



January 11, 2016

Robert W. Errett  
Deputy Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090

Re: Supplemental Information Regarding Multifamily Rental Housing Finance –  
Proposed Rule Change to Amend FINRA Rule 4210 (Margin Requirements) to  
Establish Margin Requirements for the TBA Market; File No. SR-FINRA-2015-036

Dear Mr. Errett:

The Mortgage Bankers Association (MBA) is writing to provide *supplemental comments* with regard to the Securities and Exchange Commission's request for comment on the proposed Financial Industry Regulatory Authority (FINRA) rule to amend FINRA Rule 4210.<sup>1</sup> This submission incorporates by reference MBA's Nov. 10, 2015 [letter](#) and our prior letters addressing the multifamily housing finance market. We also appreciate the Commission and FINRA's action to extend the time for action on the Proposed Rule, given the complexity of the Proposal and the detrimental impact it could have on the financing of multifamily rental housing.<sup>2</sup>

We continue to believe that the multifamily housing and residential healthcare agency markets<sup>3</sup> should not be subject to the proposed margin requirements during the multifamily agency financing and securitization process.<sup>4</sup> The multifamily housing finance market was not the reason why the proposed margin requirements had been developed (as evidenced by the absence of multifamily-related economic analysis or substantive discussion in the Proposal), nor does this market present the systemic and counterparty risks that appear to have motivated the development of the Proposed Rule. Strong safeguards already exist in multifamily agency finance, including the use of a Good Faith Deposit for the benefit of the broker-dealer/investor, stringent oversight by the agencies, and underwriting and business protocols that align the interests of the parties to the multifamily lending transaction. The Proposed Rule should clearly

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<sup>1</sup> Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 4210 (Margin Requirements) to Establish Margin Requirements for the TBA Market, 80 FR 63603 (Oct. 20, 2015) (Proposal or Proposed Rule).

<sup>2</sup> Letter from FINRA to the SEC, dated Nov. 10, 2015.

<sup>3</sup> Multifamily housing generally refers to rental housing properties with five or more dwelling units. This includes rental apartments, affordable rental housing, seniors housing and residential healthcare properties (assisted living, skilled nursing, senior living communities, and other facilities), as well as manufactured housing communities and student housing.

<sup>4</sup> Our comments are focused on new issue multifamily agency securitizations, rather than trades of such securities following settlement in the secondary market.

*exclude* new issue multifamily transactions from coverage under the proposed margin requirements.<sup>5</sup>

### Multifamily Rental Housing -- Underwriting and Due Diligence Processes

We believe that additional information about the nature of lending on multifamily rental housing and the process itself would be helpful in understanding this market and why this market should be excluded from the Proposal. The two attachments illustrate the prescreening, underwriting and issuance process for typical multifamily loans under (1) the Fannie Mae Delegated Underwriting & Servicing (DUS) multifamily program, and (2) the U.S. Department of Housing & Urban Development (HUD)/Federal Housing Administration's (FHA) section 223(f) program (as an example) that is securitized through the Government National Mortgage Association (Ginnie Mae). The process and activities described in the attachments align the interest of the parties to the multifamily finance transaction to complete the transaction and deliver the security to the investor. This, in turn, acts as a strong mitigant against trade fails. Notably, the credit performance of the multifamily agency portfolios has been exceptionally strong as well.<sup>6</sup>

While the two programs differ, the underwriting and due diligence processes are extensive for both. In each case, the lender engages in a detailed examination of the multifamily property, an income-producing asset, including a property inspection, appraisal, engineering, environmental and structural assessments, a careful review of the financial details of the property, and a review of the geographic market in which the property is located. The lender also carefully evaluates the borrower entity, its key principals, financial capabilities, and historical performance in owning and operating income-producing real estate. The process is comprehensive, and the interests of the borrower and lender are aligned.

If all underwriting requirements, contractual terms and agency-provided guidelines are met, a rate lock agreement is executed between the borrower and the lender on an identified, underwritten multifamily property. The borrower has a strong incentive to lock the interest rate as soon as possible to solidify loan terms. The rate lock is a legally binding commitment, which, among other things, requires a Good Faith Deposit to be provided to the lender. *The Good Faith Deposit is paid to or held for the benefit of the broker-dealer or the investor of the security.*

The Good Faith Deposit is one of numerous safeguards that that incentivizes the borrower to complete the transaction. At the time the Good Faith Deposit is posted, the borrower entity likely would have already gone through the underwriting process, including the performance of an appraisal, engineering and environmental analyses – paying significant sums for such third-party reports. The borrower has also contractually agreed to close the loan at a certain interest

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<sup>5</sup> At a minimum, the Commission and FINRA should expressly treat the *Good Faith Deposit (held by/for the benefit of the broker-dealer/investor)*, as discussed in our Nov. 10, 2015 letter, as fully satisfying (and serving as a maximum cap) for any and all proposed margin requirements, including “variation” margin. Importantly, the amount of the good faith deposit should continue to be determined by the applicable agency (GSE or HUD/FHA/Ginnie Mae), rather than through a one-size-fits-all amount dictated by any potential margin requirements.

<sup>6</sup> For November 2015, Fannie Mae's multifamily portfolio had a 7 *basis point* 60-day delinquency rate, and Freddie Mae's multifamily portfolio had a 3 *basis point* 60-day delinquency rate. Publicly-available data on the FHA multifamily loan portfolio (which does not include healthcare loans) that Ginnie Mae securitizes through multifamily MBS had a 15 basis point 60-day delinquency rate as of September 2015. Credit performance during the recession was strong as well; see, e.g., Fannie Mae multifamily data from Jan. 2006 through Dec. 2013: [http://www.fanniemae.com/resources/file/mbs/pdf/mbsenger\\_25yrs.pdf](http://www.fanniemae.com/resources/file/mbs/pdf/mbsenger_25yrs.pdf) (page 4).

rate. If the loan fails to close, the borrower may also be liable to the lender for all damages, obligations and liabilities relating to a in an amount equal to the lender's liability to its counterparty on the trade, the investor.

At the time the lender locks the rate on the loan with the borrower, the lender is, in effect, selling the loan (at the terms and rate identified with the borrower) on a forward-settling basis to a broker-dealer or institutional buyer, who is a sophisticated party able to hedge its exposure to market risk. The trade is documented in a Trade Confirmation Letter that is signed by both parties upon execution of the trade and specifies the terms of the specific underlying loan and identifies the security. This documentation includes terms for the purchase price, amount of the Good Faith Deposit held for the benefit of the broker-dealer/investor, delivery, extensions, settlement, and other representations and warranties.

Through this trade, the lender hedges its interest-rate risk during the time of the rate lock until the time the loan is securitized and delivered to the dealer or investor. (As a result, under the terms of the "mortgage banker" exemption in the Proposed Rule, we believe that multifamily mortgage bankers would be exempt from the maintenance margin requirement regardless.<sup>7</sup>) The lender also manages its counterparty risk by performing due diligence on the borrower entity, the income-producing multifamily rental property, and the broker-dealer, including but not limited to the review of financial statements, credit ratings, and establishing counterparty exposure limits.

Given these strong safeguards imbedded in the multifamily loan underwriting process, we believe the Proposal should exclude new issue multifamily finance transactions from the proposed margin requirements.

#### Distinctions between Multifamily and Single-Family Processes

Additional clarity around distinctions between the multifamily finance market and single-family mortgage finance, which, again, appears to be the focus of the Proposal, may be helpful to the consideration of the Proposed Rule. As previously indicated, multifamily housing refers to rental housing properties with five or more dwelling units and includes rental apartments, affordable rental housing, seniors housing, student housing, and residential healthcare properties. Residential healthcare properties include a range of property types, including seniors housing such as assisted living, skilled nursing and other facilities. Multifamily rental housing, by its very nature, tends to be affordable. The vast majority of rental units financed by the agencies and their lender partners are affordable to households at median-income and below.

The multifamily agency securitization process differs considerably from that of the single-family TBA market. For the forward-settling portion of the multifamily agency market, a security is backed by a particular loan collateralized by an identified and unique underwritten multifamily housing property — rather than a pool of single-family mortgages that have not yet been identified at the time the trade is initiated. In substance, the asset purchased by the investor in the multifamily agency security is much more akin to a whole loan; its form as a security simply provides greater liquidity and the agency guarantee to the investor. The lender and broker-dealer in the multifamily agency market are intermediaries that ultimately connect the borrower/owner to the investor of the security. The underwriting process is subject to rigorous agency guidelines and oversight (e.g., GSE, Ginnie Mae, and HUD/FHA) that govern the

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<sup>7</sup> 80 Fed. Reg. 63607.

origination of the loan and the lender itself. This is true in the case of FHA's construction lending programs securitized through Ginnie Mae as well.<sup>8</sup>

Forward-settling Multifamily Mortgage-Backed Securities (MBS) transactions are very different than standard trading in the Agency Single-Family Residential Mortgage-Backed Securities (RMBS) market. Agency RMBS trade on regular, industry-wide settlement dates. Once the appropriate settlement date for RMBS has passed, trading rolls to the next month's settlement date. This means nearly all RMBS trades are "forward settling." Single-family mortgage originators typically sell TBA commitments as they originate the underlying loans. (The "TBA" concept is governed by guidelines that establish a broad set of characteristics that must be met in order for a "good delivery" for an RMBS trade to occur – as long as these criteria are met, an RMBS TBA trade can be filled with a newly originated MBS or a seasoned RMBS CUSIP.) RMBS TBA pricing is "homogenous" in that these trades are priced on a daily basis.<sup>9</sup>

By contrast, trading mechanisms for RMBS do *not* exist or are simply *not* workable for Multifamily MBS due to the heterogeneous nature of Multifamily MBS (and the underlying asset).<sup>10</sup> In the Multifamily MBS market, forward-settled trades are used for newly originated mortgages on a specific property. When a rate lock occurs, the underwriting is nearly complete, the loan is being created and will be exchanged for a specified MBS in the future. The forward-settling timetable for Multifamily MBS is unique to each commitment. The settlement period is designed so that the mortgage banker can set the terms of the borrower's loan, close the loan and complete the required administrative work to deliver that loan in exchange for a specific Multifamily MBS.

For the foregoing reasons, we urge the Commission and FINRA to exclude new issue multifamily transactions from coverage under the margin requirements. Please contact me or Thomas Kim, MBA Senior Vice President, at [REDACTED] with any questions.

Sincerely,



David H. Stevens  
President and Chief Executive Officer  
Mortgage Bankers Association

Attachments

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<sup>8</sup> In the context of Ginnie Mae/FHA new construction/substantial rehabilitation loans, MBA would view any potential margin requirement ending once the initial construction loan certificate (CLC) is delivered, given that the counterparty risk shifts to Ginnie Mae at that time. Initial endorsement by HUD/FHA is for the entire loan amount, consistent with the Ginnie Mae Prospectus that is issued. When a broker-dealer settles on the purchase of the initial CLC, the note and Prospectus are delivered as evidence of the Ginnie Mae MBS (full quantity).

<sup>9</sup> The homogenous nature of forward RMBS trading allows for secondary market activities like the Dollar Roll, Coupon Swap, Agency Swap and Coupon Butterfly.

<sup>10</sup> As a result, the concept of mark-to-market for multifamily MBS presents extraordinarily difficult challenges. See MBA Nov. 10, 2015 Letter, p. 10 - 11.

# Overview of Fannie Mae Multifamily Prescreening through Issuance Processes

## Prescreening (Guide Parts IIIA - C)

<b>Days 1 - 10</b>	<b>1. Lender receives Borrower's loan application for the specified property</b>	
	<b>2. Lender performs initial due diligence on the specified property</b>	
	<b>a</b>	Calculates loan sizing on the Fannie Mae spreadsheet
	<b>b</b>	Analyzes the current rent roll
	<b>c</b>	Analyzes YTD and historical property operating statements
	<b>d</b>	Reviews the Borrower's budget
	<b>e</b>	Analyzes 12 months of rental collection history
	<b>f</b>	Prepares sources and uses of funds statement
	<b>g</b>	Collects photographs
	<b>h</b>	Prepares prescreen memo including loan request
	<b>3. Lender determines if Fannie Mae Pre-Review is required for the specified loan</b>	
	<b>a</b>	Submits supporting documents to Fannie Mae for review
	<b>b</b>	Obtains Fannie Mae approval
	<b>4. Lender issues application to the Borrower for the specified loan</b>	
<b>5. Borrower signs application for the specified loan</b>		
<b>6. Borrower pays Lender an application fee and a deposit for the third party reports (approximately \$15,000) for the specified loan</b>		

## Underwriting (Guide Parts IIIA - C)

<b>Days 11 - 45</b>	<b>1. Lender orders third party reports for the specified property</b>	
	<b>2. Lender and third parties perform due diligence on the specified property</b>	
	<b>a</b>	Appraisal
	<b>b</b>	Property Condition Assessment
	<b>c</b>	Site Inspection
	<b>d</b>	Environmental Assessment
	<b>e</b>	Zoning Report
	<b>3. Lender reviews the Borrower's organizational structure</b>	
	<b>a</b>	Reviews organizational chart
	<b>b</b>	Reviews organizational documents of the Borrower and of each Principal and Key Principal, if an entity KP
	<b>c</b>	Reviews resumes for each individual Key Principal and Principal.
	<b>d</b>	Analyzes financial statements, including Schedule of Real Estate Owned for Borrower, Key Principal and Borrower Principals (if more than 25% interest).
	<b>e</b>	Performs credit checks for each KP/Principal and the Borrowing entity
	<b>f</b>	Verifies significant deposits to evaluate borrower's liquidity.
	<b>g</b>	Reviews bank references.
	<b>h</b>	Reviews the Borrower's mortgage loan payment record for the last two years, if refinance.
	<b>i</b>	Receives an executed Underwriting Certification from the Borrower, Key Principal, and Principals
	<b>j</b>	Reviews results of credit checks, ACheck, and OFAC
	<b>4. Lender reviews the management of the specified property</b>	
	<b>a</b>	Reviews the Property Management Agreement.
	<b>b</b>	Reviews a list of all Property staff expenditures, including any free or discounted units.
	<b>c</b>	Reviews statements indicating what costs, if any, are shared with other properties.
	<b>5. Lender evaluates the condition and location of the specified property</b>	
	<b>a</b>	Reviews the certificate of building code compliance
	<b>b</b>	Reviews a list of major repairs and capital replacements for the year-to-date and the previous three years.
<b>c</b>	Reviews the termite inspection report or a termite bond	
<b>d</b>	Reviews certificates of occupancy.	
<b>e</b>	Reviews maps and photographs	

## *Overview of Fannie Mae Multifamily Prescreening through Issuance Processes*

**Days 11 - 45 continued**

<b>6. Lender underwrites the specified property</b>	
a	Analyzes the project's rent roll
b	Analyzes the property's operating statements for the last three full years, as well as YTD
c	Reviews the Borrower's budget
d	Reviews the past 12 months rental collections
e	Reviews the monthly occupancy history for past 12 months
f	Prepares a sources and uses of funds statement
g	Reviews a copy of the standard Lease Form/Property Brochure/Competitive Market Survey for the property
h	Reviews copies of historical bills or assessments <ul style="list-style-type: none"> <li>• tax bills (3 years and most recent notice if available)</li> <li>• insurance bills for Refinance or proforma insurance for Acquisition</li> <li>• utility bills</li> </ul>
i	Reviews copies of laundry leases and material service contracts (e.g., elevator, cleaning, landscaping).
j	Reviews the property's sales contract, including all addenda, if acquisition or acquired within 12-months preceding loan application
k	Receives a pay off letter from the existing lender, if a refinance
l	Receives copies of any commercial leases, if applicable
<b>7. Lender determines if the specified property warrants any additional specialty requirements</b>	
a	Orders a Soils Report (for Moderate Rehabilitation and Recently Completed Properties)
b	Prepares a Ground Lease Analysis (including Fannie Mae Review Checklist) and copies of any Ground Lease (if applicable)
c	Receives a copy of any applicable laws or regulations, if the property is subject to any federal, state, or local rent, occupancy, and/or resale restrictions (e.g., rent control or inclusionary zoning)
<b>8. Lender receives the legal underwriting exhibits for the specified property</b>	
a	Receives title insurance policy for the specified loan and any historical title insurance policies.
b	Receives the survey and surveyor's certificate
c	Receives copies of any reciprocal use agreements relating to recreational facilities, parking areas, or private streets
<b>9. Lender obtains Fannie Mae approval if needed</b>	
<b>10. Lender obtains internal loan committee approval for the specified loan</b>	

### ***Borrower Commitment*** (Guide Part IVA, Chapter 3)

**Days 46 - 52**

<b>1. Lender issues the Borrower a legally binding commitment for the specified loan</b>	
<b>2. Borrower signs the commitment accepting liability for all damages, obligations, and liabilities related to a failed origination of the specified loan.</b>	
<b>3. Lender and Borrower clear all conditions for rate lock for the specified loan</b>	

### ***Rate Lock*** (Guide Part IVA, Chapter 3)

**Days 53 - 55**

<b>1. Lender determines the rate lock period (e.g. 30 days) and rate lock amount (subject to a delivery tolerance) based on a full underwriting of the specified loan in accordance with the Guide and applicable Underwriting Standards.</b>	
<b>2. Lender determines the applicable fees (guaranty and servicing) for the specified loan.</b>	
<b>3. Lender enters into a trading agreement with Fannie Mae or a Third Party MBS Investor, includes a settlement date.</b>	
<b>4. Lender negotiates the pass-through rate, purchase price, and any delivery or purchase conditions for the MBS to be collateralized by the specified loan.</b>	
<b>5. Lender provides the Minimum Required Trade Information for the specified loan (including special disclosure items) to all potential MBS investors.</b>	
<b>6. Lender collects the Good Faith Deposit (cash or letter of credit equal to 1%-3% of rate lock amount) from the Borrower.</b>	
<b>7. Lender enters into a legally binding rate lock obligation to deliver the specified loan (meeting the terms of the rate lock, commitment, and the Guide).</b>	

## *Overview of Fannie Mae Multifamily Prescreening through Issuance Processes*

### *Commitment*

*(Guide Part IVA, Chapter 3)*

<i>Days 56 - 57</i>	1. Lender requests a commitment from Fannie Mae for a single, specified loan; no properties may be replaced or substituted.
	2. Fannie Mae confirms the commitment with the Lender.

### *Loan Closing between Lender and Borrower*

<i>Days 58 - 67</i>	1. Lender closes the specified loan with the Borrower.
	2. Lender ensures all closing related and escrow agreements are executed and collected for the specified loan.

### *Lender Delivery*

*(Guide Part IVA, Chapters 4 - 5)*

<i>Days 68 - 87</i>	1. Lender makes representations and warranties that the specified loan is properly underwritten, closed, and delivered to Fannie Mae's requirements.
	2. Lender delivers the documents and submits data for the specified transaction (property collateral and loan) to Fannie Mae.
	3. Fannie Mae reviews the Lender's submission and ensures that the contract, pricing, Guide, and disclosure requirements are met, approvals are obtained, and key data elements, documents, and forms for the specified loan are accurate.
	4. Fannie Mae confirms that the delivered loan is within the specified delivery tolerance.
	a
b	If the Lender fails to deliver the specified loan and Fannie Mae is the investor, Fannie Mae may exercise its remedies (Guide Part IVA, Chapter 7), including requiring the Lender to pay liquidated damages equal to the amount of the Good Faith Deposit. If the Lender has rate locked with a Third Party Investor (other than Fannie Mae) the Third Party Investor can require payment of liquidated damages as previously specified in the trading agreement.

### *Purchase and Security Issuance*

*(Guide Part IVA, Chapter 6)*

<i>Days 88 - 90</i>	1. Fannie Mae publishes the at issuance disclosure documentation (Prospectus, Prospectus Supplement, Schedule of Mortgages) based on the specified loan information.
	2. Lender reviews the disclosure documentation for the specified security.
	3. Fannie Mae issues and delivers the security collateralized by the specified loan.
	4. Lender refunds the Good Faith Deposit to the Borrower.

**Summary of FHA/GNMA Multifamily Loan & Securitization Process  
Section 223(f) Program\***

**Concept**

1	Lender collects and reviews preliminary information on subject property, proposed transaction, and Sponsor/Development Team
A	Past three years financials, trailing 12 months, and Sponsor's proposed budget
B	Current Rent Roll
C	Market comparables/competitive survey
D	Proposed repairs and preliminary costs
E	Existing debt/Purchase contract
F	Resumes of Sponsor/Development team
G	Preliminary plans, if necessary
H	Current or prior environmental assessments
2	Lender completes HUD Scoping Survey, submits to HUD, and requests date for Concept Meeting with HUD staff
3	Hold Concept Meeting with HUD staff who review Concept Scoping Survey and supporting information
4	Receipt of HUD invitation to submit Firm Commitment application and address any particular concerns/issues identified by HUD staff
5	Execute Lender Loan Agreement with Sponsor/Borrower. Collect deposit for 3rd party reviewers (appraisal, engineer, environmental) - \$30,000 - \$50,000 +/-

**Underwriting/Property and Sponsorship Due Diligence**

1	Lender begins preparing Firm Commitment Application pursuant to HUD Multifamily Accelerated Processing (MAP) Lender Guide, Application Checklist Appendix 4B, and as amended by subsequent directives (Mortgagee Letters, Housing Notices, MAP Guide revisions, etc.)
2	Lender engages 3rd party reviewers and schedules site visits with Sponsor/On-site Management Staff
A	Site visit occurs with Lender and 3rd party reviewers
i	Appraiser - reviews value of property considering any proposed improvements included in loan transaction.
ii	Engineer - reviews existing physical condition of property, needed improvements, proposed repairs, identifies replacement reserve needs over 20 yr period, compliance with accessibility codes. Requires "intrusive" assessments on buildings 30 years or older (roof, sewer/storm, elevators, masonry, electrical, etc . . . )
iii	Environmental - reviews property and surrounding land uses for potential historical or current contamination. Phase I ESA to be compliant with ASTM 1527-13 and complete Form HUD 4128. Preparation of Radon Assessment performed by licensed professional and compliance with Mortgagee Letter 13-07. Includes Lead Based Paint Assessment compliant with 24 CFR 25, Subpart G & H and 40 CFR 745.227 (d) and (h) if property constructed before 1978. Includes Comprehensive Asbestos Containing Materials Assessment compliant with ASTM 2356. If LBP or ACM identified, Operating and Maintenance Plans required for closing. If Radon detected above 4.0 pCi/L, radon mitigation system must be included in repairs. If Phase I reveals any Recognized Environmental Concerns, requires Phase II level assessment
iv	Lender conducts audit of tenant files and compares them to current rent roll
B	Lender reviews drafts of 3rd party reports to ensure all identified issues are addressed and summarizes them in Lender Narrative
C	Lender obtains ALTA ASCM land survey and Title Insurance Commitment and reviews any exceptions that affect clear title to property. Survey also reviewed by Lender's engineer.
3	Lender reviews purchase contract and/or confirms existing debt
4	Lender collects and reviews audited financial statements of the property for last 3 years and trailing 12 months. If statements not audited, lender obtains a review of unaudited statements by 3rd party Certified Professional Accountant
5	Lender incorporates Initial Deposit and on-going deposits to Replacement Reserve to ensure reserves meet or exceed HUD's requirements for 20 year period.



6	Lender collects and reviews financial information on Principals of Mortgagor entity
A	Financial statements for last three years and most recent year to date.
B	Lender obtains confirmation/verification of Principals account balances shown on financial statements by collecting and reviewing latest account statements and loan balances. Lender determines Principal's Working Capital and Net Worth.
C	Lender reviews Principals schedule of real estate to assess overall portfolio performance and any upcoming maturities that may create financial stress.
D	Lender reviews schedule of other business concerns in which Principals have a substantive ownership position
E	Lender obtains and reviews Commercial Credit Reports from major credit reporting firms (DNB, Lexis-Nexis, etc . . .) on Borrower as well as a representative sample of other real estate and business concerns. Lender obtains and reviews Mortgage Credit Report on individual Principals.
F	Mortgagor and related entities, Sponsor/Principals, and Management Agent register in HUD Active Principal Participation System (APPS) for review of previous participation in HUD programs. Lender conducts Patriot Act and HUD Debarment search on Principals, Mortgagor, and related entities.
G	For affordable projects, lender confirms/documents availability of other funding sources (tax credit equity, subordinated debt, Section 8 rental assistance contract, etc . . .).
7	Lender stress tests the property's underwriting assumptions to arrive at appropriate debt sizing within confines of HUD's program parameters
8	Lender presents final transaction internally to firm loan committee for approval and makes any adjustments to underwriting if necessary.
9	Lender summarizes all underwriting issues, completes required HUD forms, and collects 0.3% application fee from Sponsor.
10	Lender submits Firm Commitment Application to applicable HUD office for agency staff review
<b>Agency Review</b>	
1	Agency staff screen application for completeness and direct lender to send original packet to processing office.
2	HUD appraisal/environmental staff visits site for acceptability and visits comparables listed in lender's appraisal report.
3	HUD staff review lender's Firm Commitment application for acceptability and identifies any issues requiring additional information or clarification.
4	HUD Senior Underwriter prepares summary for loan committee review and presents proposed transaction to loan committee either at local or HQ depending on size of loan
5	Loan committee reviews proposed transaction and identifies any conditions that need to be address prior to closing for inclusion in the Firm Commitment.
6	HUD issues Firm Commitment and sends to Lender

Closing	
1	Lender, Sponsor, and their respective Counsel prepare draft loan closing documents per HUD Office of General Counsel Federal Housing Administration Multifamily Closing Program Guide. These include transaction specifics on HUD approved closing document templates
2	Lender, Sponsor, and their respective Counsel review and incorporate any documentation required by HUD as outlined in Firm Commitment, typically including: <ul style="list-style-type: none"> <li>A Borrower and General Partner/Managing Member organizational documents</li> <li>B ALTA ASCM Land Title Survey</li> <li>C Title Insurance Policy with all required endorsements</li> <li>D Evidence of building code and zoning compliance</li> <li>E Borrower's Counsel Opinion</li> <li>F Note and Mortgage/Security Agreement</li> <li>G Regulatory Agreement</li> <li>H Agreement and Certification</li> <li>I Payoff Letters and invoices for all transaction costs</li> <li>J Settlement statement</li> <li>K Escrow Agreement for repairs and excess proceeds</li> <li>L Short form of cost certification</li> <li>M Other various forms and certifications outlined in Closing Guide and Firm Commitment</li> </ul>
3	Lender's Counsel forwards draft closing packet to HUD Counsel and Closing Coordinator for staff review.
4	Once HUD staff complete review and finds documentation acceptable, a closing date is scheduled.
5	Lender locks rate with GNMA investor committing to deliver GNMA security by certain date. Trade confirmation is a legally binding contract setting forth the terms and conditions under which the investor will purchase the GNMA mortgage backed security, including any extension fees and liquidated damages.
6	Lender requests HUD amend Firm Commitment to reflect actual locked in interest rate and has counsel modify/finalize executeable loan documents
7	Lender collects 0.5% good faith rate lock deposit from Borrower and forwards to GNMA investor
8	Lender secures internal or warehouse funds for funding at loan closing
9	HUD, Borrower, Lender sign recordable documents and has them recorded
10	Lender's Counsel provides all executed and recorded loan documents to HUD Counsel and Closing Coordinator for agency records.
11	HUD endorses Note and lender disburses funds
GNMA Delivery	
1	Lender and Lender's Counsel prepare GNMA prospectus, assignment of collateral documents and submit transaction information through GinnieNet pursuant to Chapters 10, 11, and 12 of GNMA MBS Guide 5500.3. GNMA investor reviews prospectus prior to submission.
2	Document Custodian reviews submission for accuracy and certifies GNMA submission is ready for securitization
3	Document Custodian notifies Lender GNMA pool has been certified for securitization
4	Bank of New York (Pool Processing Agent) prepares for the issuance of the security on settlement selected by lender.
5	Security settles book entry. Security pays off warehouse lender and interest due. GNMA Investor returns good faith deposit to Lender.
6	Lender/GNMA Issuer enters loan security in Lender's Security Holder Register

Quality Control	
1	FHA/GNMA Lender/Issuer hires 3rd party audit firm to prepare annual financial audit Once audit is completed, it is forwarded to HUD, GNMA, Warehouse Lender, and GNMA Investors.
2	GNMA hires auditors to conduct on-site audit of GNMA Issuers every 1-3 years.
3	Lender hires quality control reviewer to conduct quality control review of random sample of project loans. Lender hires review appraiser, review engineer, and underwriting reviewer to ensure compliance with Lenders Quality Control Plan and HUD program requirements. Lender's Quality Control Plan based on Appendix 2 of HUD MAP Lender Guide.
4	Quality Control Review findings submitted to HUD for review and approval or any actions based on findings.

***\* The Section 223(f) program is one of numerous FHA programs that help finance multifamily rental housing and residential healthcare facilities. MBA believes that all FHA multifamily and residential healthcare programs should be exempt from the proposed FINRA margining rule.***