

HUD Handbook 4350.1 REV-1 CHG-2 Chapter 6

A PRESENTATION BY:

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Objectives

The updated HUD Handbook 4350.1, Chapter 6 brings significant revisions made to align the on-site tool, form HUD-9834, Management Reviews for Multifamily Housing Projects with current HUD policy.

Today you will learn about

- the new scoring and ratings
- why HUD made these changes
- how your understanding of all the changes will assist you with improving management operations

Background on the change

- Aligns with the Management and Occupancy Review (form HUD 9834) revised over two years ago
- Restores the “Above Average” rating.
- Reflects new realities and distinctions of responsibilities for MORs when performed by a PBCA or HUD staff
- Defines the specific obligations and responsibilities relative to the fair housing section of the document by different participants (PBCAs, HUD, owners/agents and FHEO)

Conducting Management Reviews

- Issued on June 3, 2009.
- Delayed on June 30, 2009.
- The revised guidance in Chapter 6 will not be used until ?????

6-2. Applicability

- Section 207 Rental Housing Insurance
- Section 213 Cooperative Housing Insurance
- Section 220 Rehabilitation and Neighborhood Conservation Housing Insurance
- Section 221(d)(3) and 221(d)(4)
- Section 221 (d)(5) of the National Housing Act (221(d)(3) Below Market Interest Rate
- Section 223 of the National Housing Act
- Section 231 Housing for Elderly Persons
- Section 232 Mortgage Insurance for Nursing Homes
- Section 236 Rental Housing

6-2. Applicability

- Section 202 Supportive Housing for the Elderly
- Section 202/8 Direct Loan Program for Housing for the Elderly or Persons with Disabilities
- Section 202 Assisted Living Conversion Program
- Section 811 Supportive Housing for Persons with Disabilities
- Section 201 of the Housing and Community Development Amendments Act of 1978, as amended (Flexible Subsidy and Capital Improvement Loans)

6-2. Applicability

- Section 101 of the Housing and Urban Development Act of 1965 (Rent Supplement)
- Section 8 Project-Based:
 - Section 8 New Construction
 - Substantial Rehabilitation
 - Loan Management Set-Aside
 - Property Disposition

6-3. Reviewing Officials

Reviewers performing MORs include:

- HUD Office of Asset Management staff;
- HUD Contract Administrators (CA) (Performance Based and Traditional); and,
- Mortgagees of coinsured projects.

6-5. Management Review Form Purpose

The form HUD-9834 is designed to assess the management and oversight of multifamily housing projects and determine the level of compliance with HUD's business agreements.

The form has three parts:

- 1) Desk Review,
- 2) On-Site Review with Addendums, and
- 3) the Summary Report.

The form is available at <http://www.hud.gov/offices/adm/hudclips/>.

Seven Categories on the HUD-9834

- 1) General Appearance and Security
- 2) Follow-Up and Monitoring of Project Inspections
- 3) Maintenance and Standard Operating Procedures
- 4) Financial Management/Procurement
- 5) Leasing and Occupancy
- 6) Tenant/Management Relations
- 7) General Management Practices

6-6. Interrelationships

HUD should not conduct a management review of the same areas for which the CA has oversight responsibility.

CA's are not required to obtain input from HUD staff to determine the overall rating.

The CA's overall rating reflects a review as it relates to compliance with the HAP Contract only.

6-9. Notification to Owners/Agents

Upon completion of the management review, the reviewing official must conduct a close out session with the owner/agent to discuss observations and conclusions.

The reviewer must send the original written report to the owner and provide a copy to the management agent within 30 calendar days from completion of the on-site review.

6-10. Communicating Monitoring Results/Follow-Up

The report will include the Summary Report and Findings. Findings are written in the following format:

- **Condition** – describes the problem.
- **Criteria** – cites the regulatory or statutory requirements that were not met.
- **Cause** – explains why the condition occurred.
- **Effect** – describes what happened as a result of the condition.
- **Corrective Action** –addresses the cause of the finding to prevent reoccurrence. Each corrective action will include a timeframe for the program participant to respond.

6-11. Management Review Category and Overall Rating

Performance Indicators

- Superior (90-100)
- Above Average (80-89)
- Satisfactory (70-79)
- Below Average (60-69)
- Unsatisfactory (59 and below)

6-11. Performance Indicators

Ratings are assigned to each category and are used to determine and monitor owner/agents compliance with HUD requirements.

There are seven categories and each category is assigned a maximum numerical weight.

6-11. Overall Rating

Previous guidance

- When giving an overall rating, the lowest score received in either *Leasing and Occupancy*, *Financial Management* (a HUD-only audit), or *Maintenance and Standard Operating Procedures*, would be the highest possible overall rating that could be achieved.

Example: If the property received a Below Average rating in Leasing and Occupancy, no higher rating could be achieved as an overall rating.

6-11. Overall Rating

New guidance

- Each of the areas is assigned a numeric value and points are assigned based on the level of rating achievement.
- These numbers are factored together to obtain the overall rating.

Numerical weight value based

Categories and maximum numerical weight value based on the level of risk for deficiencies.

- 1) General Appearance and Security **10**
- 2) Follow-Up and Monitoring of Project Inspections **20**
- 3) Maintenance and Standard Operating Procedures **10**
- 4) Financial Management/Procurement **20**
- 5) Leasing and Occupancy **20**
- 6) Tenant/Management Relations **10**
- 7) General Management Practices **10**

Determining the category weight value

To determine the category weight value, the reviewer must use the following method:

For categories with a Maximum Numerical Weight (MNW) of 20

- Subtract 0 for Superior = 20
- Subtract 4 for Above Average = 16
- Subtract 6 for Satisfactory = 14
- Subtract 8 for Below Average = 12
- Subtract 20 for Unsatisfactory = 0

Performance Indicator: Satisfactory

Leasing and Occupancy maximum numerical weight = 20

Subtract the required value for Satisfactory from the maximum numerical weight (20). $20 - 6 = 14$

Category weight for *Leasing and Occupancy* = 14

Divide the category weight (14) by the maximum numerical weight (20). $14/20=0.7$

Multiply the result (0.7) times 100. $0.7 \times 100 = 70$

The category weight for *Leasing and Occupancy* based on a "Satisfactory" is 70.

Numerical weights of 10

For categories with a maximum numerical weight of 10:

- Subtract 0 for Superior = 10
- Subtract 2 for Above Average = 8
- Subtract 3 for Satisfactory = 7
- Subtract 4 for Below Average = 6
- Subtract 10 for Unsatisfactory = 0

Performance Indicator: Above Average

General Appearance and Security MNW = 10

Subtract the required value for Above Average from the maximum numerical weight of 10. $10 - 2 = 8$

Category weight for *General Appearance and Security* = 8

Divide the category weight (8) by the maximum numerical weight (10) $8/10=0.8$

Multiply the result (0.8) times 100 $0.8 \times 100 = 80$

The category weight for *Leasing and Occupancy* based on a "Above Average" is 80.

INSTRUCTIONS: Enter the appropriate information in the highlighted cells

Category	Maximum Numerical Value	Score For Category		
		If Superior enter 0	If Above Average enter 2 or 4	If Satisfactory enter 3 or 6
A. General Appearance and Security	10	2	8	80
B. Follow-up and Monitoring of Project Inspections	20	6	14	70
C. Maintenance and Standard Operating Procedures	10	3	7	70
D. Financial Management/Procurement	20	6	14	70
E. Leasing and Occupancy	20	4	16	80
F. Tenant/Management Relations	10	2	8	80
G. General Management Practices	10	2	8	80
Number of Categories Rated				7
PROPERTY TOTAL SCORE				75.7

PBCA Example w/out Financial Mgmt.

INSTRUCTIONS: Enter the appropriate information in the highlighted cells

Category	Maximum Numerical Value	Score For Category		
		If Superior enter 0	If Above Average enter 2 or 4	If Satisfactory enter 3 or 6
A. General Appearance and Security	10	0	10	100
B. Follow-up and Monitoring of Project Inspections	20	4	16	80
C. Maintenance and Standard Operating Procedures	10	3	7	70
D. Financial Management/Procurement	0	0	0	0
E. Leasing and Occupancy	20	4	16	80
F. Tenant/Management Relations	10	2	8	80
G. General Management Practices	10	2	8	80
Number of Categories Rated				6
PROPERTY TOTAL SCORE				81.67

Proposed Changes

- A revised calculation with appropriate weights.
- Retract overall "Unsatisfactory" requirement for under 60 REAC inspections.
- Clarification for tasks required by HUD staff and PBCA staff.
- Clarification for issuing subsequent limited review reports by HUD staff for properties in the PBCA portfolio.

Proposed Scoring Components

Performance Indicator Values	
Superior	100
Above Average	80
Satisfactory	70
Below Average	60
Unsatisfactory	20

Categorical Percentages	
A. General Appearance and Security	10%
B. Follow-up and Monitoring of Project Inspections	10%
C. Maintenance and Standard Operating Procedures	10%
D. Financial Management/Procurement	25%
E. Leasing and Occupancy	25%
F. Tenant/Management Relations	10%
G. General Management Relations	10%

Example 1

	Performance Indicator	Performance Indicator Value	Percentage of Overall Rating	Calculation
General Appearance and Security	Superior	100	10%	10.00
Follow-up and Monitoring of Project Inspections	Superior	100	10%	10.00
Maintenance and Standard Operating Procedures	Superior	100	10%	10.00
Financial Management/Procurement	Not Rated	0	0%	0.00
Leasing and Occupancy	Above Average	80	25%	20.00
Tenant/Management Relations	Superior	100	10%	10.00
General Management Practices	Above Average	80	10%	8.00
Totals			75%	68

Overall Rating 90.6667 = Superior

Example 2

	Performance Indicator	Performance Indicator Value	Percentage of Overall Rating	Calculation
General Appearance and Security	Above Average	80	10%	8.00
Follow-up and Monitoring of Project Inspections	Above Average	80	10%	8.00
Maintenance and Standard Operating Procedures	Above Average	80	10%	8.00
Financial Management/Procurement	Not Rated	0	0%	0.00
Leasing and Occupancy	Below Average	60	25%	15.00
Tenant/Management Relations	Above Average	80	10%	8.00
General Management Practices	Below Average	60	10%	6.00
Totals			75%	53

Overall Rating 70.6667 = Satisfactory

Example 3

	Performance Indicator	Performance Indicator Value	Percentage of Overall Rating	Calculation
General Appearance and Security	Satisfactory	70	10%	7.00
Follow-up and Monitoring of Project Inspections	Satisfactory	70	10%	7.00
Maintenance and Standard Operating Procedures	Satisfactory	70	10%	7.00
Financial Management/Procurement	Not Rated	0	0%	0.00
Leasing and Occupancy	Superior	100	25%	25.00
Tenant/Management Relations	Above Average	80	10%	8.00
General Management Practices	Satisfactory	70	10%	7.00
Totals			75%	61

Overall Rating 81.3333 = Above Average

Summary Report

No deficiencies noted on the report, no additional action is required.

Deficiencies are noted, the owner must take action to resolve the deficiencies. Targeted Completion Dates (TCDs) must be noted for all deficiencies identified during the review and may not exceed 30 calendar days.

Once all findings have been corrected, the reviewer will send the owner/agent a letter closing the MOR.

Failure to take remedial action

The owner/agent will be subject to sanctions which could include:

- Requiring the owner to replace the management agent;
- Placing a flag against the owner/agent in the Active Partners Performance System (APPS) and,
- Referring the owner/agent to the DEC to initiate a limited denial of participation or other administrative sanction.

6-14. Appeals Procedures for Owners/Agents

A. Initial Appeal to the HUD Field Office

B. Final Appeal

Decisions rendered by the Multifamily Hub Director will be final and will not be subject to further appeal.

Limited Review Ratings

- For HUD-insured projects that are reviewed by CAs, HUD may conduct a limited review of the remaining section (Financial Management/Procurement) to assess owner/agent compliance with the regulatory agreement and other agreements.
- The Limited Review would be performed by HUD staff to determine owner/agent compliance.
- CAs are limited to completing certain sections of the management review form to determine compliance with the HAP contract.

Using the MOR to Improve Operations

- The most heavily weighted categories are:
 - 1) Financial Management/Procurement
 - 2) Leasing and Occupancy
- Of these, the highest impact on the outcome of the MOR is Leasing and Occupancy

Using the MOR to Improve Operations

Financial Management/Procurement

- This section applies only to HUD Staff and/or Mortgages as indicated.
- Applicable for all HUD-Insured Projects
- **PBCAs/CAs are not required to complete this section.**
- Owners need to use this section, regardless of the reviewer to ensure that they have adequate financial controls and processes in place and that they are being followed.

Importance of the Housing Disabled Surveys

- This inventory is designed to assist prospective applicants with locating units in HUD insured and HUD subsidized multifamily properties that serve the elderly and/or persons with disabilities
- Surveys for all states are located on the Multifamily Inventory of Units for the Elderly and Persons with Disabilities website:
<http://www.hud.gov/offices/hsg/mfh/hto/inventorysurvey.cfm>

