Mr. Ethan Handelman
Deputy Assistant Secretary for Multifamily Housing
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Re: Request for extension of May 26, 2022 Administrative Memorandum "Queue Management Modification – Transitioning Section 221(d)(4) Pre-Applications to Firm Applications"

Dear Mr. Handelman:

The FHA Lender members of the Mortgage Bankers Association (MBA) respectfully submits to the Department of Housing and Urban Development this request to extend the expiration date of the May 26, 2022 memo allowing the transition of 221(d)(4) pre-applications to firm applications. The current 120-day effective date ends September 23, 2022, an extension to March 2023 is proposed.

Background

The administrative memo provided a temporary procedure to allow 1) submission of eligible pre-applications in the underwriter assignment queue to convert to a firm application and 2) future eligible applications to submit a direct to firm application. The reason for implementing the change is noted as a response to the "current market conditions for new construction/substantial rehabilitation of rental housing". The cumulation of increasing interest rates, inflation and construction materials supply chain issues have resulted in unprecedented pressures on the feasibility of new construction and substantial rehabilitation developments. Direct to firm applications capture current market conditions resulting in more reliable, efficient reviews and reduces stress on resources.

Justification for Extension

Projects eligible to submit direct to firm applications were in various stages of completion when the memo was issued. Under typical circumstances finalizing a 221(d)(4) firm application within 120 days is difficult to achieve unless the project team begins the process immediately after the pre-application is submitted. Market conditions in the current environment create additional delays in the application process adding to the difficulties of meeting this timeframe.

Construction material cost increases and supply chain issues continue

Ripple effects of pandemic shutdown and slowdowns at manufacturing facilities continues to impact the availability of construction materials. Most recently latex materials, joint compound, drywall, ceiling tile and insulation are experiencing tight supplies and/or significant cost increases. The increased price of fuel is hitting transportation costs at multiple points in the materials supply chain from initial delivery of raw materials through delivery of materials to construction job sites. Transportation costs are also impacted by an ongoing truck driver labor shortage and increased salary costs to entice employment in a sector that has had difficulty attracting new workers to fill vacancies. Backlogs of materials and increased costs continue to plague 221(d)(4) new construction and substantial rehabilitation projects.

Construction costs are difficult to secure and hold in the currently volatile materials and labor cost markets. This difficulty is compounded by a two-stage application process which requires re-bidding of construction plans at multiple stages increasing the probability of price changes. When development costs increase often the project must return to the architect for value engineering and the cycle of adjusting costs begins again, creating further delays. Direct to firm applications reduce the number of bidding iterations which reduces delays.

Third party report delays impact timing

The significant increase of multifamily financing and sales in recent years have put a pinch on third party report vendor's capacity. Third party vendors, in particular appraisers and market analysts, are quoting six to eight weeks for a draft report, in excess of two to three weeks additional time due to their volume of work. Difficulties securing and finalizing construction plans and costs creates a domino effect that further impacts the timing of appraisals, market studies, architectural and cost reviews and green MIP (SEDI) reports. Allowing direct to firm applications reduces the number of third party reports and updates to reports required for an application reducing costs and minimizing potential delays.

Closing

We urge HUD to extend the Direct to Firm memo expiration date to March 2023 as the industry continues to grapple with fluctuating market conditions. Increasing costs, volatile construction supplies and third-party report delays impact the ability to complete a firm application within the allowed 120 day timeframe. Additionally, many applications currently in the assignment queue require updating due to the passage of time. Direct to firm applications are a beneficial approach as they provide comprehensive, current information eliminating assignment interruptions, minimizing processing delays and improving efficiency throughout the system. Improved efficiency relieves demands on resources and has a positive impact on the shared goal to reduce the number of applications in the queue.

Thank you for considering this request and your continued efforts to examine process options sensitive to current conditions impacting the industry. We are grateful for your continued partnership in developing and strengthening the multifamily MAP loan programs. Please feel free to contact me at Debbie.VanHoosen@berkadia.org with any questions or for more information about this subject.

Sincerely,

Debbie VanHoosen

Debbie VanHoosen
Chair, MBA FHA Committee

CC: Tom Bernaciak
Stephanie Milner, MBA
Karen Wipper, Vice-Chair MBA FHA Committee