompt distribution to all MAP loan origination, underwriting and construction loan administration personnel including contractor(s) of the corrective instructions for the identified deficiencies;
  - e. Training for the prevention of such activities will be implemented promptly; and
  - f. All remedial actions will be re-reviewed for compliance at the next regularly meeting.
- M. The MAP Lender provides the reported results of its QC Reviews (not the entire review with checklists) to LQMD in HUD headquarters and the corresponding corrective action plans; provides assurance that the information being reported is accurate; all required information is being reported; and the information is reported promptly.

The MAP Lender shall promptly notify LQMD of any violation of law or regulation, false statements or program abuses by the MAP Lender, its employees, its contractors or any other party to the transaction. A MAP Lender's Quality Control Program must ensure that findings discovered by employees during the normal course of business and by the quality control staff during reviews/audits of FHA loans are reported to HUD. Findings discovered by employees during the normal course of business and by quality control staff during reviews/audits of FHA loans are reported to HUD within 60 days of the initial discovery.

If there is a finding of fraud or other serious violation, finding must be submitted in writing to LQMD. If HUD staff is suspected of involvement, the Lender should refer the matter to the Office of Inspector General, Department of Housing and Urban Development SW, 451 7<sup>th</sup> Street, Room 8256, Washington, DC 20410.

- N. The MAP Lender will retain any QC Review and follow-up, including review finding and actions taken, plus procedural information (such as the percentage of loans reviewed, basis for selected loans, and who performed the review) for a period of five years. These records must be made available to HUD on request.
- O. The MAP Lender will periodically review and update the QC Plan.

**V. SPECIFIC REQUIREMENTS OF A QUALITY CONTROL PLAN.**

- A. For the MAP underwriting function.
1. The QC Plan must address how quality control is integrated into the MAP Lender's production process. E.g., before they send the AE&C analyst and appraiser out to do reports, do they have a pre-performance meeting, who attends, what do they discuss, is there a record of it, do they have a follow-up meeting when done, how do they know that something from the meetings requires action? If they do or don't have a pre-performance meeting and a follow-up meeting, how do they quality control the report they get before it is incorporated into the underwriting?
  2. MAP Lenders are expected to exercise prudence and due diligence in determining whether the mortgagor is an acceptable credit risk, with a reasonable ability to make payments on the loan obligation. All documentation supporting the determination of creditworthiness has been retained in the loan file.
  3. The general contractor, if applicable, is an acceptable credit risk, with a reasonable expectation of completing construction of the project. All documentation supporting the determination of creditworthiness has been retained in the loan file.
  4. The property's estimated value, market need, earning capacity, operating expenses, and warranted cost of the property are sufficient for a long-term HUD insured mortgage. All documentation supporting the determination has been retained in the loan file.
  5. The MAP Lender has determined that the new construction/substantial rehabilitation project's design meets all applicable design standards. All documentation supporting the determination has been retained in the loan file.
  6. The MAP Lender has determined that the project's construction/rehabilitation/repair costs are reasonable. All documentation supporting the determination has been retained in the loan file.
  7. The MAP Lender cannot establish minimum loan amounts, "floors," below which they will not lend.

**Note: This is a violation of Section 535 of the National Housing Act.**

8. The MAP Lender must be in compliance with Section 2.5 of the MAP Guide dealing with prohibited identity-of-interest relationships.
  9. The MAP Lender originators:
    - a. Cannot:
      - 1) Perform the role of underwriter for projects they originate.
      - 2) Hire contractors on behalf of the underwriter.
      - 3) ***Small MAP Lenders with limited staff may request a waiver of 1) and 2) above from the Office of Multifamily Development in HUD headquarters.***
    - b. Must certify for each loan conflicts-of-interest with the proposed mortgagor or other transaction participants meaning any individual or company involved on the mortgagor's side of the transaction.
  10. The HUD approved MAP underwriter is a full time employee of the MAP Lender.
  11. The MAP Lender's technical staff and/or third party contractor(s) are knowledgeable of HUD's requirements. Where required by state or local law or regulation, the technical staff or third party contractor must be properly licensed in the jurisdiction where the project is located.
- B. For MAP construction loan administration function.
1. The MAP Lender shall perform construction loan administration in accordance with accepted practices of prudent lending institutions and HUD's requirements.
  2. The HUD approved MAP construction loan administrator(s) is a full time employee of the MAP Lender.

3. The QC Plan must provide for a review of the construction loan administration function in order to:
  - a. Determine that construction loan administration records are promptly established after loan closing and that the servicing records contain the information necessary to properly service the loan.
  - b. Determine that inquiries from borrowers concerning their individual loan accounts are promptly responded to.

**VI. QUALITY CONTROL REVIEWS.**

The following represents the parameters for review, sampling, testing and recording.

A. For Underwriting.

1. Perform a QC Review of a minimum of ten percent of all closed MAP loans for which a firm application was submitted based on the categories listed below.
2. Perform a QC Review at least once a year:
  - a. Of a minimum of one MAP loan for each mortgage insurance program used.
  - b. Of a minimum of one MAP loan for each underwriter used. (Item a is to be met within this item.)
  - c. Example based on MAP Lender XYZ:

<u>2004 MAP Loan Production</u>	
New Construction	20
Substantial Rehabilitation	6
Section 223(f)	20
Section 232	4
Section 232 pur to 223(f)	20
Total MAP Loans Closed in 2004	<u>70</u>

QC Review Requirements

- 1) 10% of all closed MAP Loans 7  
 (One loan for each program type used is covered)

2) QC Reviews based on number of underwriters:  
 (One loan for each program type used is covered)

o 5 Apartment Underwriters	5
o 3 Healthcare Underwriters	3
	8

**Total required QC Reviews Is the greater of 1) or 2)** 8

**Number of QC Reviews requiring field review** 1

3. Track all MAP loans presented by individual loan originators.

a. The term loan originator includes mortgage broker, loan correspondent or packager.

b. Annually submit a copy of the tracking report to:

US Department of Housing and Urban Development  
 Lender Qualifications and Monitoring Division  
 Office of Multifamily Development  
 Room 6138  
 451 7<sup>th</sup> Street SW  
 Washington, DC 20410

c. The first annual tracking report must cover the period from implementation of the MAP procedures forward regardless of where the loan originator may have worked.

d. If either 10% of the loan originator's cumulative dollar value of MAP loans or 10% of the MAP loans involve an election to assign within the first five years following final endorsement then perform a QC Review at least once a year on a minimum of **one MAP loan for each mortgage insurance program** originated by this individual/firm.

4. Track all MAP loans underwritten by individual MAP Underwriters.

a. Annually submit a copy of the tracking report to:

US Department of Housing and Urban Development  
Lender Qualifications and Monitoring Division  
Office of Multifamily Development  
Room 6138  
451 7<sup>th</sup> Street SW  
Washington, DC 20410

b. The first annual tracking report must cover the period from implementation of the MAP procedures forward regardless of where the MAP underwriter may have worked.

c. If either 10% of an individual MAP underwriter's cumulative dollar value of MAP loans or 10% of the MAP loans involve an election to assign within the first five years following final endorsement then perform a QC Review at least once a year on a minimum of **one MAP loan for each mortgage insurance program** underwritten by this individual.

5. QC Reviews look at the quality of work performed by the MAP originators, underwriters and technical staff and/or third party contractor(s).

**For example** a desk review of the project appraisal must be performed on all loans chosen for a QC Review. Ten percent (10%) of all appraisals reviewed must also receive a field review. A person who meets the qualifications of a valuation analyst as listed below must perform desk reviews and field reviews of appraisals.

6. Quality Control Review Staff: QC review staff may be qualified senior staff, not involved in MAP origination or MAP underwriting, or third party contractors. They must meet the qualifications as prescribed below.

**Architectural Analyst:** The technician must have experience in multifamily construction. The technician must be knowledgeable and experienced with local building standards and construction methods for the type of project proposed, including the Federal Fair Housing Accessibility Guidelines. The architectural analyst may also serve as the cost estimator if the qualifications are met as described below.

The person providing the architectural review services should be preferably a registered architect or engineer. However, persons with a degree in architecture or engineering with three years of experience in their respective field, may also provide this service. Additionally, individuals with experience as a construction manager, estimator, general superintendent of construction, draftsman, degree in building construction, may also qualify to provide architectural services

**Construction Cost Analyst:** The construction cost analyst shall be a qualified construction cost estimator with experience in multifamily cost estimating. The estimator must be knowledgeable and experienced with local building standards and construction costs for the type of project proposed. A cost estimator may also serve as the architectural analyst if the qualifications are met.

**Valuation Analyst:** The valuation analyst must meet the following minimum qualification requirements:

- Be a Certified General Appraiser under the appraiser certification requirements of the State in which the subject property is located (temporary licensure is acceptable, so long as the competency provision is met);
- Be currently active and regularly engaged in the appraisal of multifamily properties;
- Meet all requirements of the Competency Rule described in Uniform Standards of Professional Appraisal Practice (USPAP), this applies to each certified appraiser who signs the report;
- Have at least three years of income property appraisal experience;
- Be knowledgeable concerning current real estate market conditions and financing trends in the geographic market area where the subject property is located; and
- Be experienced in appraising multifamily properties with the complexity and characteristics-similar to those of the subject property.

**Underwriting Analyst:** The Lender's underwriting analyst must have basic knowledge and skills in a variety of financial areas, including:

- General experience in banking, accounting, finance, or commercial lending, and in multifamily mortgage financing.

- The ability to analyze corporate financial statements including, but not limited to, balance sheets, income statements, and statements of changes in financial position, and to evaluate the credit acceptability of individuals, partnerships, corporations, and other entities.
- A broad knowledge of lending practices for mortgages and construction loans and the financial structures of individuals, partnerships, and other entities.

***Note: The review appraiser, appraisal firm, construction cost analyst, architect and underwriter working on the QC Reviews cannot be used by that MAP Lender to provide assistance in underwriting any MAP loan of that Lender. However, the individual or firm on contract to perform QC Reviews for one MAP Lender can continue to provide third party contract services to another MAP Lender.***

B. For Construction Loan Administration.

1. Perform a semi-annual QC review of a representative sample of loans that is sufficient in number to provide reasonable evidence that MAP construction loan servicing policies and requirements have been met.
2. Perform a QC Review at least once a year:
  - a. Of each branch office that performs construction loan administration services of MAP insured loans.
  - b. Of each construction loan administrator used.

C. For Problem Loans.

The originating MAP Lender must undertake a comprehensive review and reexamination of any MAP loan it underwrote that goes into default either during construction or within **three years** after final endorsement. This must be done in all cases including those in which the MAP Lender no longer has the loan in its portfolio.

***Note: The Office of Multifamily Development will notify the originating MAP Lender of the need to undertake the review and reexamination.***



- D. For loans purchased/transferred from another MAP Lender.

While not required, we encourage MAP Lenders to perform basic due diligence QC Review on any loan purchased from another MAP Lender.

**VII. QUALITY CONTROL REVIEW REQUIREMENTS FOR UNDERWRITING.**

The purpose is to determine the accuracy and completeness of underwriting conclusions and MAP Lender documentation. At a minimum, the following requirements must be met for QC Reviews of loans underwritten using the MAP procedures.

- A. All processing and underwriting must comply with the applicable provisions of the NHA, Title 24 of the Code of Federal Regulations, the MAP Guide, the MAP Forms Book and MAP FAQs.
- B. All identity-of-interest certifications were properly filed.
- C. Determine whether each loan file contains all HUD-required loan processing, underwriting and legal documents including supporting reports and that all required documents were provided to HUD.
- D. Determine if there was a violation of the Department's prohibition of referral fees. Determine if anything of value was paid directly or indirectly to any person or entity who has received any other compensation from the mortgagor, seller, builder, or any other person for services related to the transaction, or related to the purchase or sale of the mortgaged property. Exception can be made where services were actually rendered, the name of the broker is furnished, and there is no identity of interest between the mortgagee and the broker or the mortgagor and the broker, and the Hub Director has given her or his approval in writing. The broker's fee must be included on the Mortgage Certificate.
- E. Determine if staff allowed third parties to represent the MAP Lender in meeting(s) with the Hub/Program Center to discuss specific MAP projects.
- F. Determine if excess and unallowable fees are being charged to mortgagors. Examples include charging discount points not disclosed on the Mortgagee's Certificate, Form HUD 2434, or at firm commitment, charging larger fees than permitted by HUD/FHA.

**VIII. THE APPRAISAL.**

- A. Determine if the appraiser was properly certified in the appropriate jurisdiction. (Temporary certifications may be acceptable so long as the appraiser meets all competency requirements).
- B. Review appraiser's opinion as to the completeness of the material under review:
- C. For Section 220 or 221(d) appraisal processing:
  - 1. Does the appraiser meet the qualification and competence requirements outlined in the MAP Guide?
  - 2. Is the appraisal a narrative self-contained report that is inclusive of and supportive of all required HUD Form Documentation (HUD 92264, HUD 92264a, HUD 92273 and HUD 92274)?
  - 3. Does the appraisal material have an effective date within 120 days before the date of the pre-application package and firm commitment were submitted to HUD?
  - 4. Does the appraisal include the appraiser's USPAP required certification?
  - 5. Did the primary appraiser designated by the lender and approved by HUD perform the property inspection and sign the appraisal report and supporting form documentation?
  - 6. Did the appraisal include photographs of the subject, the comparable sales and comparable rentals?
  - 7. Does the appraisal adequately describe and analyze the geographic area, neighborhood, rental competition, sales comparables, the site and the subject improvements?
  - 8. Does the appraisal establish the project's "Replacement Cost" in accordance with Section 7.4 of the MAP Guide, and Form HUD-92264 instructions?
  - 9. Substantial Rehabilitation - Does the appraisal include a supplemental HUD 92264 that identifies the "As Is" Value of the improvements, supported by the income and direct sales comparison approaches, as defined in HUD Handbook 4465.1 and the MAP Guide?

10. New Construction - Does the appraisal identify the "Warranted Price of land as defined in HUD Handbook 4465.1 and the MAP Guide?
  11. Does the appraisal identify the "Estimate of Market Rent by Comparison", as of the appraisal date, arrayed in the included HUD-92273 and as defined in the form's instructions?
  12. Does the appraisal identify the project's estimated potential gross income and stabilized occupancy ratio in the included HUD-92264 and as defined in the form's instructions?
  13. If commercial facilities are located within the project, does the appraisal include a separate analysis of the effect the commercial space will have on the project, as outlined in the MAP guide; and does the commercial space meet the income and floor area limitations outlined in the MAP Guide?
  14. If any comparables have rent concessions, did the appraisal accounted for them in the market rental analysis as defined in the MAP Guide?
  15. Does the appraisal identify the project's estimated operating expenses, based upon at least three expenses comparables arrayed in the included HUD-92274, and as defined in the form's instructions?
  16. Does the appraisal properly update the expense comparables, meet disclosure requirements for the comparables, and has the subject property's expenses been updated to the date of the appraisal per Form HUD 92274 instructions?
  17. Does the appraisal identify the estimated operating deficit and replacement reserve requirements, as defined and outlined in the MAP Guide?
  18. Does the appraisal provide an estimation of the maximum insurable mortgage by completing a Trial Form HUD-92264a?
- D. For 232 appraisal processing:
1. Does the appraiser meet the qualification and competence requirements outlined in the MAP Guide?
  2. Is the appraisal a narrative self-contained report that is inclusive of and supportive of all required

HUD Form Documentation (HUD 92264, HUD 92264a, HUD 92273 and HUD 92274)?

3. Does the appraisal material have an effective date within 120 days before the date that the pre-application and the firm commitment application were submitted to HUD?
4. Does the appraisal include the appraiser's USPAP-required certification?
5. Did the primary appraiser designated by the lender and approved by HUD perform the property inspection and sign the appraisal report and supporting form documentation?
6. Did the appraisal include photographs of the subject, the comparable sales and comparable rentals?
7. Does the appraisal adequately describe and analyze the geographic area, neighborhood, rental competition, sales comparables, the site and the subject improvements?
8. Does the appraisal establish the project's fair market value supported by reconciliation of the cost, income and sales comparison approaches in accordance with Section 7.4 of the MAP Guide, and Form HUD-92264 instructions?
9. Does the appraisal establish a total estimated replacement cost and apply all applicable forms of depreciation for use in the final reconciliation process?
10. For Section 232 new construction and substantial rehabilitation, does the replacement cost set the upper limit of value?
11. For substantial rehabilitation projects, does the appraisal establish the "as is" value of the existing land and structures using a supplemental HUD 92264 HCF?
12. For new construction, does the appraisal identify the "Warranted Price of land as defined in HUD Handbook 4465.1 and the MAP Guide?
13. Does the appraisal provide an estimate of the total business value of the property, the estimated

- proprietary income adjustment and an estimate of value attributable to the real estate only? Is the relationship between the two values commensurate with the intensity of the services provided, and in line with the guidance provided in the MAP Guide?
14. Does the appraisal identify the existence of the property's current operating license or Certificate of Need?
  15. Are the bed and residential accommodation charges established based upon comparison for private pay, and the reimbursement formula for Medicaid and Medicare units, as of the appraisal date, and arrayed in the included HUD-92273 and as defined in the form's instructions.
  16. Does the appraisal include an analysis of the current rent roll and current and historic occupancy by payer type (for existing projects)? Does it identify the project's estimated payer mix, potential gross income and stabilized occupancy ratio and does the payer mix meet the requirements mandated by the HUD Guide and defined in the form's instructions?
  17. If commercial facilities are located within the project, does the appraisal include a separate analysis of the effect the commercial space will have on the project, as outlined in the MAP guide; and does the commercial space meet the income and floor area limitations outlined in the MAP Guide?
  18. If any comparables have rent concessions, has the appraisal accounted for them in the market rental analysis as defined in the MAP Guide?
  19. For existing projects, does the appraisal present at least three years of historic expenses, and have the forecasted expenses been based upon the historic operation of the property supported by at least three expense comparables arrayed in the included HUD-92274, and as defined in the form's instructions?
  20. Has the appraisal properly updated the expense comparables, meet disclosure requirements for the comparables, and has the subject property's expenses been updated to the date of the appraisal per Form HUD 92274 instructions?

21. If it is applicable, does the appraisal identify the estimated operating deficit and replacement reserve requirements, as defined and outlined in the MAP Guide?
  22. Does the appraisal provide an estimation of the maximum insurable mortgage by completing a Trial Form HUD-92264a?
  23. If applicable, does the appraisal correctly blend the loan to value ratios for blended rate processing?
- E. For 223(f) appraisal processing:
1. Does the appraiser meet the qualification and competence requirements outlined in the MAP Guide?
  2. Is the appraisal a narrative self-contained report that is inclusive of and supportive of all required HUD Form Documentation (HUD 92264, HUD 92264a, HUD 92273 and HUD 92274)?
  3. Does the appraisal material have an effective date within 120 days before the date of the submission of the application for a firm commitment to HUD?
  4. Does the appraisal include the appraiser's USPAP certification?
  5. Did the primary appraiser designated by the lender and approved by HUD perform the property inspection and sign the appraisal report and supporting form documentation?
  6. Did the appraisal include photographs of the subject, the comparable sales and comparable rentals?
  7. Does the appraisal adequately describe and analyze the geographic area, neighborhood, rental competition, sales comparables, the site and the subject improvements?
  8. Does the appraisal establish the project's fair market value supported by reconciliation of the cost, income and sales comparison approaches in accordance with Section 7.4 of the MAP Guide, and Form HUD-92264 instructions?
  9. Does the appraisal establish a total estimated replacement cost and apply all applicable forms of

- depreciation for use in the final reconciliation process?
10. Does the appraisal identify the "Warranted Price of land as defined in HUD Handbook 4465.1 and the MAP Guide?
  11. Does the appraisal identify the "Estimate of Market Rent by Comparison", as of the appraisal date, arrayed in the included HUD-92273 and as defined in the form's instructions?
  12. Does the appraisal include the current rent roll, a statement of current occupancy, and does it identify the project's estimated potential gross income and stabilized occupancy ratio in the included HUD-92264 and defined in the form's instructions.
  13. If commercial facilities are located within the project, does the appraisal include a separate analysis of the effect the commercial space will have on the project, as outlined in the MAP guide; and does the commercial space meet the income and floor area limitations outlined in the MAP Guide?
  14. If any comparables have rent concessions, did the appraisal accounted for them in the market rental analysis as defined in the MAP Guide?
  15. Does the appraisal present at least three years of historic expenses, and have the forecasted expenses been based upon the historic operation of the property supported by at least three expense comparables arrayed in the included HUD-92274, and as defined in the form's instructions?
  16. Did the appraisal properly updated the expense comparables, meet disclosure requirements for the comparables, and has the subject property's expenses been updated to the date of the appraisal per Form HUD 92274 instructions?
  17. If it is applicable, does the appraisal identify the estimated operating deficit and replacement reserve requirements, as defined and outlined in the MAP Guide.
  18. Does the appraisal provide an estimation of the maximum insurable mortgage by completing a Trial Form HUD-92264a?

**IX. MARKET ANALYST.**

- A. Review appraiser's opinion as to the completeness of the material under review, and determination of overall compliance with market study processing requirements:
1. Does the market analyst meet the qualification and competence requirements outlined in the MAP Guide?
  2. Is the market study a narrative self-contained report?
  3. Does the market study have an effective date within 120 days before the date of submission of the pre-application, or, with refinancing, within 120 days of submission of the application for a firm commitment?
  4. Does the market study adequately describe and analyze the geographic boundaries and general characteristics of the market area, specific market conditions, characteristics of projects under construction and in the planning stages, and contain a supply and demand estimate and analysis and estimated absorption time (if applicable)?
  5. Is the market study prepared in accordance with the information supplied by the MAP lender described in Appendix 4 of the MAP Guide?
  6. Is the market study prepared in accordance with the format prescribed in the appropriate MAP Guide Appendix?
  7. Does the market study include the market analyst's certification?
- B. Review appraiser's opinion as to the adequacy and relevance of the data and the propriety of any adjustments to the data.
- C. Review appraiser's opinion as to the appropriateness of the analysis methods and techniques used:
- D. Review appraiser's opinion as to the analyses, opinions, and conclusions.

**X. ARCHITECTURAL.**



- A. Sections 220 and 221(d), and Section 232, Lender's Architectural Analyst review report:
1. Has the Architectural Analyst determined that the Mortgagor's Architect (or other persons or organizations providing architectural services) is qualified to provide the design services to the project and to administer the construction contract?
  2. Owner-Architect Agreement (AIA Document B-181) (If separate B-181s are required for design and construction services, indicate):
    - a. Are all necessary services included without deletion?
    - b. Is compensation other than fixed fee?
  3. Architectural Standards. Does the Lender's Architectural Analyst review report address:
    - a. HUD Minimum Property Standards
    - b. Applicable building codes
    - c. Accessibility laws:
      - Fair Housing Act
      - UFAS (if Part 504 is applicable)
    - d. Energy efficiency
  4. Does report address the mortgagor's A&E exhibits:
    - a. Are drawings and specs complete and correct?
    - b. Availability of utility service?
  5. Experience and qualifications of general contractor:
    - a. Did the Lender's architectural analyst prepare a written review of the general contractor?
    - b. Does the review indicate acceptance?
  6. Identity of Interest review: Did Lender's architectural analyst perform an Identity of Interest review as described in 6 a, b, and c?
    - a. Is there a description of any and all identities of interest that exist between the owner's

- architect or engineer, the owner, and the general contractor?
- b. Is there a description of any and all identities of interest that exist between the general contractor, subcontractor(s) and material supplier(s)?
  - c. If no identities of interest exist, is this stated?
7. Site visit: Does report address:
- a. Physical features (existing construction, topography, drainage, etc);
  - b. Unusual site conditions, demolition, offsite construction; and
  - c. Environmental conditions/hazards
8. Architectural liaison with mortgagor's Architect:
- a. Is there a processing record of architectural/engineering actions?
  - b. Is there an acceptable journal of architectural actions?
  - c. Is there an organized file of HUD applications, forms, and documents?
  - d. Is there a record of meetings and contacts with the mortgagor's Architect? Is there clear documentation?
9. Liaison with HUD labor relation staff:
- Is there documentation of applicable Davis-Bacon wage rates including verification that the wage rates did not change during processing?
10. Liaison with Lender's cost analyst:
- Has the Lender's cost analyst been supplied with current information concerning:
- Davis-Bacon wage rates;
  - Type of construction, construction methods and materials; and
  - Scope of work to estimate project Architect's fee?

11. Lender's architectural analyst's Review Report of Firm Commitment architectural/engineering exhibits:
  - a. Is there a clear and complete exhibit review list?
  - b. Is there a statement indicating that:
    - Firm Commitment architectural exhibits are acceptable without condition.
    - All deficiencies have been acceptably corrected.
  - c. Does report address:
    - Completeness of contract documents
    - Conformance to local building codes and HUD standards
    - Accessibility for persons with disabilities
    - Site design
    - Building design
  - d. In the event of building design problems, does the report include:
    - Record of successful negotiations with the Architect; and
    - Rejection if resolution is not possible and design does not conform to HUD and or code standards.
12. Preparation of architectural portions of Form HUD-92264:
  - a. Is there a Form HUD-92264 with all architectural portions complete:
    - Section A - Architectural portions
    - Section B - Architectural portions
    - Section C - Unit breakdown with net areas
    - Section D - Architectural portions
  - b. Has the architectural analyst signed the form?
13. Standard Certification:

Did the Lender's architectural analyst submit a Standard Certification (MAP Section 11.2.M)?

14. Mortgagor's Architect's certification:

Is there a Design Architect's Certification (MAP Appendix 5N)?

15. Substantial Rehabilitation projects:

- a. Has the Lender's architectural analyst submitted a report of the Joint Inspection?
- b. Does the report indicate that a complete and thorough inspection was conducted?
  - All features of the project site
  - Sufficient living units
- c. Has the Lender's architectural analyst prepared a report on the mortgagor's Architect's Detail Work Write-up?

Does the report address:

- All general work requirements
  - Specific work requirements
  - Clarity or vagueness of work requirements
  - Historic requirements
- d. Has the Lender's architectural analyst indicated whether there are Engineering Reports?
    - Has mortgagor been notified of requirements?
    - Has exact nature of engineering report been covered?
    - Any special tests?
    - Seismic resistance in applicable seismic zones?

B. Section 232 Additional Requirements:

1. Accessibility: Does Lender's architectural analyst's report address:
  - Fair Housing Act for new construction
  - UFAS for both new construction and sub rehab
  - 100 percent accessibility in both new construction and sub rehab

- Fair Housing Act violations for sub rehab projects must be corrected as a condition of insurance
2. Municipal Authorizations
    - Are all authorizations complete?
    - Are any variances justified in writing?
  3. Mortgagor's Narrative Program:
    - Is the Narrative Program complete?
    - Are bed/unit counts accurate?
  4. Functional obsolescence (sub rehab only):
    - Accessibility
    - Number of residents per room
    - Private access to bathrooms as required by regulation
    - Any decision of owner to retain functionally obsolete elements must be justified:
      - o From a market standpoint
      - o For the entire term of the mortgage
  5. Major Movable Equipment - does Lender's architectural analyst's report indicate:
    - Whether list is complete, adequate, and fully itemized?
    - For sub rehab projects, is list divided into new and existing equipment?
    - For existing equipment, does list indicate age and estimated remaining useful life?
- C. Sections 223(f) and Section 232/223(f) - Lender's Architectural Analyst review report:
1. Liaison with Lender's cost analyst:
 

Is there documentation of contacts regarding:

    - Nature and cost of repairs?
    - Replacement reserve items?
  2. Lender review of Project Capital Needs Assessment (PCNA):
    - a. Does Physical Inspection Report (PIR) address:

- Adequacy of number of dwelling units inspected
  - Condition of project
  - Repair Work Write-up
    - Critical repairs
    - Non-critical repairs
  - Expected component replacement and major maintenance needs
    - Near Term
    - Long Term
    - Remainder
  - Compliance with accessibility laws (for projects built after 3/13/1991).
- b. Does Statement of Resources and Needs address:
- Review and possible adjustment to the PIR
  - Identification of Critical and Non-Critical Repairs
3. Review of mortgagor's exhibits:
- Has Lender's architectural analyst prepared a review report of mortgagor's exhibits?
  - Does report indicate whether exhibits are complete and correct?
4. Preparation of architectural portions of Form HUD-92264:
- a. Is there a Form HUD-92264 with all architectural portions complete:
- Section A - Architectural portions
  - Section B - Architectural portions
  - Section C - Unit breakdown with net areas
  - Section D - Architectural portions
- b. Has the architectural analyst signed the form?
5. Standard Certification:
- Has the Lender's architectural analyst submitted a Standard Certification (MAP Section 11.2.K)?
6. Additional considerations for Section 232/223(f)
- Does Lender's architectural analyst's report address:

- Mortgagor's Narrative Program
  - Is the Narrative Program complete?
  - Are bed/ unit counts accurate?
- Functional obsolescence, regarding
  - Accessibility?
  - Number of residents per room?
  - Private access to bathrooms as required by regulation?
- Any decision of owner to retain functionally obsolete elements must be justified:
  - From a market standpoint
  - For the entire term of the mortgage
- A review of itemized Major Movable Equipment list(s) for completeness and adequacy?

## **XI**     **COST.**

### A.     Sections 220 and 221(d), and Section 232 - Lender's Cost Analyst review report:

1.     Did the Lender hire a qualified construction cost estimator with experience in multifamily cost estimating?
2.     Detailed independent cost estimate: Estimate must provide:
  - a.     Documentation of method of estimation and data source
  - b.     To be summarized on Form HUD-92326:
    - Detailed structure(s) and land improvement cost estimates, and costs of unusual site development
    - Contractor's General Requirements
    - Contractor's General Overhead
    - Contractor's Profit (for non-BSPRA cases)
    - Architect's Design and Supervision fees
    - Bond Premium and Mortgagor's and Contractor's Other Fees
    - Onsite demolition costs
    - Offsite improvements costs
    - Project's Cost Not Attributable (CNA) to dwelling use
    - For sub rehab projects, complete Rehab CNA Worksheet (MAP Appendix 6C).
3.     Preparation of cost portions of Form HUD-92264:

- a. Is there a Form HUD-92264 with all cost portions complete:
    - Section G - Cost portions
    - Section M
  - b. Has the cost analyst signed the form?
4. Review of Form HUD-2328, Contractor's and/or Mortgagor's Cost Breakdown:
  - a. Is HUD-2328 complete and signed by all parties?
  - b. Has Lender's cost reviewer prepared a comparison of Form HUD-2328 and the independent cost estimate on Form HUD-92326:
    - Line item comparison on Form FHA-2331-B
    - Written documentation of resolution of significant differences in Lender's HUD-92326 and contractor's HUD-2328 cost estimates.
    - Has Lender's cost reviewer prepared a written recommendation of approval or disapproval of contractor's HUD-2328?
5. Property Insurance Schedule, Form HUD-92329:
  - a. Has the Lender's cost analyst prepared and signed Form HUD-92329?
  - b. Is there a backup worksheet indicating how the Insurable Value(s) of the project structure(s) were determined?
6. Identity of Interest Review:
  - a. Has Lender's cost reviewer been supplied with Identity of Interest information by Lender's architectural reviewer?
  - b. For Identified general contractor:
    - Does the cost estimate indicate "BSPRA" under Builder's Profit?
    - Has the 50-75% rule been applied to determine whether the contractor qualifies for general



overhead and profit or BSPRA, or should be replaced by the dominant subcontractor?

c. For Identified subcontractors and/or material suppliers:

- Is there documentation that the Identity of Interest subcontract(s) were submitted for prior approval of overhead and profit?
- If any subcontract(s) were not submitted, has overhead and profit been deleted from the accepted contract amount?
- Have letter(s) of approval/disapproval been prepared for the mortgagor and general contractor?

7. Standard Certification:

Did the Lender's cost analyst submit a Standard Certification (MAP Section 11.2.K)?

8. Substantial Rehabilitation projects:

a. Joint Inspection Report and Architect's Detail Work Write-up:

- Does the Lender's cost analyst have a copy of the Joint Inspection report?
- Does the Lender's cost analyst have a copy of the mortgagor's Architect's Detail Work Write-up?
- Do the Joint Inspection Report and Architect's Detail Work Write-up include Reserve for Replacement (R4R) items?
  - Is there an itemized breakdown of R4R items?
  - Does the breakdown indicate the age and remaining useful life of the R4R items?

b. Detailed Cost Estimate:

Does the Lender's cost analyst's detail cost estimate clearly reflect all the scope of work items in the Detail Work Write-up?

c. Reserve for Replacement estimate:

- Has the Lender's cost analyst provided an R4R cost estimate?

- Is the R4R cost estimate itemized and incorporate the remaining useful life for the R4R items?
- Is there a replacement schedule for the R4R items?

B. Section 232 Additional Requirements:

1. Major Movable Equipment (MME):

- Has Lender's cost analyst prepared a cost estimate of MME based on the mortgagor's MME breakdown?
- Is the cost estimate fully itemized?
- For sub rehab projects, is the estimate divided into new and existing equipment?
- For existing equipment, does the estimate indicate age and estimated remaining useful life in determining replacement cost?
- Does the estimate include a replacement schedule for all MME items?
- Does Form HUD-92329 include a line item for MME?

2. Minor Equipment:

Has Lender's cost analyst prepared a bottom line cost estimate of Minor Equipment? (NOTE that no itemized Minor Equipment list or cost estimate is required.)

C. Sections 223(f) and Section 232/223(f)

1. Qualifications of Lender's Cost Analyst and Needs Assessor are acceptable?

2. Liaison with Lender's architectural analyst:

Has Lender's cost analyst been supplied with:

- Sufficient project information to determine a hypothetical "as new" Building?
- A copy of the completed PCNA?

3. Summary cost estimate for hypothetical "as new" building: Estimate provided

a. Documentation of method of estimation and data source

b. Summary "bottom-line" cost estimate:

- Structure(s) and land improvement cost estimates, for hypothetical "as new" building:
  - Contractor's General Requirements
  - Contractor's General Overhead
  - Contractor's Profit
  - Architect's Design and Supervision fees
  - Bond Premium and Mortgagor's and Contractor's Other Fees
4. Preparation of cost portions of Form HUD-92264:
- a. Is there a Form HUD-92264 with all cost portions complete:
- Section G - Cost portions (hypothetical "as new" costs)
  - Section M must be blank.
  - Are Critical Repair costs and Non-Critical Repair costs summarized in Section O?
- b. Has the cost analyst signed the form?
5. Lender Review of Project Capital Needs Assessment (PCNA):
- Does written report address:
- a. Cost portions of Project Inspection Report (PIR):
- Cost of Critical repairs
  - Cost of Non-critical repairs
  - For all deferred non-critical repairs, estimate of required escrow amount.
- b. Expected cost of expected component replacement and major maintenance needs for:
- Near term
  - Long term
  - Remainder
- c. Statement of Resources and Needs recommending:
- Initial Deposit to the Reserve for Replacement, if any
  - Annual (or monthly) deposit to the Reserve for Replacement

- Near Term replacement schedule indicating annual deposits, itemized expenditures, and remaining funds at the end of each year.
- Changes to Needs Assessor's PCNA conclusions.

6. Property Insurance Schedule, Form HUD-92329:

- a. Has the Lender's cost analyst prepared and signed Form HUD-92329?
- b. Is there a backup worksheet indicating how the Insurable Value(s) of the project structure(s) were determined?

7. Standard Certification:

Has the Lender's cost analyst submitted a Standard Certification (MAP Section 11.2.K)?

8. Section 232 Additional Requirements:

- a. Major Movable Equipment (MME).
  - Does the PCNA include a cost estimate of MME?
  - Is the cost estimate fully itemized?
  - Does the estimate indicate age and estimated remaining useful life in determining replacement cost?
  - Does the estimate include a separate replacement and funding schedule for all MME items?
- b. Does Form HUD-92329 include a line item for MME?
- c. Minor Equipment:
 

Is there a bottom line cost estimate of Minor Equipment? (NOTE that no itemized Minor Equipment list or cost estimate is required.)

**XII. LENDER'S UNDERWRITING.**

- A. If new construction or substantial rehabilitation, did the pre-application submission include an acceptable narrative summary, summarizing the market study and extent of competition as well as describe the features of the proposal which may present problems, such as zoning, ground leases, and environmental issues.

- B. Did the Lender's pre-application submission list the proposed MAP Lender reviewers? Were any proposed reviewers rejected by the Hub, and, if so, why?
- C. In the application for the firm commitment, did the Lender provide a narrative analysis, which discussed the characteristics of the project for which mortgage insurance was sought, presenting the reasons that the Lender recommends the loan for mortgage insurance?
- D. Did the Lender's narrative analysis for the firm commitment application discuss the risk factors?
- E. Did the narrative analysis for the firm commitment application properly evaluate the financial capacity and the experience in multifamily housing of the principals of the borrower?
- F. If the application is for refinancing or purchase, did the narrative analysis provide a satisfactory description of the property?
- G. Did the Lender's narrative analyses provide a satisfactory analysis of the market, the rents, and expenses, and the estimated rent-up costs and operating deficit?
- H. For refinancing, did the Lender determine the adequacy of the reserve for replacement?
- I. Did the underwriter make any changes to the appraisal or technical reports? If so, what were they, what was the justification?
- J. At the Lender's request, did the Hub or Program Center Director waive any of the MAP requirements? If so, what requirements were waived and were there justification for the waivers?
- K. At the Lender's request, were any waivers requested by the Hub Director from HUD Headquarters? If so, what were the waivers requested, and was the request approved or rejected and why?
- L. Did the Lender obtain the necessary certifications from the individual reviewers?
- M. Did the Lender certify that the proposed loan represented an acceptable risk to the Department (Section 221d3 or 221d4 or 220) or is economically sound (Section 232, or

223(f) or 232 or 223(f)/232), based upon the Lender's analysis, and that the loan complied with all FHA statutory, regulatory and administrative requirements?

- N. Did the Lender prepare a Master HUD 92264 signed by the Lender's underwriter?
- O. Did the Lender submit an application for a firm commitment within 120 days of the date of the invitation letter. If not, did it request an extension, providing justification for the extension request?
- P. Were any changes made by the underwriter to a technical report's finding, conclusions and/or recommendations. If so, was it documented fully and supported by data.
- Q. Credit reports on businesses and individuals.
1. Determine whether the loan file contains business and individual credit report(s) on the appropriate principals, sponsor, mortgagor, and general contractor, if applicable.
  2. Determine if more than one credit report was ordered on the same principal/company; and if so, whether the most current credit reports were submitted with the loan package to HUD-FHA.
  3. Determine whether any outstanding judgments shown on the credit report(s) were accompanied by an explanation and supporting documentation. If delinquent Federal debt existed, the Lender must have included a letter from the Federal agency in accordance with Section 8.3G of the MAP Guide.
- R. Determine whether verifications of deposit and trade references were sent, received and considered in the project underwriting.
- S. Determine whether all conflicting information or discrepancies were reconciled and properly documented in writing.
- T. Determine that the loan file contains a financial statement(s) on the principals, sponsor, and on the mortgagor. If the project involved new construction or substantial rehabilitation, determine if a financial statement was obtained from the general contractor.

- U. Determine that the financial statements were analyzed following generally accepted business practices to determine financial capability.
- V. Verify that the MAP underwriter determined that the sponsor and/or general contractor had a sufficient level of experience for the type and/or size of project that was approved.
- W. Determine if all negative information about the project and individuals or entities involved in the transaction was disclosed to HUD in the underwriter's written summary.
- X. Determine if the underwriter performed due diligence quality control over the work of the MAP Lender's staff and/or third party contractors used in underwriting the project.
  - 1. Determine if the preparers of the forms/reports/reviews are qualified as required by the MAP guide, and have insurance, if the MAP Guide requires any.
  - 2. Determine if the forms/reports/reviews were prepared in the manner required by the MAP Guide and that the forms/reports/reviews are complete and accurate.
  - 3. Determine if the proposed loan represents an acceptable risk based on the underwriters review and analysis.
  - 4. Determine if the required reports and documentation flowed in a timely manner from one discipline to another.
- Y. Determine that the underwriter analyzed the project's proposed management program. This includes a review of the management agent's past experience and performance to determine the agent's capacity and track record to assure that the development should be managed in a prudent, efficient and cost-effective manner.
- Z. Determine if the underwriter verified the professional used in the environmental review and selected by the sponsor/developer was qualified for the assigned responsibilities
- AA. Determine if the underwriter provided HUD with a narrative report and supporting documentation plus the Phase I Environmental Site Assessment (ESA) or Phase II ESA.

**XIII. QUALITY CONTROL REVIEW REQUIREMENTS FOR CONSTRUCTION LOAN ADMINISTRATION.**

The QC Review of construction loan administration must, at a minimum, meet the following requirements.

- A. Analyze loans for general compliance with HUD-FHA construction loan administration requirements found in the MAP Guide, the MAP Forms Book, and MAP Frequently Asked Questions.
- B. Analyze escrow administration to assure that the escrows are properly funded and that the funds are only used for their intended purposes.
- C. Analyze procedures for collection and recordation of payment receipts; escrow bills; disbursements from escrow; and claim submissions.
- D. Analyze procedures that were use for handling letters-of credit.
- E. Analyze procedures that were use for handling the investment of construction loan escrows.
- F. Analyze the procedures for processing construction loan advances, change orders and notification of surety, cost certifications, and post endorsement escrows.
- G. Analyze delinquent loans and loans in foreclosure to determine compliance with HUD-FHA fiscal requirements and procedures such as timely assignments and extension requests, property preservation requirements and inspections.
- H. Review claim submissions on projects that have not reached final endorsement to assure that all efforts have been exhausted to "work-out" the loan and that all claims are properly documented, supported, and filed in accordance with HUD-FHA requirements.

**XIV. INDEPENDENCE OF QUALITY CONTROL REVIEWS.**

- A. The Quality Control function must be independent of the origination and servicing functions. This independence may be accomplished in a number of ways. Quality control functions may be performed using:
  - 1. **In-house staff.** Lenders may establish a unit that is dedicated solely to Quality Control. Staff performing



Quality Control must not be involved in the day-to-day Processes that they are reviewing.

2. **Outside firms.** MAP Lenders may use knowledgeable outside independent firms to assist in the performance of the QC Reviews.
  - B. The outside source must use the MAP Lender's QC Plan.
  - C. Services provided by an outside firm must comply with the Department's quality control requirements, and must provide written reports to the MAP Lender's senior management. The MAP Lender will be responsible for ensuring these requirements are met.
  - D. The firm working on the QC Reviews cannot be used in underwriting MAP loans.
  - E. Certified Public Accounting (CPA) firms may work on the QC Review. This would be considered non-audit services. However, the same CPA firm cannot provide auditing services for that MAP Lender based on Government Auditing Standards, issued by the U.S. General Accounting Office, since the CPA firm will be reviewing its own work in part, which is a violation of the Independence standard of the Auditing Standards.
  - F. Any agreement with the outside firm must be in writing, state the roles and responsibilities of each party, and be available for review by HUD staff.

**XV. EVENTS LEADING TO CHANGE IN MAP PARTICIPATION STATUS.**

- A. To maintain its MAP eligibility, the Lender must comply with its QC Plan and the underwriting, monitoring and servicing requirements of MAP on a continuous basis.
- B. Failure to comply with these requirements may result in revocation of MAP privileges and/or other administrative sanctions.