

Recently Completed Properties – aka 3-year Rule Deals

Western Mortgagee Advisory Council
2021 Virtual Conference
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Recently Completed Properties (aka 3-year rule)

- Moderator
 - Raelee Jones, Centennial Mortgage
- Panelists
 - Erica Kodiyan, Underwriting Branch Chief, San Francisco
 - Laura Stutzman, Underwriting Branch Chief, Denver
 - Danny Gallant, HUD Senior Underwriter

Recently Complete Properties

Topics

- I. Statistics
- II. Best Practices
- III. Success Stories
- IV. Release of Holdbacks and Escrows

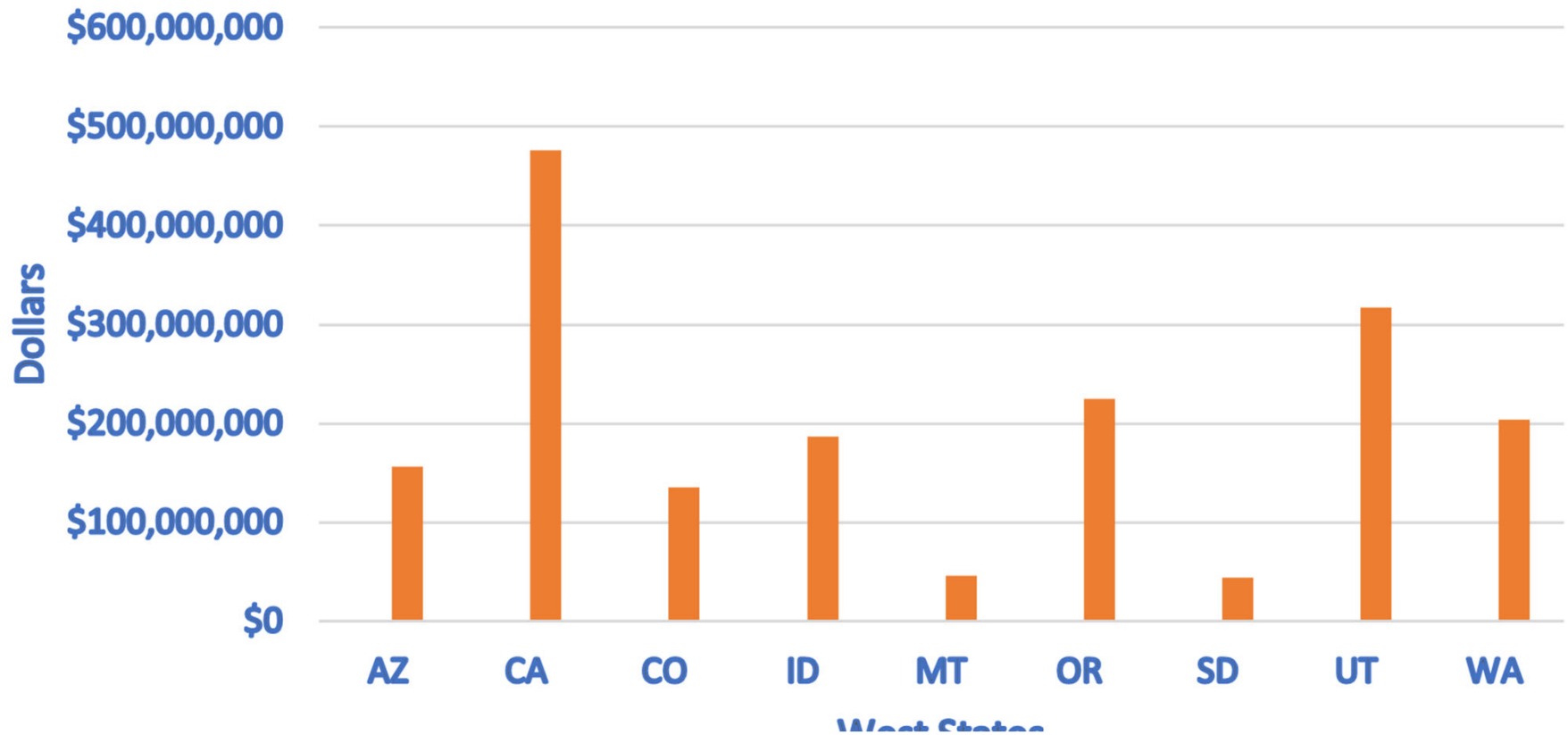
Poll Question

If you are a lender, have you submitted a 3-year rule deal in the West Region?
(Yes or No)

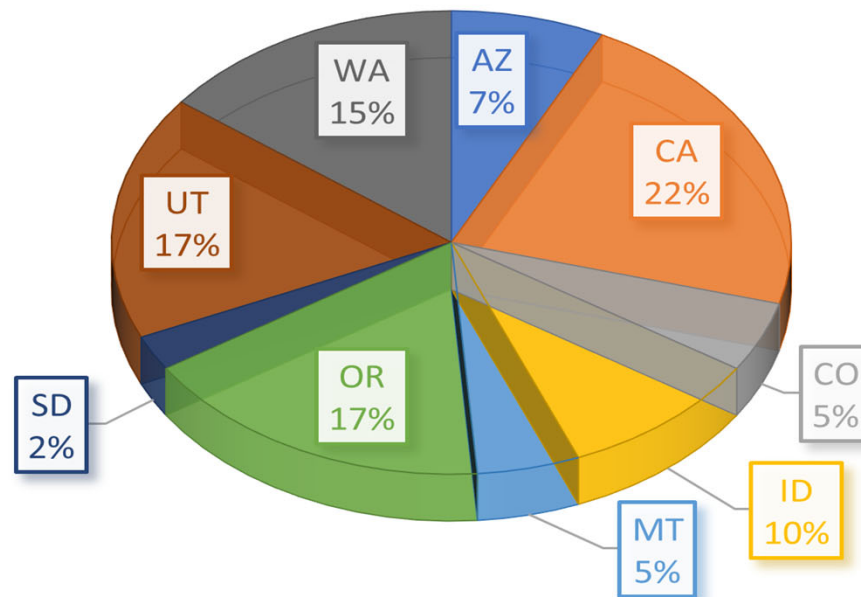
Recently Completed Properties (aka 3-year rule)

- Statistics* on transactions processed and closed
 - 82 deals to date since 2018
 - Number of states: Nine - AZ, CA, CO, ID, MT, OR, SD, UT, WA
 - Dollar volume: \$1,791,824,100
- All numbers are approximate

3 - Year Rule Deals by State in Dollars



3-YEAR RULE PROJECTS WEST REGION \$1,791,824,100



Recently Completed Properties (aka 3-year rule)

- Best Practices
 - Concept Packages
 - Waivers – bring unusual waivers to HUD’s attention
 - ADA and Fair Housing issues
 - Commercial Space
 - Occupancy Information – provide details of physical AND economic vacancy

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- Best Practices (continued)
 - While in the Queue
 - Lender should collect monthly project financials
 - When exiting the Queue
 - Lender should be ready to provide NOI and occupancy info to HUD
 - Management Agents should have HUD experience – otherwise they may need a consultant
 - Telecom income – discount to 30% vacancy {similar to 221(d)(4)}

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- Success Stories
 - Less technical review time required
 - Limited Repairs so eTool approval is generally quicker
 - HEROS reviews have generally been easier
 - Complexity is in getting to stabilized cash flow and “true” occupancy
 - Many are getting cash out, so there is more equity into the markets
 - Asset Management is getting a newer project requiring less maintenance and repairs
 - Green MIP – incentive when submitted to HUD

Poll Question

Has any lender on this call had to request a release of debt service escrow in any region?
(Yes or No)

Recently Completed Properties (aka 3-year rule)

- Release of Holdbacks/Escrows
 - Format to submit requests to HUD
 - West-223fescrowreleases@hud.gov When sending 223(f) and 223(a)(7) escrow release requests to this mailbox, please entitle the email in the following way: Project State - FHA#, Project Name, Draw#.

Required Documents

HUD Form 92464M (Confirming Completion of Repairs)

- COVID Release Certification from Lender (Confirming Lender Review)
- Trailing 3-6 Month Income and Expense Statement (Confirming Required DSCR)
- Profit & Loss Statement (Confirming NOI)
- Escrow Agreement (Confirming All Initial Escrow Balances)

Recommended Additional Documents

- Previous Draws (Confirming Completion of Repairs)
- Firm Commitment (Confirming DSE Special Condition)
- Rent Rolls (Confirming Property Performance)
- Balance Sheet (Confirming Property Cash Position)

Recently Completed Properties (aka 3-year rule)

- Release of Holdbacks/Escrows (continued)
 - What is working –
 - Most deals have been performing as expected so there have been no short-term release requests in the West
 - Requests received –
 - Some requests to release reserves are being made prior to completion of repairs

QUESTIONS?

