

Tips for Lenders and Needs Assessors

The tips that we are presenting today are intended to help lenders avoid some of the issues and reasons for eTool return that we've seen recently.

After an eTool has been returned, the only way to continue processing is a full resubmittal. All attachments must be uploaded and flag responses input each time.

CNA eTool Narrative

Per the CNA eTool instructions, the purpose of the narrative is to provide "free-form text descriptions of various conditions of the property, or other items that may require commentary. Lengthy narrative is not required and is rarely useful," and "an optional space to input any narrative that is pertinent to the CNA and is in addition to the information already provided" (pg. 131).

"Optional space" refers to format. A narrative is a required exhibit.

A narrative is a required exhibit. The narrative can either be submitted within the eTool workbook, or as a separate document uploaded as an attachment.

CNA eTool Narrative

The eTool workbook includes a narrative form organized into 18 sections.

Narrative	
1.0	Executive Summary
2.0	Purpose & Scope
3.1	Overall General Description
3.2	Site
3.3	Structural Frame - Building Envelop
3.4	Mechanical & Electrical Systems
3.5	Elevators
3.6	Life & Fire Safety
3.7	Interior Elements - Common
3.7	Interior Elements - Tenant
4.0	Additional Considerations
5.0	Document Review & Interviews
6.0	Opinions of Probable Costs
7.1	Accessibility
7.2	Intrusive & Other Examinations
7.3	Owner Proposed Improvements
8.0	Assessor Qualifications
9.0	Limiting Conditions

If a separate narrative document is used, it should be organized into the same or similar sections.

A narrative that starts with a TOC very similar to the sections in the workbook might help reviewers to see at a glance that all aspects have been covered.

CNA eTool Narrative

- “lengthy narrative is not required” (Instructions, pg. 131)
- 2,000 character limit in each section of the narrative form.
- Avoid boilerplate unspecific to the property or transaction.
- Do not quote chunks of guidance when referencing sources.
- Do not focus on appearance, formatting, headings.
- Concise is best as long as clearly communicated.

Besides the organization of the narrative, there are questions of length and content. CNA eTool instructions state that “lengthy narrative is not required”.

If assessors use the form in the workbook, there is 2,000 character limit for each section, which also indicates that HUD is looking for brief.

HUD has posted a sample eTool report on the CNA eTool homepage and the narrative in that deal is about 5 pages in length when printed.

Some take-aways are:

HUD does not want to see boilerplate unspecific to the property or transaction.

HUD has also said not to quote guidance from the MAP Guide, ASTM, Fair Housing Design Manual, etc. when referencing sources.

The focus in each section does not need to be appearance, formatting, wording, or even complete sentences as long as the information is clearly communicated.

CNA eTool Narrative

- “...input any narrative that is pertinent to the CNA and is in addition to the information already provided” (Instructions, pg. 131)
- The narrative is only one part of the CNA eTool report intended to be reviewed along with other parts, e.g., schedules produced by the portal, comments in various workbook sections, and flag responses.
- Include observations from inspection and information about the property that is not apparent from the numbers.
- Focus on identification of issues or potential issues in each section. If there are issues, state how the issue is mitigated or should be addressed.

An important thing to remember is that the narrative is only one part of the CNA. It is intended to be reviewed in addition to the other parts of the report such as the various schedules produced by the portal, the comments input in various notes and comment fields and the flag responses.

As the instructions state “...input any narrative that is pertinent to the CNA and is in addition to the information already provided” (Instructions, pg 131)

For that reason, there is no need to include, for example, gross area, number of buildings, unit types, the number of parking spaces at the site, inspection sample, etc., or repeat comments about specific components or recommendations.

On the other hand, lenders have experienced eTools being returned because the reviewer felt the narrative was insufficient. So, what content needs to be included? HUD has recommended that assessors include

- observations from the inspection that expand on the numbers
- identification of issues or potential issues in each section. If there are issues, then also state how the issue is mitigated or should be addressed.

Comments in the eTool Workbook

Worksheet / Section	Field	Use
Component	Remaining Useful Life Comments	Comment to explain the assessor's concluded RUL. Required when the ARUL differs from the standard based on age/year installed.
Component	Notes	General comments for each component
Alternatives	Notes	General comments for each alternative
Repair Replacement Recommendations	Comments	General comments for each recommended immediate repair or future need.

A number of fields for comments existing in non-narrative sections of the eTool workbook. Most of these fields have a 2,000 character limit. Long and wordy is not the goal, just clear communication.

For example, specific comments to explain the assessor's concluded remaining useful life can be input on the Components form. This is required when the assessed RUL differs from the standard based on age / year installed.

Additional comments about condition, unique aspects, etc. can be input in a field called "Notes" in the Components form.

There is also a Notes field in the Alternatives form.

Comments can also be input for each recommended repair or future need RUL.

Comments in the eTool Workbook

- Maximize use of comment fields within the workbook.
- Concise, but clearly communicated.
- Show why the conclusions are appropriate.
- Add detail to support inputs in other fields

The purpose of the comments is to add detail to support what has been input and to show why the conclusions are appropriate.

The advantage of inputting comments over narrative is that these comments remain tied to the particular component or recommendation and can provide additional color not only to the HUD reviewer approving the CNA, but to someone in the future certifying completion of recommendations – either at the time of closing, if a condition of commitment, or to authorize release of funds.

HUD has recommended maximum use of comment fields.

Responses to Flags

- Helpful for assessors to provide initial remarks and explain:
 - Why was the flag triggered?
 - Can the flag be cleared prior to submission?
 - If it can be cleared, what is needed to clear it?
 - If it cannot be cleared, why not?
- The lender's underwriter should review and finalize the responses, explaining the mitigation for each Warning (W) flag.

In addition to comments in the workbook and the narrative, responses to flag are also submitted. It's helpful for needs assessors to provide lenders with initial remarks or comments to explain

- a) Why was the flag triggered?
- b) Can the flag be cleared prior to submission?
- c) If it can be cleared, what is needed to clear it?
- d) If it cannot be cleared, why not?

But, even if the assessor provides initial remarks or draft responses, it is the lender's responsibility to review and finalize the responses prior to submission. The lender's underwriter should analyze the flags and explain the mitigation for each warning flag.

Responses to Flags

What response is required based on flag severity?

Severe (S)	Warning (W)	Informational (I)
Must be cleared; will prevent submission.	Lender response required at submission.	No response or action required.

Severe flags must be cleared or submission is impossible. No need to provide a response to those.

Informational flags may be useful to review, because they may highlight an error, but they do not require a response and they do not need to be cleared. They are informational only.

Only flags with a “W” severity code require a response.

Responses to Flags

- Explain why the recommendation/conclusion is reasonable and appropriate.
- Be as specific as possible, but concise.
- If needed, response can reference extra attachments that have been uploaded along with the submission.

The mitigation for each flag should be easy to understand.

“Here is why we believe this recommendation is reasonable and appropriate”

Be as specific as possible, refer to specifics about the property, component, alternative, specific repairs / recommendations, etc.

Reference specific guidelines if helpful, but do not quote from them (brief is best).

If needed, the mitigation should reference extra attachments that are uploaded along with the submission.

“The property appears to comply with requirements.” Is not enough. Explain how the property meets the requirements, evidence that supports the conclusion that requirement / risk is mitigated, or how the issue can be fixed.

Responses to Flags

Example Flag: Not enough units were inspected in Building 2

- Insufficient response: 25% of units at the property were inspected.
- Better response: __ of __ units were inspected in Building 2. The assessor attempted to inspect __ additional units in the building, but was not able to gain entry, so substituted similar units in other buildings.

Attachments

- 2016 MAP Guide, Appendix 5.G.VII.D.2 lists the required attachments, but has since been amended.
 - R4R Financial Factors Tool is not required (Jan 26, 2018 Bulletin).
 - Chart of Accounts is not required (suspended as of March 2018, announced at the ELA).
 - HUD Forms 92264 and 92329 not required (replaced by portal).
 - No assessor certification required
 - Building plans and specs are often so large that reducing them to 5 MB is not possible. Per HQ, they do not need to be uploaded to the eTool portal in that case. They can be submitted separately with other application documents.

Attachments

Make it easy for the HUD Reviewer to find the individual exhibits.

- Separate each into its own file rather than combining multiple exhibits into a single file.
- Name the file that you plan to upload so that the contents are clear.

Attachments

Example:

Finding a particular document within the attachments can be difficult when they aren't named.

-  CNA Exhibits - part 1
-  CNA Exhibits - part 2
-  CNA Exhibits - part 3

Attachments

Easier to review.

-  Bid - Detailed Interior
-  Bid - Hardiboard
-  Bid - Windows
-  Faucet Invoice
-  Narrative
-  Seismic Hazard Report
-  Termite Report
-  Unit Upgrades Detailed Interior Repair Schedule
-  Zoning Letter

Attachments

Note about Photo Log:

- Not required for new construction. For existing properties only.
- How many photos is enough?

“sites and buildings, unique and typical common spaces, each unit type including all rooms and baths,...photos necessary to document specific locations and/or the nature or content of immediate repairs...actual conditions of every 5th dwelling unit inspected”

- 2016 MAP Guide, Appendix 5.G.VII.D.2.g

Attachments

Photo Log:

- In cases where the number of photos seems unreasonable, communicate with HUD staff to clarify what should be included.
- Try to strike a balance between sufficient evidence to support recommendations and too many photos to review.
- 20 photos is not enough; 900 photos is too many.