

ORCF and HMAc
Monthly Call Agenda
1:00 pm PDT/4:00 pm EDT
August 20, 2018

Invited ORCF Attendees: Roger Lewis, Jennifer Buhlman, Tim Gruenes, Patrick Berry and Susan Gosselin

Invited HMAc Attendees: Ralee Jones, Angela Folkers and Ed Foulon

I. Follow-up items from July 16, 2018 call: **None**

II. ORCF Topics

- a. **\$500± million in claims will be paid out of the insurance fund in 2018.**
 - i. **This will cause a negative impact to the insurance fund and credit subsidy; and potentially changes to the MIP**
 - ii. **Because of this, there are “a lot of eyes on” ORCF**
 - 1. **All the way up to the Secretary’s office**
 - 2. **ORCF to complete detailed reviews to identify trends**
 - 3. **We should anticipate additional scrutiny of applications**
 - 4. **Focus on sponsor experience for all transactions**
 - iii. **Common themes include:**
 - 1. **“Inherited” pre-Lean deals that have problems**
 - 2. **Asset management issues**
 - 3. **Lean deals underwritten in 2011**
 - 4. **Portfolios have taken the biggest hit**
- b. **HUD is trying to be more transparent, not more conservative, in its review of transactions.**
 - i. **Common issues include:**
 - 1. **Fluctuating NOI**
 - 2. **Comparable projects in appraisals do not support value**
 - 3. **Underwriting not addressing state specific issues (say Illinois and Connecticut)**
 - ii. **Portfolios are a greater risk and HUD needs to complete forensic analysis to determine causes for risk**

III. HMAc Topics

- a. **Conference update and preliminary agenda.**
 - i. **Briefly discussed agenda**
 - ii. **Emphasized that HUD participation is critical**
 - iii. **Want HUD feedback on agenda**
 - iv. **So far 35± lenders are participating and 64± companies in total**

- b. It seems like queue has grown the last couple of months.
 - i. It is great that ORCF continues to add staff, but unfortunately is also losing staff. Please give us an update on who has left, who is projected to leave in the short term, what staff has been added and what positions are currently open?
 1. Have hired three appraisers (one in Baltimore, St. Louis and Columbus) and having appraisal training in Denver soon so that all appraisers are consistent with their reviews
 2. There are about ten open Asset Management/Account Executive positions
 3. HUD wants to hire an accounts receivable person from the industry
 4. There are three underwriting positions that have been posted and closed; these should be filled shortly
 5. The Policy Division is hiring a couple of people
 6. There is a vacancy in the Credit Division
 - ii. What is the status of contract underwriting funds through the end of this fiscal year and next? Not sure. Need to get back to HMAC after discussions with Vance Morris.
- c. It is our understanding that ORCF is being presented with multiple portfolios (of all sizes) for which 100% take-out of recent purchase debt is proposed. Historically HUD has been okay with this on the surface as long as it meets certain criteria, but now is crafting additional risk mitigates that have not been there in the past. What are they and why the change?
 - i. Audits have brought to ORCF's attention that loans are getting closed where the client has no equity in the property, which is a risk that needs to be mitigated
 - ii. This has happened even on deals where NOI has decreased after purchase
 - iii. Need to assess, then determine how to mitigate, this risk on a case by case basis
 - iv. Currently thinking of requiring a debt service escrow in an amount that will have to be held longer than the current 12 months of appraisal/underwritten NOI, but Kaizen may be in order to discuss required mitigation
- d. What is the status of corporate credit reviews? We understand that there is a queue now.
 - i. Three Corporate Credit Reviews
 - ii. Two Corporate Credit Review Amendments
 - iii. One in queue
 - iv. Not sure when reviews will be finished, depends upon staffing (need more)
- e. Asset management review of previously insured mortgages. What is its role? Should asset management or production be the decision maker? How can we instill a sense of urgency? This sounds like a specific case and ORCF will follow-up with HMAC. In general, the Account Executives handle 120± deals at a time, which makes it difficult to respond in a timely manner.

IV. Next Call

- a. 1:00 pm PDT/4:00 pm EDT
- b. September 17, 2018