

# HUD Large Borrower Review

A Practitioner's Perspective

# ML 2010-21: Risk Mitigation

- “Particular attention and additional scrutiny” to principals with greater than \$250 million of FHA insured debt
- Lender review of REO Schedule determines if the principal meets the \$250 million threshold
- HUD pre-approval required before such principals can apply for additional FHA mortgage insurance

# What were the concerns?

- The Department's Concern – Financial or credit problems could destabilize the principal's FHA insured assets?
- The Industry's Concern – Large Borrowers represent our Top Tier clients and will this approval discourage them from applying for FHA insurance?

# ML 2013-09: Concentration of Principal Risk

- ML provides clarification to the 2010 ML and establishes processing procedures
- \$250,000,000 threshold more clearly defined as currently insured assets plus any proposed additional commitments
- Alternatively, principals with 25 or more commercial assets (includes MF) have the option to seek prior approval even if HUD insurance < \$250 million

# ML 2013-09: Concentration of Principal Risk

- Applies to all applications for FHA multifamily insurance except for 223(a)(7)
- Does not apply to programs administered by the Office of Healthcare
- However, in evaluating the \$250 million threshold FHA insured Healthcare loans do count toward the total

# ML 2013-09: Concentration of Principal Risk

- What do we want to conclude about Large Borrowers?
  1. Is the Principal a credit risk given the performance of currently FHA insured and other properties?
  2. What is a reasonable amount of new FHA commitments to extend?
  3. Are there asset combinations that present credit risk?

# ML 2013-09: Concentration of Principal Risk

- Cont'd

4. Allow HUD to provide efficient credit approvals to Principals who have FHA insured assets across different regions
5. Assist largest users of FHA insurance to plan for future FHA insured transactions

# ML 2013-09: Concentration of Principal Risk

- Pre-Approval is Mandatory – New Pre-Applications or Firm Applications not accepted without Prior Approval
- Technical Support Division of Office of Multifamily completes the review and issues the Prior Approval
- Complete Mortgage Credit Review of Principal required with additional requirement of forecast of material changes in financial position over the following 12 months



# ML 2013-09: Concentration of Principal Risk

- Approvals are issued by HUD to cover a defined timeframe and can include conditions such as:
  - List of new projects for which new applications will be accepted
  - Exceptions on types of projects or geographic markets for proposed new applications
  - Maximum amount of FHA insurance
  - Minimum principal liquidity requirements

# ML 2013-09: Concentration of Principal Risk

- Process or submission of Prior Approval request
  - Designation of Lead MAP Lender – Selected by Sponsor
  - Description of Principal and their roles including contact information, organizational charts and resumes.
  - Full Mortgage Credit review for each Principal per MAP Guide Chapter 8 guidelines

# ML 2013-09: Concentration of Principal Risk

- Process or submission of Prior Approval request (Cont'd)
  - REO Schedule Analysis
    1. All properties owned (FHA insured and not) with individual asset and aggregate portfolio analysis.
    2. For FHA insured assets analyze physical condition (REAC), occupancy and debt coverage.
    3. For non-FHA assets focus on debt maturities and stress analysis (debt coverage less than 1.10)

# ML 2013-09: Concentration of Principal Risk

- Process or submission of Prior Approval request (Cont'd)
  - REO Schedule Analysis
    4. For non-residential assets, Principal or Lender to obtain additional analytical resources (if necessary)
    5. Proposed FHA insured transactions with estimated cash requirements and financing plan to meet those requirements

# ML 2013-09: Concentration of Principal Risk

- Process or submission of Prior Approval request – Other Considerations
  - Succession plan if likelihood of incapacity
  - SEC filings are acceptable if Principal is a publically traded entity
  - Confirmation that the Principal is not a defendant in a legal action involving the Federal Government nor is delinquent on any Federal debt

# ML 2013-09: Concentration of Principal Risk

- Lender Analysis and Recommendation
  - Is ownership and management stable?
  - What challenges confront the Principal and is a plan in place to meet these challenges?
  - Will proposed additions to the Principal's REO Schedule make the portfolio stronger?
  - Is there financial capacity and forecasted cash flow available to meet anticipated needs?
  - Does the Principal have a good track record?

# ML 2013-09: Concentration of Principal Risk

- Technical Division Review and Decision
  - 30 Day Review Period
  - Explain decision identifying areas of strength or weakness
  - Include any proposed conditions to the approval
  - Identify specific proposed transactions for FHA insurance and minimum cash or liquid assets required to close those transactions

# MAP Guide (January 2016) – Chapter 8.6

- For Principals with greater than \$250 million, the Lender must not adjust for the Principal's fractional ownership percentage
- Prior approval required for investors with greater than \$250 million but who wish to invest in future projects in passive role < 25%
- HUD 2530 is a required exhibit to the Lender's Prior Approval submission
- Prior Approval good for 24 months or lesser period at HUD's discretion



# MAP Guide Appendix 8C – Prior Approval Requirements

- Generally consistent with ML 2013-09
- A few notable comments/exceptions
  - HUD will accept a mortgage insurance application subject to Large Borrower approval in certain instances
  - 2530/APPS is an exhibit for each individual application and not for the Prior Approval submission
  - Language referring to organizational charts has been removed (Roles in individual transactions)