Consolidated and Further Continuing Appropriations Act of 2012 Webinar Series
Required Underwriting & Developer Capacity for HOME Homebuyer Projects

Transcript

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Note: This transcript does not include the Q&A portions of the webinar. HUD will be posting additional written guidance in the form of Frequently Asked Questions (FAQs) that address both questions addressed in this webinar and others that were not addressed due to time limitations. Those will be posted to the www.hometa.info website as they become available.

Minor corrections to the transcript have been made to reflect HOME-program acronyms, inaudible portions of the recording, and the like. In some cases a word or phrase has been inserted or corrected for clarity, it is indicated by italicized brackets like this *{inserted/clarified language}.*

Erica: Good afternoon, my name is Erica and I will be your conference operator. At this time, I would like to welcome everyone to the HOME Program Webinar HOME Appropriations Act of 2012 Required Underwriting and Developer Capacity for HOME Assisted Homebuyer Projects conference call. Our lines have been placed on a listen only mode. Later, we will conduct an interactive question and answer session. If you would like to ask a question during that time, simply press star then the number one on your telephone key pad. You will hear a tone acknowledging your request and a prompt to record your name. If you would like to withdraw your question, please press star. I would now like to turn the conference over to Steve Lathom. Thank you, you may begin your conference.

Steve Lathom: Thank you very much Erica and welcome everyone. We are glad to have you with us today and again, our topic is the Required Underwriting and Developer Capacity for HOME, Homebuyer Projects as required by the Consolidated and Further Continuing Appropriations Act of 2012. I am going to try to say that several times today very quickly just to trip ourselves up. I would like to remind everybody that this is one of several inter related webinars, really a series of webinars outlining the requirements. There have been three prior webinars. Those will be, or have been posted to the hometa.info web site. We are getting those things posted as quickly as we can afterwards with the slides, transcripts and recordings, so if you missed for example Monday's market analysis section, you will shortly be able to see that online, listen to it and see the transcript. We will also be posting today's presentation to the same web site; any of the handouts that we have available, any of the handouts from the other sessions, recordings, transcripts, etc. Of course, we will take some opportunities for your questions later today and one of the things we want to let people know well in advance is that we know there are going to be a lot more questions than we can get to, so we are going to get to as many questions as we can today. We also plan to be posting frequently asked questions in consultation with HUD after the fact to the hometa.info web site and so some of the things that need to be clarified, or where you bring up specific situations that just haven't been anticipated, you'll see further written guidance on this to help you keep this stuff moving.

With that, again my name is Steve Lathom, I am a project manager with Training & Development Associates and you are going to hear from me a lot today. I would like to welcome the other folks we have on the line. Joining us from HUD Headquarters are Ginny Sardonne, Marcia Sigal, Mila Hernandez, all of the Office of Affordable Housing Programs. I think they have a couple of other folks there so we will give them a brief chance to introduce themselves in just a moment; we are joined today by Monte Franke of the Franke Consulting Group. Many of you who have been with the HOME Program for a while have seen Monte at one training or another on the circuit over the years and I am very pleased to have him with us.

What I would like to do first is tell you about the goals of the webinar today, then I am going to turn it over to HUD for them to introduce themselves and we will get going. We want to make sure that the PJs on the call first understand the context of the fiscal year 2012 HOME Appropriations Law requirements. We know these come at a time when there's been a lot of questions about the proposed rule, the current rule, new CPD notices that have been coming out and just a lot of changes to the environment in which we all work with the HOME program. We want to clarify that and help you get an overall framework by which you should be evaluating homebuyer projects. In particular, along the lines of market, developer, and project risk, we will talk about these new requirements and certifications and how you can apply them to underwriting specific homebuyers and the amount of HOME assistance that you are giving. Finally, we are of course, going to talk about the need to document what you are doing. Not just the written policies and procedures you develop, but we will discuss tips that some of you can use about the due diligence items you should be asking developers to submit to help you document how and why you make the funding decisions you do. Again, we will take breaks throughout the presentation to answer questions, and we are going to use a good bit of time at the end of the webinar to be able to take more of those questions.

With that, what I'd like to do is turn this over to Marcia at HUD and let her talk a little bit about the legislative and regulatory context, and also to just make sure that we have introduced everybody from HUD Headquarters who's on the line today. Marcia.

Marcia Sigal: Yes, thank you so much Steve, good afternoon everybody. Yes, we do have Ginny Sardonne and Mila Hernandez who are staff here that are going to be participating in the webinar with us and several other people that are not actually here; Peter Huber, who is the director of financial management and information systems division as well as some other supporting staff. I don't want to go into a long list, but we are all here, we are all here to help you and I wanted to just talk a little bit about what we can do today and also what we are doing over the next couple of months.

This webinar is one in a series of webinars that we are going to put on for you about the FY 2012 HOME Appropriations Requirements. We will be posting to the HOME TA web site, that is www.hometa.info, the recordings of the webinars and as Steve mentioned earlier, we will be posting FAQs as we go along. There are seven webinars overall running through a variety of topics. Today our topic is about homebuyer projects, so once again you can find that schedule on www.hometa.info.

I would like to go over a couple of key points that are sort of caveats before we get started. As many of you know, or perhaps all of you know, HUD published the proposed rule on the HOME Program in December 2011 that includes many of the proposed changes that... it includes many of the proposed changes, so it is similar to the changes that you see in the FY 2012 HUD Appropriations requirements. In fact, Congress had a copy of the proposed rule and took some of the provisions that we were thinking of proposing and just put them right into the 2012 appropriations language, making them a statutory requirement. However, I think it is important for you all to keep in mind that the proposed rule is still just proposed. To be clear, there is nothing in the proposed rule that is currently applicable to the HOME Program. Nothing in the rules becomes effective until HUD has completed the final rule making process, which we are involved in right now; and, nothing will be effective until we publish a final rule for effect, which we expect to happen this fall. The focus today, and over the next several months, for you and for us as well, is on the existing HOME regulations and how these specific requirements and provisions in FY 2012 appropriations law, change existing HOME program requirements.

Let me give you an overview of what those are and why Congress did what they did. One of the issues that Congress expressed their concern about is about project selection, about homebuyer underwriting and about developer capacity and fiscal capacity of the developers. That is what we are talking about here today. The purpose of the provisions that Congress included in the FY2012 statute was to improve project and developer selection by participating jurisdictions, that is the PJs, you; and ensure that there is an adequate market demand for FY 2012 HOME projects. Specifically, Congress wants to ensure that PJs have examined the neighborhood market conditions to ensure there is adequate need for each project and that each project is satisfactorily underwritten, and that the capacity of the developer and their fiscal soundness has been examined. This webinar today is to help give you a better understanding of how you can do that for homebuyer projects.

We will address today the assessment of developer capacity and fiscal soundness and underwriting of HOME funded, homebuyer projects and HOME assisted, homebuyer... and underwriting of HOME assisted homebuyers. Hopefully, these tips and information that you are going to receive today will help you compose the key questions you need to ask and answer about each HOME project before you commit HOME funds to it. Hopefully, will result in a fair targeting of HOME and other resources. We do plan to follow up on this webinar with FAQs about this topic and other assisted... assist other resources that are meant to assist you, so you should check back on the HOME TA web site frequently over the next three months for these resource materials.

Okay, thank you Steve, I am going to turn it back over to you.

Steve Lathom: I am sorry; can you hear me?

Marcia Sigal: Yes

Steve Lathom: Okay, thank you very much Marcia, I just had a brief technical problem with my phone. In any event, [Blank] [00:09:13] to [00:09:38] Am I heard?

Marcia Sigal: We can hear you.

Steve Lathom: Okay, sorry about that, I am very sorry about that. Thank you again Marcia and we apologize to everybody for the technical difficulty here. I think the important thing from what Marcia said is that this is the law of the land. The President signed the law, Congress passed it and the requirements we are talking about today are this is where things are. This is not the proposed rule for purposes of today's discussion. The proposed rule does not exist. As we get into the certification, what I would like to talk about is just to parse the language from the notice. The CPD Notice 12-007 really unpacks that statutory language and as we will see at several points today, it provides the specific certifications that an authorized representative of the PJs is going to have to make when funding a project. As a PJ, you are required to assess the neighborhood market, the capacity of the developer, including their fiscal soundness, and to underwrite the project.

You must certify that you have done these things; they must be done prior to funding the project in IDIS prior to executing the written agreement. We are not going to sign an agreement and then say we are going to look at these things later. I think it is important to call attention to another issue that may have been overlooked by a lot of folks. The CPD notice and the IDIS certification, both require you to evaluate the actual assistance that you are providing to specific homebuyers. Anytime direct homebuyer assistance is being provided, even in a straight DPA situation where you did not fund the development of the unit, and I think we are going to talk about that in greater detail later.

So, let us look at that specific certification language. There are a few things I want to point out about the language. First, if you were to print out the statute and line it up side by side with the certification, you would see that the bulk of the language is essentially lifted right from the language of the law. Additionally, and I know there has been some confusion about this already, the introductory clauses help tell you when this does not apply. IDIS, the system we all know and love, will show the certification for every project you set up moving forward for each activity. The language of the certification carves out cases where it does not apply. If you are setting up an activity from a prior action plan, say a 2012 project, this certification does not apply. If you are only doing a home owner rehab project, a TBRA, a CHDO operating grant, that doesn't apply either because again, what we are talking about here would be activities from a 2012 action plan that involve acquisition, construction or rehab of rental or homebuyer projects. Again, including down payment assistance, so it is just important to help be clear about where this does apply and where it does not.

With that, what I'd like to do is move on to a slide that for those of us who are visual learners, kind of summarizes the expectations in a different way. Congress and HUD have essentially provided a high level framework for review and project selection. They ask us the big questions. Is there an adequate market? Is the developer capable, including financially? Do the numbers make sense? But HUD doesn't impose specific thresholds. For example, a minimum developer net worth of a million dollars; instead you as PJs must establish policies and procedures that make sense for your community. These will help you define the answers that are acceptable to you and how you get the information, you need from your developers application to answer those questions. Once you have determined you policies and defined a process, you need to analyze the proposed project to determine if it fits. Make your funding decision and then document that you have done that. Ultimately, what HUD is requiring here is that you do it, not all of the specifics about how you do it and it is important to notice... or to recognize that in reality, this process is somewhat iterative. It is not linear, and so the best practice will be to periodically use your experience to re-evaluate, adjust your policy, adjust your process and improve your decision making over time.

As we talk about developing policies, remember this is not intended to be a one-size fits all process. Not only will things vary from PJ to PJ depending on your local circumstances and your local market, but it is also entirely reasonable to expect that the scope and the specific metrics that you measure against will vary based on the size, scope and complexity and ultimately the risk that different types of projects represent. Some of the key parameters that you need, and many of you already have to one degree or another, include how much will you invest in a project. Of course, within the maximum HOME subsidy limit on a preempt basis, the range of folks you will serve. If we have learned anything from the foreclosure crisis, it is that home ownership is not an unmitigated good and it is okay that not every project can serve low income person who may want to buy a house. You need to think about how you will structure homebuyer assistance and what types of first mortgages you will accept when you are providing DTA.

As we talk about a process and procedures, largely we are talking about your application process. Who is going to review what questions you ask, what documentation you require from the developer. Ultimately, if you do not ask for it, you cannot review it to use in your determination. So some of the highlights, many of which we will touch on later, include things like asking the developer to explain and document why they believe there is a market; asking for their marketing plan; looking at a schedule of key tasks and milestones and who’s responsible for those. Some person actually has appropriate experience and capacity; and of course, asking for all of the financial projections.

We defined our policies, we defined the process, now we actually have to look at individual projects and do the analysis. We use words like underwriting and due diligence, but at its core, what we are talking about is assessing and mitigating risk. Every project has some level of risk no matter how well you underwrite, how strong your market is, or how capable your developer. Things can always happen, but what we are trying to do is limit the places where we can be surprised and plan around issues and risk areas we know could cause trouble. We are going to talk about it in terms of market risk, developer risk and project risk. These are areas the statute calls out explicitly and where our focus is today, but let’s not forget their area other issues we need to take into account. Lenders also consider portfolio risk; essentially asking if we have too many eggs in one basket. Too many projects with one developer, too many projects of the same type, so that if one unexpected thing goes wrong, it threatens all of our projects, and as public funders, we have to make sure our assistance is not excessive, that we balance mitigating risk, with not over funding a project. That is what subsidy layering is all about and given the reality that most of our projects involve multiple sources of public support, it is a requirement we have to meet under the HOME rule.

Finally, as part of the broader context in which these statutory changes happened and the attention that has been paid to the HOME program, all owners have an interest in making sure the program performs, that we stay on top of our projects, and that we actively manage the bumps in the road to move projects successfully toward completion. Then, you finally need to decide and verify. You determine the parameters, you have asked for the application and you have determined if it fits or if it doesn't. You need to make your decisions. Often, these funding decisions will require that you balance an identified risk with some sort of a mitigating action. For example, you might have a small developer who has a good track record but is taking on a larger project than they've done before. In that case, you might limit the number of houses that you let them have under construction at one time.

At the same time, you are going to find there are compelling reasons to waive one of your local policies or provide some regulatory flexibility within your local policies. Perhaps you have a total development cost limit that is smaller than the whole maximum subsidy on it and a project in front of you is asking to go above your limit, but of course within what the HOME program allows. Maybe the reason for that is the home being rehabbed, it is historic and requires additional funding to meet those requirements. Those sorts of things are okay when they happen, and what is important is that you document how the project fits or doesn't within your local program design, what adjustments and flexibility you have allowed to accommodate the special features of the project. When you file the documents and analysis and explain to the future staff, or the HUD monitors, why you made the decision you did; it demonstrates that you fulfilled your obligations under the certification. Because when you go to enter a project in IDIS, among the other certifications that have always been there, you are not being asked to electronically raise your right hand and say that you have conducted and underwriting review, assessed the developer capacity and fiscal soundness, and examined neighborhood market conditions.

On that point, it is important to talk about who actually certifies this in IDIS. In practice, we know that a lot of times the person entering the project set up in IDIS is frequently not the one who is responsible for making the actual funding decision. When it comes time for monitoring, the key will be that the PJ's files clearly have the paper sign off and the track record showing the process. Showing who signed off, who had the authority at the PJ and the knowledge of the PJ's policies, procedures and their underwriting of that specific project to say that yes, we can acknowledge this, we can certify this and that I am accountable for that certification on behalf of the city or the county for example.

With that introduction and overview, we are going to take a break for a couple of minutes and take some questions. A couple of housekeeping things that I would like to remind everybody about as we do that.

First, you can submit your questions electronically by clicking on the menu bar at the top of the live meeting client. Click the one that says Q and A, type your question in the text box and submit it, and we will see those coming in. if you'd like to ask your question verbally, you can push star one on your phone and you'll be added to the queue. If during that time, we answer your question because somebody asked it, you can take yourself out by pushing pound one. Then one other reminder for everybody, many of you like to have a hard copy of the slides; those will be posted later to the hometa.info web site, but today, in the live meeting client, if you click on the icon in the upper right window that looks like three little pieces of notebook paper. The handouts are available in two different forms, one in the traditional room for notes, and one where there is just one slide to a page. They are both the same, you can download those and have a hard copy of those already to print out even while you are in the meeting or you can take immediately after. With that what I'd like to do is turn it over to Marcia for a minute and see if we have got any questions to answer. Marcia?

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Steve Lathom: Okay, no problem. Well, I think with that what we can go ahead and do is we will go into the other part of the presentation and get into the meat of our underwriting analysis. There are going to be a few other opportunities to ask your questions and at the end, in particular, we will make sure that we go back to questions from prior topics and anything else you need to ask. Again, a reminder for everybody, we will be doing an FAQ process, a written FAQ process after the fact that will help hopefully, start to provide you with greater detail on some of these issues that come up frequently and will allow you to have more written guidance upon which to depend. With that, what I'd like to do I guess is go ahead and turn this over to Monte who's going to talk to us about market assessment; the first of those three areas that you need to certify to.

Monte Franke: Okay, thanks Steve, hello everybody. I was looking through the list of attendees here and it looks an awful lot like my Outlook contact list. I see a lot of names that I recognize and I hope you'll stay with me and not hang up on me while I go through the first of the three topics that we want to talk about.

As Steve has introduced to you, underwriting is often referred to as risk assessment because what you are doing is you are predicting the future of a project and that's something you do only in probabilities and [Inaudible]. There are three areas [Inaudible] market assessment, borrower or developer assessment and then project assessment. I am going to cover the first one, the market assessment topic and my job was made easier by the fact that you had a webinar on this earlier this week and I assume many of you sat in on that webinar and have a general idea of what it is.

It is a necessary component of underwriting and as a lender or funder you need to analyze the trends, understand the demands, examine the supply and determine how these projects stack up against the competition to make an estimate or determination of whether it has a likelihood of success. The thing that I will remind you of, you have heard me say this before, our metric in this program is completed and occupied units. A unit that is completed and not occupied, we really have not helped anybody. It makes perfect sense that we should be responsible for analyzing projects and making certain that the project, when completed, can be fully occupied.

Since most of market assessment was covered in the last webinar, I don't have to go into the details of it, or in how you do it. I am going to try to make some comments to put it in the framework of homebuyer development projects because the last webinar dealt with rental and homebuyer and sort of mixed the topics. I will try to cull a few things out as we go through this discussion here, but I will do it briefly.

The question that you are ultimately going to have to answer for the certification to restate what it was that was in the statute in the certification itself, is there adequate demand for the proposed type and number of units to be absorbed within the program deadlines. We will be talking about deadlines in this session, but mostly in the next webinar. The issue here that we are facing is that we have had a lot of projects that have been developed. They may have been funded in times when markets were solid, but the market softened and by the time the units were developed and delivered to the market, the market had turned. Prices were dropping, foreclosures were flooding the market, mortgages were more difficult to obtain and all of a sudden, we were sitting on inventory that we couldn't move. You go forward with the 2012 projects; you are going to have to do an analysis to determine whether your market is ready to absorb those units. Some of you have already seen the turns in your market as I have been out and around the country working on this program and others. Others of you though, you are still mired in the surplus of units that came from the recession and the foreclosures that we have all faced. You have to make a determination is this time to start delivering additional units to add to that supply that is already out there.

As you heard from Maxine and Robert on Monday's webinar, if you were able to participate in it, market analysis has some key elements in it and they talked about market trends and defining market area, analyzing demand, analyzing supply and doing a competitive analysis. All those are critical elements of market analysis although how you do it depends on what kind of project you are working on and what kind of market you have. They are all common elements that we can describe briefly here.

In the rental development side of our business, it is very common for lenders to require independent market studies. That is a requirement of the tax credit, bond programs, and an awful lot of lenders out there, so it is very common to have an independent market study. It is less common to have an independent market study or assessment done in homebuyer development and so we may not have that third party assessment to rely upon. It is not a requirement in the HOME program that you have a third party assessment. Ultimately, you, the PJ, are certifying that you believe that this project has adequate demand to absorb the unit. So it is really coming down to your analysis, whether or not you get it from a third party, do it in house, collect data from the developer and others, and even look at what other PJs are doing, such as your state PJ or others that have analyzed the market. You need to assemble what data you have and make your own judgement and ultimately your own certifications.

Let me comment just on a few of those areas though. Market area, it was discussed on Monday. It was discussed in the context of a number of different settings. The thing I want to stress is that market area is defined by buyer behavior and in homebuyer activities, you need to analyze where the buyers will come from and as Maxine I think said, primary market area is the area from which you expect to draw a majority of your customers. In homebuyer activity, sometimes homebuyer markets are very small and contained within neighborhoods; and other times they are larger. The thing I want to stress is that it is not necessarily, and likely not, your jurisdiction. Market area is not the same thing as jurisdiction and it generally doesn't follow jurisdiction lines. Homebuyer markets are determined by school districts, churches, employment, transportation, public safety, perception of the neighborhood, and the relative pricing advantages of one neighborhood over another. The question you ultimately have to answer is where would the buyers for this likely come? Where do you get that? You look at previously sold projects. Where did the buyers come from in that neighborhood? How far away did they move? What is the area they are likely to come from?

Why is market area so important to you? Because you want to make certain that, you have enough buyers and your first cut at the pool of buyers is to understand where they may come from it is a geographic cut you do.

Secondly, not withstanding the appropriations act wording, which we have referred to need rather than demand, homebuyer development is a market activity and it is all about demand. Demand is different from need. You have heard me talk about it before if you have been to any of my sessions. Need is a social concept while demand is an economic one. Demand is not only that they need it, but they want it and they are willing and able to pay for it. So we have to analyze our target customer pool very narrowly to figure out who our likely buyers, or are able to buy the housing that we have got. In projects where buyers have been pre identified, where they have been pre qualified for mortgages, they have been pre qualified on incomes and they have put down down payments. You have a ready buyer there that is evidence of market. You have the buyer. The thing that concerns us is that sometimes projects have one or two identified buyers, but there might be six, eight, or ten units being developed. If your project is not fully pre sold, then market analysis becomes very important and just being partly there isn't enough. We have a lot of partially sold projects out there that have been part of the problem that we have been dealing with in this program, so keep in mind that while pre sale works in your favor, you want to... you don't get out of the market analysis requirement unless you have all the units pre sold.

Another thing that I will comment on is remember that we have maximum incomes in the HOME programs. You also, in market analysis, the homebuyer projects need to define what the minimum income is and that's based on the minimum income needed to afford the housing; just doing your front-end ratio analysis; PITI analysis that I will talk about later; you determine what minimum incomes are. In many of our homebuyer projects around the country we have income bands, or income ranges, of sixty to eighty percent of their median incomes; sometimes seventy to eighty percent of their median income; and sometimes, although it is a bit scarey, even narrower than that. Because our pool of buyers are only going to come from those that are income eligible, but still have enough income to be able to afford the move. You can certainly affect that band by the amount of subsidy you require, but you need to recognize that there are a whole lot of low-income people that don't fit into the demand pool.

Then of course, the last thing that you want to do here is to focus on those who are likely buyers, which means you are probably focusing on rental households. You may not be looking at households that exhibit other characteristics that may not make them likely buyers, but you are trying to get to an estimate of the pool, the number of buyers that you expect... or potential buyers that you expect are out there and that target pool is what they use then to do capture rate analysis. Determining how many potential buyers there are relative to the number of units you have to sell. Certainly the lower that percentage is the better for the project and the likely success of the project.

I also just want to comment a moment about supply. Of course, you want to look at the other homes that are for sale in that neighborhood. Look at their listing prices, the volume of listings, how long they have been listed, the time listing to sale, how long they take to sell, and include that in your analysis. I also want to remind you that you need to look at rental as an alternative. When we are talking about analyzing opportunities that these homebuyers have, it is not only are there buying opportunities, but they can continue to rent. I visited some markets out there where home buying is very competitive with renting and in other cases; it is still quite outside the range of the affordability of rental. You want to look at that as well.

You also want to consider in the supply, a lot of market analysts have talked about the shadow supply, those units that are out there that we don't yet have on the market that are either in default or foreclosure, but not yet foreclosed upon, inventory that banks are sitting on, short sales and things like that that are happening. There is a whole lot of shadow inventory that isn't necessarily on the listed market yet and until all those units are absorbed you will not see price stability in your market.

It is also like to remind you that with the NSP program going on, although it is starting to wind down, we have a lot of inventory that is being assisted... the foreclosure inventory that is coming on the market between now and next March when NSP1 expires and another year after that for NSP3. Make certain you are aware that you are not competing with other publicly funded projects... homebuyer projects that we have got going on right now with the stimulus money.

Finally, just remember that you want to compare, or see what the competitive advantages are of your proposed units to the other units that are out there and that are what the competitive analysis is about. All of you have seen that even if you have not done market studies because that is part of an appraisal process as well as the market study process. Looking at the competition and figuring out whether or not those units are going to... your units are going to be competitive with what else is out there. I know there is much more to say about market assessment, but I really think that a lot of it was said on Monday and you need to start looking at what you have. As I have said before, you don't need that independent market study or assessment, but you really need to understand the market yourself. You also need to make sure your developer understands the market. Too many times I have seen market studies get handed in by the developer that you almost feel like they never read it. You want to make sure that your developer, from a capacity standpoint, is able to talk about it, understands their market and understands supply and demand.

Monte Franke: Steve also mentioned that part of what you have to do is come up with policies and process for implementing this. There is not just one-way to do underwriting and there is not just one set of things that you can do. You need to decide how you are going to do that assessment. One of those factors is you want to decide how much information you need from your developers. When do you want them to have pre sales or pre committed buyers? How much do you want to rely on them having a pool of screened and counseled buyers? Are there counseling programs in your community where we have a steady stream of supply coming in? Knowing about potential buyers in terms of pre sales, but also having a pool of screened or pre approved and counseled buyers give you a lot of what we call in the market analysis the primary data. The more primary data you have on the buyers, the more you can focus in on whether or not this product is going to appeal to them and whether you will be able to sell it. Any other evidence to how healthy the market is, or how it is coming back, you want to make sure you have gotten your developer to provide as much information as possible to assist you with your analysis and your determination.

You also want to decide if there are any circumstances as a matter of policy whether you would require an independent market study. Would there be certain types of projects where you would want to make that a requirement? That is up to you. Do you want to be allowing developers to build houses on spec right now? Some of you are in markets where spec building would not be a wise thing to do. Those are just some of the policy decisions that you want to make as you start to build a process where you get in good market information and can do your own market assessments. But once again, the market assessment responsibility is yours and you have got to figure out how you can get the information you need to determine if there's adequate demand and are willing to sign the certification that's now going to be a requirement.

With that, I will turn it back over to Steve.

Steve Lathom: Okay, thank you Monte, I hope everybody can hear me. Let's talk about developer capacity and fiscal soundness; an interesting set of phrases. There are two elements here. Remember the statutory language specifically calls out assess developer capacity and fiscal soundness. This is a two-pronged test that you are going to need to think through on a local level. You are asking if a developer has the experience and the current capability in the team around them to successfully complete the proposed project. I think it is worth emphasizing both the notion of current capacity. We have seen a lot of developers, whether we are talking about CHDO, for profits or other non- profits who don't happen to be CHDO that have been through the wringer in the past several years. They have lost staff, they have had developments go under and they have otherwise been under a lot of pressure in this real estate market. It is not enough that an organization did a great job on a project if they have not been able to sustain the people and the skill sets that allowed them to pull off that prior project. We are looking at current capacity.

Additionally, Congress is concerned about making sure we look to see if a developer is fiscally sound. Put that in another way, did they have the financial wherewithal to get the project done? The cash needed to complete pre development, to be a buffer for delays in getting reimbursements or construction loan draws. Do they have the resources to keep their staff in place and keep them paid and keep the lights on and the doors open if their developer fee is delayed or other income is delayed? I guess the point here is that all the know-how in the world is not going to help keep a project afloat if the developer goes bankrupt midway through construction. We need to look at both of those issues.

In all of this though, HUD recognizes, and they expect that your local policies and procedures will reflect, that you're assessing the developer in the context of the specific project being proposed, not against a one size fits all set of standards about prior experience, staffing level, financial metrics like net worth or liquidity. The size, scope and complexity of the project will drive your assessment about the capacity of the developer. What you expect from a developer is going to be quite different if they are proposing a twenty unit new construction sub division compared to that local habitat chapter that may be coming to you asking for funding to build two new infill units over the next year and a half. It is okay that you judge those differently based on that size, scope and complexity.

We also need to make a distinction here based on the type of developer. We know that the HOME program has this special type of non-profit called a CHDO right; Community Housing Development Organization; and while CHDOs have always been called out in the rule, the fiscal year 2012 HOME appropriations requirements have a distinct and additional provision about CHDO capacity. There are going to be two webinars about this later, so we are not going to get deeply involved in that today, but the point is that the requirements we are talking about today apply any time there's development activity. Any time you are dealing with a developer, whether they are CHDO or not, but when you are dealing with the CHDO, there will be an additional set of perspectives that you need to bring to bear and policies and procedures you'll need to set up to take that into account. We just want to preview that and remind people about that.

So what are we talking about in terms of reviewing developer capacity? Well, some of the things you are going to want to look at is first and foremost, is does their application or their project proposal demonstrate a working knowledge of real estate development particularly in the context of HOME rules and other cross-cutting federal requirements that come into play? Does it hold together? Does everything make sense; is it internally consistent? One of the other things to look at is... you know resumes list experience and not results. Barney Fife, many of us remember from the Andy Griffith Show, has a lot of experience guarding prisoners in the Mayberry jail. I don't know if I want him transporting Charlie Manson to his next parole hearing, right. As President Reagan was often quoted as saying, trust but verify is in play. Don't just ask for the references, but check them out. Look at their prior projects and see if they really reflect a track record that builds confidence for you and what they are proposing to do. Pay attention to whether or not they get the projects done on time since again, not today's topic, but we also have to manage the four year completion deadline required by the appropriation act and the six month sales deadline, both of which are going to be covered in other webinars.

You need to consider what else is on the developer's plate. Most of us have seen examples of developers who did a project, did it well and they took that success and translated it into taking on too many projects, or too big of a project the next time out and ended up going out of business, or at least through some sort of a painful retrenchment. We want to avoid blowing up our partners and looking at their whole portfolio of current work as part of that. It is also instructed to look at how they have handled troubled projects. Not just because we don't want to have a problem in a different project threaten our ability to do the project they are proposing with us; but how they dealt with the previous challenges they've run into helps give us insight into how they are going to handle the unexpected bumps in the road that come up in any project.

You need to look at the overall development team. Has the developer assembled a competent team? Does the supporting cast have the skills needed to complete the development? Do the individual strengths of the other partners they brought to the table help mitigate areas where the developer may need some extra help?

When it comes down to it, capacity is really about people more so than the organization, especially with developers. It is important that within that organizational assessment of the development entity, you understand who specifically is doing the work and assessing those individual's track records and skill sets. Again, as Monte's mentioned and as I have mentioned, we need to pay attention to that six month deadline for sales, though that's not the topic of today's conversation, because you want to pay attention to the developer's ability to pull off the project and to get the houses sold within that window. Unfortunately, to some degree it is necessary. As you think about funding projects, you need to think not just about this developer's capacity to do a for sale homebuyer project; which has it is own unique ways of looking at the world and skill sets they need. You may have to think in the back of your mind about whether or not that partner has the capacity to manage these homes as long-term rental properties. That issue is in play. We will talk about that in a future webinar, but for right now, we just want to remind you about that.

The other thing that we are going to suggest you do is require a marketing plan as a piece of the overall application. This is not a formal requirement. It is something that we think really helps you analyze what's going on. The general market analysis that you use to develop your consolidated plan, and your actual annual plan, helps identify the broad based needs in your market. The project specific market assessment that Monte is talking about really helps determine whether the specific project is likely to succeed. The marketing plan helps you identify whether or not the developer really understands what he or she is doing. Do they understand who their target audience is? What the demand is? How they are going to sell to those folks? How the product they are building fits that marketplace? How they are going to reach out and identify those buyers? How they are going to make the case that this is an attractive product at a great price with a good value? Do they have different methods of getting to folks so that they are apt to have people hear the message, and what is going on, through a variety of different methods? Not just, I am going to list the house, not just I am going to put the ad in the paper. Not just I am going to get a Facebook page, but do they do all of those different things and do they have a plan that really makes sense and holds together. We are going to talk more about this in the next webinar, but this is a critical component to understanding whether or not the developer has capacity, is assessing the viability and the reasonableness of their plan.

Let's not forget that other test, fiscal soundness. In terms of fiscal soundness, we can talk about a lot of fancy metrics that commercial lenders and financial professionals might use. Some of the key things you are really looking for as you review financial statements, you review audits are things like the net worth. The developer, in short, should not owe more than they own. The current performance of their other projects shouldn't diminish their capacity and be a drain on their dollars that are going to be necessary to do this project. In the old maxim that it takes money to make money is particularly true here. You want to be sure the developer has enough cash on hand to cover pre development expenses including their own operating cost until the project can close and move forward. Once the project is underway, they need to have the cash available to pay bills while waiting for reimbursements from your HOME draw or from other funding sources in the transaction. They need cash to be able to deal with those unexpected bumps in the road that comes up in the course of any project. From a fiscal standpoint, those are some of the big picture things you need to look at. Again, depending on what type, size, scale, and scope of project we are talking about, the specific metrics will vary. You have got a lot more risk and you need someone with a lot more money when you are building a whole subdivision compared to somebody that is doing a single acquisition rehab and resale of a home in a neighborhood.

As we get back to those policy decisions that you need to determine, some of the things that you are going to look at on a local level are how many projects will you allow a single developer to have open at one time. How are you going to judge the overall mix of capacity that they bring to the table; the in house with the development and how much of that is coming from the rest of the development team? What level of staffing do you expect to see available for projects of certain sizes? It might be okay for a small non-profit to get by with a part time development manager when they are only doing two homes a year, but what do you expect from that developer that proposes to build a dozen homes a year? You should consider having specific financial metrics about things like net worth and liquidity. Perhaps you want to see a developer that has liquid assets or cash on hand available to at least ten percent of the total development cost. On particularly complex situations, for example that mixed income, mixed use master planned downtown development, you might want to see a much higher level of net worth and liquidity.

As we mentioned earlier, HUD's requirement here is that you develop policies and procedures that make sense in your own community and that you apply professional judgement. HUD is not going to give you a specific metric that any developer seeking HOME funds has to have a minimum net worth of a million dollars. But you need to figure out what specific criteria makes sense to you given the size, the scope, the scale, the complexity and the risk of the project in front of you and of what you know about your local community. With that, we are going to go back into the Q and A and I think that what I would like to do is remind everybody again, you can ask the questions through the Q and A tool of the menu bar at the top of your screen. Just click on Q and A then type your question in. and if you have a phone question, go ahead and get in the queue now by pushing star one on your phone to be added to the queue. We will start with a couple of the written questions and I am going to turn that over back to the folks at HUD, so Marcia, do we have any written questions to take right now?

> **This transcript does not include the Q&A portions of the webinar. HUD will be posting additional written guidance in the form of Frequently Asked Questions (FAQs) that address both questions addressed in this webinar and others that were not addressed due to time limitations. Those will be posted to the www.hometa.info website as they become available.**

Steve Lathom: Yeah, thank you Marcia, so what I am going to do is suggest we go back into the presentation. I am going to turn this back over to Monte. Then we are going to have another Q and A at the end and then we will talk about the things that come up in this next segment as well as any other questions and as many of the questions as we can get to in the time allotted from any of the topics that we have discussed today. So, with that Monte, go ahead and take it away.

Monte Franke: Thanks Steve, what I am going to talk about is the third area of the risk assessment that you do as part of the underwriting. We have talked so far about market and we have talked about borrower, or developer, capacity. The third part really gets into the project risk assessment which is probably what most of what you think of as underwriting. Looking at development budgets, forecasts and reviewing costs and making the determination on the financials of the project is just one part of the overall underwriting and that is why we try to prevent it in three areas.

Let's go ahead and dig into that. As we did into project assessment, I need to say that I am going to separate it into two pieces. One is... the first part of it is going to be to look at the project itself and the development budget and making a determination about the feasible... whether or not the project itself is feasible. The second part that I will go into in this discussion will be the discussion of how you look at the underwriting of buyers because ultimately our permanent financing come from buyers who purchase the homes, bring in their mortgages, and use our assistance to purchase. I am going to do it in two pieces and I will start with the first piece, which is the development project.

When you are certifying that you have underwritten the project, you are saying that you have looked at development costs and determined them to be necessary and sufficient. The terms that come from OMB are reasonable and necessary. Are all those costs necessary? The word sufficient I have added here because you want to make sure that they have covered all the costs that they are going to have to incur to complete the project.

The second question that you are really going to have to answer is, is there adequate funding to complete the project? Do they have enough funds to go ahead, complete acquisition, construction, rehabilitation, cover all the soft costs, and complete the sale? The third question is, is the project likely to be completed in a timely manner? In the underwriting business, we tend to call these the completion risk factors. Specific things like is there public support for the project? Are the public approvals in place? Is there permitting or rezoning or any kind of other approval process needed? Are the contracts in place for design, construction and everything else that is needed? Are the entities under contract and ready to roll? Do we have everything in place that the project is likely to succeed?

As you go into this analysis, you want to think about... you are looking at the budget, but yes, you are looking at more than that, you are looking at the overall readiness of the project. Now, in looking at development budgets, cost reasonableness is certainly important because of the OMB cost principles and making certain that we are funding eligible costs under the HOME rules. You are also looking to see if they have budgeted enough to build a competitive product to effectively market and provide a margin to cover unexpected costs.

The question here is not only are the costs reasonable but also are the costs sufficient? As I said in the last slide, we are looking for projects that can be sold when they are completed. We have had a history of thinking about minimum funding and minimum improvements. We have learned that sometimes those minimum improvements... they will either make the project marketable or they will make it sustainable, so we are going beyond just sort of cost reasonableness here to something that is are the costs sufficient to make the project successful?

Obviously, you also want to look at reasonable developer fees. HUD does not specify what a reasonable developer fee is that is determined by you and your marketplace. What it takes a developer to do the project that is in front of you, the developer fees can vary depending upon the risk and the work that the developers are taking on. That is an analysis that you always have to do. In addition, you want to consider whether they have all the financing in place other than the HOME funds, they are requesting from you and are the HOME funds adequate and reasonable to help them complete the project. Finally, you are thinking about the sales *{schedule}* that's proposed, their projections for absorption; and whether those units can be sold within the six month sales deadline that we mention here but will be talking about more in the next webinar.

The sales pricing and projections for sale are things that link back to your market analysis. Your market assessment has brought out the issue of whether the pricing is competitive, whether the units are competitive and market analysis leads you to some conclusion about absorption. Absorption is the word we use in the market analysis industry to talk about how fast the units could be sold. You want to make certain that when they are bringing them online, they are going to be able to meet that deadline that's now been imposed on us by the appropriations *{law}*.

Some of the things that you have got to think about from a policy perspective and designing this policy and process, I think this issue of property improvements is a key one for you to think through. What are the features that... we in the HOME program require you to have property standards obviously to comply with state and local building codes and if you are doing rehab to have written rehab standards. It is a very important feature of the HOME program to ensure that the home is seasoned. When you are selling housing, it is not just enough for it to be decent. It is got to be competitive in that marketplace. What are the improvements that make it marketable? The things that bring curb appeal in addition to features that people who are looking for houses in working class in that particular neighborhood. What does it take to make the unit sustainable? It is not just a matter of thinking about the financing for the family, but also the longer term operating costs, the maintenance and utility costs. A lot of times the improvements have an impact, a direct impact, on maintenance and on utilities.

Ultimately, you have to define... the phrase that we use is housing... modest housing, or housing of modest means. You have to define what those improvements are that make that unit fit into your local marketplace in terms of marketability, sustainability yet staying within the modest housing framework.

A second thing that you need to think about is on developer fees, not only the amount that you are going to award, or allow them to charge, but when do you pay it? A lot of developers would like to see their fees as early as possible in the process and some of our non-profits desperately need fees early on. Ultimately, the fee is one of the financial strings that you have and one of the ways that you control the project. You don't want to be disbursing ahead of their performance, so you want to make sure you structure fees not only in terms of capping overall amounts, but deciding how, when and how much will be paid to a developer through the development process and how much is retained until after a sale or closing is achieved.

There are some projects out there where the developer fee has been earned and paid, but the unit is still unsold. That removes one of the incentives for the developer to find a buyer and get the project closed out; and it leaves you, the PJ, stuck.

Another one then is in terms of what kind of soft costs that you are going to pay, or allow to be included in the budget versus what a developer has to pay. There are a number of decisions to make. The key thing is to think about what kind of budget; what you are going to permit in terms of costs; what type of improvements; what type of fees that you are going to allow; and then ultimately, what kind of analysis you want to do to make sure that there is adequate funding to get the project done.

What we usually think about however, and spend a lot of time on in the area of project underwriting is to assess direct homebuyer assistance. Marcia had the answer to the question when we took the Q and A, reminding you that what we are talking about in this webinar is development projects that include assistance to homebuyers so there may be cases where you have development projects where down payment assistance is provided or second mortgages are provided. So, this discussion that I am about to go into is focusing on more development projects, understanding what’s being provided in terms of assistance to the buyer.

She also commented, though separately, on down payment assistance programs. Even though you may not have... down payment assistance only... you may not have the market analysis requirement, you still need to make sure that the buyer is underwritten because ultimately, the OMB principals of reasonable and necessary apply to the kind and amount of assistance that you deliver. You need to make the determination that the assistance that is delivered to each household is appropriate to the needs of that particular household.

Let’s talk a little about assessing the homebuyer assistance and determining how you make that certification that you have adequately underwritten he assistance to the homebuyer. Questions you are ultimately going to be answering as you certify. Are the units affordable to low income buyers? Is the amount of HOME assistance necessary and reasonable for buyers to sustain ownership? And that debt that you are getting behind, that senior mortgage that they have that’s in front of your liens... is that something they can afford and pay over time and sustain their homeownership?

You are underwriting not only runs to your piece of the overall financing puzzle, but also those loans that are in front of you. As I mentioned, it applies to buyer acquisition, financing and the down payment closing assistance. Lenders tend to have a series of metrics or measures that they use in underwriting and a convenient reference are the four Cs, those key things that lenders look at. The four Cs of underwriting are credit, capacity, capital and collateral. With each of those, there is... I want to talk just for a moment about how lenders look at it and a lot of you have been running down payment assistance programs, or second mortgage programs and you already know and have standards that you use for this. There are some programs that do not yet have standards. I hope that this discussion will help lead you to developing the policies you need for underwriting.

Credit is mostly reflected in the credit score. Although it is not just that, that sort of main measure that is used these days, and I am sure all of you are aware of the credit score and the importance of it in qualifying people for funding. The thing that you need to address here is think about credit. How do you improve the credit and the credit scores of your buyers, and how do you deal with buyers that fall below the credit score limits that lenders have today?

Capacity is the second one. After you carry, the loan is usually analyzed in terms of front and back ratios. The front ratio is the ratio of housing cost or PITI income, and the back ratio is the ratio of housing cost and other debt to income. Some of you know the front and back ratios got quite high during the early 2000s when a lot of lending was out of control and contributed to some of the problems we had here. The front ratios of late have been reduced and are coming down to a more reasonable range. There is a variety of ratios that I am hearing out of there, but one of the things that I am hearing from a lot of PJs is that they are still worried about low income people being able to handle the mortgages at these front ratios that some lenders will permit.

It is okay for you to have an approach where you say that we don’t want our homebuyers to have a front ratio higher than a certain amount, even if a bank will approve it. Obviously, if you reduce the front ratio you are reducing the amount they can borrow in a first mortgage, which increases the amount of assistance that you will need to give to help make that homeownership affordable. It is something that you want to think about from a sustainability perspective. Just because a bank *{will}* lend based on certain ratios, doesn’t mean that you have to approve or get behind that.

The back ratio adds in other debt and as we know, other debt has been rising for a lot of households and sometimes that's the thing that keeps families from getting assistance. The other thing I urge you to consider in setting the pieces together in some of the other training over the years is to think about the back ratio as an important policy issue for you. If you have two families of equal income and one carries more debt than the other that means the one family will qualify for less of a first mortgage and need more assistance from you. At what point do you consider that other debt to be too high and therefore the assistance you have to deliver too much to a minimum front ratio as a way of dealing with this back ratio.

Capital refers of course to the down payment. Again, in the past decade, when lending excesses were prevalent, there were a lot of zero percent down programs and even some that provided financing in excess of a hundred percent loan to value. We have come back to the point where now most lenders and most underwriters have come to recognize again that the down payment is an important component of home purchase. People have the evidence that they can save money, save money now and *{cover}* costs afterwards that are not covered by the ratios, such as maintenance and utilities. The down payment, a lot of the programs now require a certain percentage down payment and others require that only a portion of that down payment can be provided by public programs. They are aware of some programs and seller provided financing is not permitted under the HOME or other federal programs and you need to come up with policies as to what you want to require as a down payment and how much down payment assistance that you will provide. Again, these policies guide the individual underwriting.

Finally, collateral runs to primarily the loan to value ratio and first mortgage lenders have their standards and when mortgage insurance is required, the lenders have their standards. The thing you need to think about is what is your standard for total loan to value. The assistance you provide in addition to the debt that the lenders provided... are you going to allow that to exceed a hundred percent, or are you going to provide second mortgage assistance that would in essence be unsecured by the value of the property? It becomes much more important these days when property values are not rising and in some places still declining.

In terms of your approach to this, again, the first mortgage lender has their standards, and you have to decide whether you can accept those standards in providing second mortgage assistance or down payment assistance to individual families. You need to decide either to review every first mortgage or develop written standards for all your partners, your sub recipients, CHDOs to follow and to review your monitoring process to make sure they are not getting behind risky first mortgages that threaten the buyer's home and the ability of the buyer to sustain homeownership.

Ultimately, the amount of buyer assistance is going to be an important determination in the program. Recent monitoring of HOME programs raise questions about how PJs and their partners determine the amount of assistance to each buyer. That will be reflected in what is necessary and appropriate for the family and should not be in the character of a one size fits all assistance amount. Most PJs are using the recapture method, which permits the sale of homes at fair market value and allows separation of development subsidy or excess development costs over fair market value from the buyer subsidy and what the buyer is ultimately responsible. The buyer subsidy becomes a combination of second mortgages or mortgage buy-downs, price reductions, or down payment assistance.

You will want to make certain as part of this underwriting that the home is fairly priced, that it reflects market so that you can determine how much assistance is really the homebuyers assistance, but you also want to make sure it is fairly priced and not reduced below market because those reductions in prices hurt overall neighborhood values. Looking at the lender appraisal or other things that help guide you in making sure that homes are being sold at fair market value is very important from both the program and a market standpoint.

In looking at how you ensure that the buyer assistance amount is reasonable, you may want to consider providing policies that say... that provide for up to amounts of assistance or varying levels of amounts of assistance depending upon buyer incomes, front and back ratios and things of that nature. You will want to make certain that you have established those in all the partners you have out there providing this kind of assistance. As Marcia said earlier, ultimately, you are responsible, but you have a lot of people acting on your behalf in the field and you want to make sure they have policies they can follow.

To summarize the policy part of this, what are the acceptable and unacceptable first mortgage terms that you will permit? Obviously, you want to avoid predatory loans, but there is also an awful lot of sub prime lending and there is an awful lot of even conventional lending that goes beyond standard that you might think is affordable and sustainable. The other thing then, is to have a policy for how buyer subsidy amounts should be determined. What front and back ratios, what floor and ceilings you require, how much buyer cash investment is needed, minimum contribution to down payment and/or closing costs and if you want to have post closing standards, and the range of buyer assistance amounts that you will permit.

With that, I am going to turn it back over to Steve.

Steve Lathom: Okay, thank you Monte... again, just a brief recap of where we have been today and we are going to do more Q and A in a few moments. Given the nature of our webinar we want to cover a couple of things including some house keeping things, and we will go back into Q and A. If you do have a question, I encourage you to go ahead and take the opportunity now to type it into the Q and A box at the top of the screen, or if you would like to ask that question verbally, go ahead and get it in the queue now by pushing star one.

Let's just recap where we are at. Remember, Congress... and I want to remind everybody here; we are dealing with the law, not an administrative requirement being imposed by HUD. Congress has essentially expressed concern about performance in the HOME program and required that participating jurisdictions take a step back, reassess and be more deliberate about what projects we fund and how and why we fund them. They want to see you asking and affirmatively answering three big questions. Is there a market? Is the developer capable? Do the projections make sense? As HUD laid out in the CPD notice to do that, you as a PJ need to develop local policies that establish decision making metrics, procedures... especially in terms of your application process... they give you the information you need to conduct a comprehensive risk analysis for each project. Finally, you'll need to record and document your decision and make the appropriate certification in IDIS.

I also think it is important that we point again to the commitment you are going to make. We have given you the language a couple times and this is the screen you are going to get. You are going to need to agree that all of these things are true and the fourth bullet point, even though it is a little bit small, is the new one that covers those projects each individual activity that you set up. Look at the language very carefully because this tells you where it applies and where it doesn't. the system will have this show up every time and it says that if on clicking this about a project that's a 2012 action plan activity and it involves acquisition construction or rehabilitation of rental or homebuyer projects including the DPA. The PJs conducted that underwriting review, assessed the developer capacity and fiscal soundness and examined neighborhood market conditions. This is what it is all leading to from a systems standpoint.

Some final thoughts, we are essentially being asked that we underwrite projects and manage the risk involved. That is what this capital U underwriting perspective is all about and we have broken it down into components of market risk, developer risk and project risk. I think it is worth noting there is a lot of energy and properly so, around this issue and around the fiscal year 2012 HOME appropriations act requirements. These things intentionally raise the bar for everyone involved, but in our experience, in my experience and I know in Monte's, most of the PJs we work with have implicitly been doing this for a long time. None of you went out there, intentionally funded projects that you thought were going to fail, and many of the perspectives that we are encouraging you to use are in place to one degree or another in many of the local programs, most of the local programs. Together we can, and we have to do better. Now is the time to make sure our standards are clear, that we comprehensively review all of the projects that we had better track projects to see that they are progressing toward completion, a topic in another webinar that is going to did more deeply into that relative to the sales deadline.

Finally, don't forget that we have to document what we are doing and that we can show that we are doing what we are obligated to do. As one CPD director recently said in a training I was doing, he said just start. We know there is a lot here and we can't do all of this perfectly from the beginning, but instead of getting intimidated or frustrated, just start. Use the framework in a way that works for your community and accept that the process will be somewhat iterative or circular. We will need to improve it over time, but we can't wait until it is perfect to get started. Do the best you can, see what works and know that we are going to get better as time goes on. Also, it is important to recognize that markets change. We have learned some painful lessons over the past few years, especially when some HOME participants kept trying to do things that used to work even after it started to become clear that maybe they were not working any more.

Markets will continue to change, and hopefully for the better, and those changes will continue to require that we adjust to new risk, new trends and new opportunities over time. A couple of housekeeping sorts of things... we are going to be posting... they are not available yet, and they will be up over the next couple of weeks, but we are going to give you some additional resources to work from. There will be a simple Excel version of a performer for those if you that don't already have one. It helps you look at how much more a specific buyer might be able to afford, or in the reverse, when you are looking at a house, it helps you analyze how much income a potential buyer would need for that house to be affordable to them. We will provide some sample lists of things that you might start to include in your application to help you document the types of perspectives that we encourage today. We will also provide a list of other places, other resources that you can go and look at. Of course, if you don't have it already, we encourage you to go to the HOME web site, and you see the link here on the screen, to get that CPD notice 12-007 operating guidance for implementing the fiscal year 2012 HOME appropriations requirements.

Some other reminders, the recording of today's presentation, the presentation itself, and again those supplemental materials will eventually be available for download. The presentation right now can be downloaded from within the live meeting client in the upper right corner, click on that little icon that looks like three sheets of paper that says handouts, and you can download two different versions of today's presentation. One is in three slides to a page with the notes and one that has one slide per page... hometa.info will include the transcript and eventually the FAQs. At the end of the presentation we are going to turn on another thing for you to do, an evaluation of today's webinar and we encourage you to do that. Finally, within those evaluations, you will have the opportunity to ask additional questions. We are logging all of the questions that come in through the Q and A feature and we will use those to help us write the FAQs, but if you have highly specific questions about a detailed project, you certainly want to talk to your field office representative.

With that, what I'd like to do is go ahead and go into the final Q and A. We have probably about twenty minutes that we can go through our Q and A, so Marcia, or those folks at HUD, if you can tell us what question we would like to handle next, we will do that. Those of you that want to ask a question verbally go ahead and make sure you are getting into the queue. We will do a couple of the written ones and then we will go to the phones. Marcia?

> **This transcript does not include the Q&A portions of the webinar. HUD will be posting additional written guidance in the form of Frequently Asked Questions (FAQs) that address both questions addressed in this webinar and others that were not addressed due to time limitations. Those will be posted to the www.hometa.info website as they become available.**

Steve Lathom: Okay so with that, again what we are going to do in just a minute is we are going to... those of you who are still on the line, we are going to go into a separate place within the live meeting and you are going to be able to fill out a survey. We would like you to do those evaluations. I would very much like to thank everybody for joining us today. We know there is a lot out there and a lot of discussion and we appreciate your time. We appreciate your questions and your contribution to learning. We do appreciate all the work you do on behalf of the communities and residents you serve. As a brief reminder, we do have additional webinars coming up. There is another one on Monday, another one next Thursday, June 25 and July 10. Those will all be posted on HOME TA in the same fashion and you will continue those of you that are on the list serve will continue to get those e-mails. With that, do I have any final comments briefly from HUD before we go to the evaluation?

Marcia Sigal: No, I think we are running out of time, so thank you ever body for participating. I appreciate all your questions and just know that... keep checking the HOME TA web site at www.hometa.info and it is important that you give us these questions so we understand what we need to provide more guidance to you about over the next month or so, there should be plenty for you to consider that we put out. Thank you so much.

Steve Lathom: Okay, thank you so much and thanks again everybody. Please stay on the live meeting, you don't have to stay on the phone, but please fill out that evaluation and thank you again.

Erica: This concludes today's conference call, you may now disconnect.