

THE PHARES COMPANY

Quality Control Plan

Purpose:

The Phares Company is a HUD Multifamily Accelerated Processing (MAP) lender. In order to maintain this MAP lender designation, it is required to perform underwriting and construction loan administration in accordance with prescribed standards. This Quality Control Plan (QCP) is designed to provide a description of methods and standards to insure that loan underwriting and construction loan administration meet the prescribed standards.

Objectives:

The primary objectives of this QCP is to assure that The Phares Company:

- A. Operates at a high quality performance level in the origination, underwriting, construction loan administration, and closing of loans processed under the MAP program.
- B. Adheres to all of the requirements of the National Housing Act, HUD-FHA and MAP requirements, and all of its own policies and procedures.
- C. Adheres to the MAP Guide policies, MAP Forms Book, information provided in the “Frequently Asked Questions” section of the MAP website, HUD Handbooks, HUD Notices, Mortgagee Letters, and all other applicable regulations.
- D. Educates its staff on these requirements, insures that personnel understand where this information is located, and continues to train and develop them to insure they are complying with all requirements.
- E. Third party contractors involved in a MAP project are familiar with the HUD requirements and comply with the quality control standards.
- F. Revises its operating procedures from time to time to accurately reflect changes in the HUD, FHA, and MAP requirements, policies, directives, and instructions. Keeps all personnel informed and trained so as to insure compliance with new requirements. Holds third party contractors and personnel accountable for performance failures.
- G. Utilizes a program of internal and external audits to provide for an independent review of staff and contractors performance in association with origination, underwriting, construction loan administration, and loan closing.

General Information:

The HUD regulations are an ever changing set of parameters and all Phares

Company employees need to make a concerted effort to seek out and keep apprised of these changes. Since it would be easy for paper version of these regulations to become outdated, we have elected to use the HUD resources on the Internet as our library for this information.

The Phares Company maintains a website at www.pharescompany.com. On this website is a "Links" page that contains hypertext links to sources for current HUD, MAP, and GNMA, regulations, forms, and publications, as well as other sources of useful information applicable to the mortgage lending business. A current copy of this QCP is also maintained at this site. All employees are to be instructed to visit this website on a weekly basis to peruse the most recent publications from HUD and GNMA to keep themselves educated on recent changes. Third party contractors are also encouraged to make use of these resources.

In addition to the information available from various sources on the web, The Phares Company occasionally receives information from HUD and the Mortgage Bankers Association of America via email. This type of email information is routinely forwarded on to all employees and certain affected third party contractors whose work might be impacted by these notices.

As well as keeping up to date on program changes at HUD, it is equally important to keep HUD apprised of any changes that might occur at The Phares Company. The HUD Lender Qualification and Monitoring Division maintains information on all HUD and MAP lenders. In order to receive any correspondence related to changes to the programs, it is imperative that the LQMD have current information related to point of contact, addresses, email addresses, phone numbers, staff responsibilities, etc. for The Phares Company. Coordination of this information exchange is the responsibility of the chief MAP approved underwriter. Currently, the only MAP approved underwriter at The Phares Company is Ford Phares.

The Chief Underwriter is also responsible for submission of the annual certification to LQMD by June 30th of each year. This certification must list the names of all approved MAP underwriters, construction loan administrators, and authorized signatories to bind the lender on MAP applications. It should also state that all MAP underwriters have attended MAP Lender Training, that the MAP lender is currently a HUD approved multifamily mortgagee, and contain the following certification:

WARNING: HUD will prosecute false claims and statements. Convictions may result in criminal and/or civil penalties (18 U.S.C. 1001, 1010, 1012, 31 U.S.C. 3729, 3802)

This certification should be submitted to US Department of Housing and Urban Development, Office of Multifamily Development, Room 6138, 451 7th Street, SW, Washington, DC 20410.

It is the responsibility of The Phares Company to insure that they do not conduct FHA-HUD related business, employ, or contract with, any person who is debarred, suspended, or subject to a Limited Denial of Participation (LDP) or the Excluded Parties List System (EPLS) as defined in 24 CFR 24.105. Links to the appropriate excluded parties list are maintained at The Phares Company website. The Chief Underwriter should check this list prior to submission of any applications to HUD to insure that none of the sponsors or third party contractors are on this list. In addition, the Chief Underwriter should also check every six months to insure that none of The Phares Company employees are on this list.

As a HUD MAP approved lender, The Phares Company is required to retain a complete copy of the case file pertaining to the origination, underwriting, and/or construction loan administration for all MAP loans. This documentation can be retained in paper or electronic format. As a practical matter, all of this documentation should be retained for a minimum of five years and, if The Phares Company retains the servicing rights on the loan, should be kept until those servicing rights are terminated or sold.

Quality Control Review:

Independent oversight of originators, underwriters, and construction loan administrators is critical in the implementation of this quality control plan. This review should be sufficient in scope to evaluate the accuracy, validity, and completeness of our operations. Unfortunately, with The Phares Company being a very small business, there is not enough duplication of job responsibility to have much independent review of operations from inside the company. At this time, we have only one MAP approved underwriter and one construction loan administrator.

According to HUD guidelines, if The Phares Company closes fewer than ten MAP loans a year, it is required to do a quality control review of a sampling of its projects annually. This review should include one loan from each HUD program used, one done by each originator, and one done by each underwriter. MAP guidelines state that the underwriter and originator cannot be the same person but there is a provision whereby small companies with limited staff can have both of these functions performed by the same person. The Phares Company meets this criteria and employs one individual as the originator/underwriter. Under these circumstances, The Phares Company is required to do an annual quality control review on one loan for each HUD loan program used and, since the company only employs one originator/underwriter, the selected loans will have been originated and underwritten by the same individual.

Because The Phares Company has such a limited staff, internal reviews are not practical at this time. The Company will, therefore, have to rely on independent third party reviewers to meet its quality control review requirements. This third party review contractor should be familiar with all aspects of the MAP program and cannot be employed the company to perform any appraisals, property capital needs assessments, or any other reports required for a MAP application. This contractor will also have to be familiar with the review requirements of this quality control plan and have performed quality control reviews for other MAP lenders.

A “problem loan” is defined as a loan which goes into default within three years after final endorsement or during construction. In the event The Phares Company originates/underwrites a problem loan, it should undertake a comprehensive review and reexamination of the loan. The Office of Multifamily Development will also notify the originating MAP lender of the need to undertake this review. The review will be done on any problem loan, even if the loan has been sold to another lender. Since it is not the policy of The Phares Company to purchase loans originated by other lenders, provisions for review of problem loans originated by other lenders is not applicable.

Third party QC reviewers should be viewed by Phares Company employees as someone intending to help them become better at their job and helping the company manage risk. The reviewer should be treated with the utmost respect and courtesy. Files, loan documents, correspondence, etc should be made readily available to the reviewer and there should be no attempt to hide possible areas of inaccurate work or underwriting methods that do not meet the prescribed procedures and regulations.

Upon completion of the annual quality control review, the reviewer should prepare a written report for presentation to the senior management of The Phares Company. This report should be distributed to senior management and a meeting will be scheduled to discuss the findings in this report. At this meeting, senior management will carefully review and analyze the findings in the report and prepare a corrective action plan to address any negative findings in the report. This corrective action plan should include a description of actions to be taken to correct problems. There should be provisions for a follow up review of the corrective action plan to insure that the corrective actions are being adhered to by the appropriate employees. In the event some of the deficiencies are committed by third party contractors, these contractors should be notified of the problems and they should reply with how these deficiencies will be addressed in the future. Any future reports from these contractors should be reviewed with particular emphasis being placed on areas of previous shortcomings. If a QC review has findings which need to be addressed, there should be a follow up senior management meeting within six months of the QC review to insure that the findings in the report have been properly addressed and procedures are now in compliance with the applicable standards.

Following the senior management review of the QC review, a copy of the QC review and the corrective action plan will be submitted to the LQMD. In addition, findings discovered by employees or management during the normal course of business should be reported to HUD within 60 days. If the discovery involves a finding of fraudulent or of a serious nature, they should be submitted in writing to the LQMD.

This QC plan should be reviewed and periodically updated to incorporate issues that may have been omitted or changes in the business environment that need to be addressed. In addition, in the event a QC review finds that there are significant procedural deficiencies or instances of fraudulent activities, this QC plan should be updated and expanded to address these deficiencies and incorporate procedures to prevent them from occurring in the future.

Specific Requirements:

There are three primary areas of quality control that need to be the focal point of this plan, loan origination, underwriting, and construction loan administration. Insuring that these three functions are performed in accordance with HUD guidelines and prudent mortgage banking practice is critical in managing the risk inherent in the mortgage lending business. Quality control is not something that can be audited into the process after the loan is disbursed, but rather needs to be integrated into the procedures that the employees use during the application evaluation process.

Origination:

A loan originator is responsible for initiating the contact with a potential or existing client, doing preliminary project evaluation, and compilation of the required information to package and underwrite a loan. A loan underwriter takes the information collected by the originator and goes through a process to insure that the project and borrower represent an acceptable credit risk. In large mortgage companies, loan origination and underwriting are typically performed by two different individuals. Because The Phares Company has limited staff, both of these functions are being performed by the Chief Underwriter. While this combination of responsibilities could conceivably lead to some improprieties, with proper quality control measures and ethical employee practices, no problems should arise.

The loan originator has two basic functions. The first is to collect information about the project and borrower, and the second is to package this information for presentation to HUD and the underwriter. In performing these two functions, it is paramount that the originator is forthcoming and honest to the client, underwriter, and HUD. To disregard negative information about the project or the client or to make an attempt to conceal this type of information will seriously denigrate the

risk assessment process. To not thoroughly disclose the pros and cons of HUD financing to the client up front will erode that client's confidence in and satisfaction with the financing and with The Phares company.

In performing the duties of loan originator, this individual should:

- Attempt to completely and thoroughly educate the potential client of the pros and cons of HUD insured financing,
- Candidly discuss the loan processing time lines,
- Honestly assess the likelihood of successfully obtaining the type of financing the client desires
- Have the client provide actual operating statements and rent rolls to aid in preparing an accurate preliminary underwriting model,
- Practice non-discriminatory methods of client and project recruiting,
- Fully disclose all project and client information, negative and positive, to underwriters and HUD personnel.
- Monitor and stay apprised all correspondence between the client, third party contractors, and HUD to insure flow of accurate information.
- not discourage small loan clients or establish a minimum loan amount (other than HUD/GNMA minimums).

Underwriting:

One of the primary goals of this quality control plan is to insure accuracy and completeness of the underwriting conclusions and documentation. At a minimum, the following requirements must be met:

- A. Comply with applicable provisions of the National Housing Act, Title 24 of the Code of Federal Regulations, the MAP Guide, the MAP Forms Book, and the MAP Frequently Asked Questions.
- B. File all required identity of interest certifications.
- C. Insure that each loan file contains all HUD required loan processing, underwriting, legal documents, and all supporting reports.
- D. Comply with HUD's prohibition against referral fees.
- E. The originator/underwriter must be a full time employee of The Phares Company.
- F. The Phares Company cannot contract with a third party for underwriting services.
- G. Obtain the proper HUD approvals for the origination and underwriting to be performed by one individual.

Underwriting is the stage of the lending process that has the most impact on controlling risk. At this point, the originator/underwriter has the opportunity to review and assess the likelihood that the team (principals of the borrower,

general contractor, architect, management company, bonding company, etc) has the history and capability to successfully complete the project and operate it for years to come. It is critical that the originator/underwriter put aside all biased opinions and objectively assess and report the strengths and weaknesses of the proposal and form an opinion as to the likely success of the project.

Controlling the underwriting will focus on four primary components, the appraisal, market analysis, and architectural/cost analysis, and cost analysis. Attached in Appendix 5 is a checklist to be used to assure that underwriting is complete and thorough.

Appraisal:

The goal in selecting the appraiser should be to find an individual that is familiar with the type of property being appraised, familiar with the HUD MAP requirements, familiar with the requirements for the specific HUD loan program involved, certified and licensed in the property jurisdiction, and someone who is willing to discuss and defend their assumptions and conclusions with the underwriter and HUD review appraiser. Not only should an appraisal company be selected but the individual appraiser within the company that will be used for this work should also be scrutinized. The appraiser must be engaged by and paid by The Phares Company.

Prior to selecting the appraiser, the loan originator/underwriter should request a resume on the appraisal company and all of the individual appraisers within the company that will work on this project. This resume should include a listing of work performed by the appraisal company and the individual appraisers who will be working on this report. Upon receipt of the resumes, the originator/underwriter should review them to determine if the individual possesses the necessary qualifications and experience to complete the reports in compliance with HUD guidelines. If possible, it is good practice to contact the HUD review appraiser in the appropriate office to determine if they have experience with this individual. If the appraiser has experience working with other lenders on HUD projects, the originator/underwriter should request references with telephone numbers and contact these references to verify the competency of the appraiser.

Just prior to finalizing the appraisal, a draft should be submitted to The Phares Company for review. The Phares Company underwriter should review this draft for completeness and for soundness of assumptions and conclusions. A checklist is included in Appendix 1-A & B of this plan which can be used to assist in assessing the completeness of this draft report. This draft appraisal should be desk reviewed with this checklist to insure

that the report is complete. Once the draft has been reviewed, comments should be transmitted to the appraiser for inclusion in the final report.

Market Analysis:

The steps outlined for selection of the appraiser should be followed for selection of the market analyst. The appraiser and market analyst can, and quite often are, the same firm or even individual. This does not typically present any problems but it is important for the originator/underwriter to insure that the individual selected for this dual role has adequate qualifications to perform both functions. The market analyst can be employed directly by the client but his report still must meet the HUD and Phares Company guidelines. Attached in Appendix 2 is a checklist of points that must be addressed in any market analysis. This checklist should be utilized when reviewing the market analysis.

Architectural/Cost Analysis:

The architectural analyst should be selected based on their experience in completion of these types of inspections, reviews, and reports. There are a few of these service providers that are familiar with the MAP inspection and reporting requirements and the originator should restrict bidders on the work to this group. It is not necessary to select an analyst that is "local" but it is important to include familiarity with local requirements as a selection criteria. For example, if an architectural analyst is being selected to review projects in areas that are subject to hurricanes or seismic activity, it is important that they be familiar with code and prudent building methods to protect against damage from these types of occurrences.

It is helpful to confer with the local HUD architectural reviewers to inquire about contractors that are submitting quality reports. These HUD employees typically see more of these reports than lender employees and they can be a good source for constructive reviews of contractor's quality of work.

More often than not, the architectural analyst firm will not only consult on the architectural component of the project, but they will also perform the cost analysis, environmental review, lead based paint testing, and asbestos testing. It is somewhat advantageous to roll all of these services into one contract to avoid lapses in responsibility.

Attached in Appendix 3-A & B are architectural review checklists to be used in evaluating the architectural report. Appendix 4-A & B are checklists for the evaluation of the cost portion of the reports.

Construction Loan Administration:

Quality control of the construction loan administration process should, at a minimum, meet the following requirements:

- A. Analyze loans for general compliance with HUD-FHA construction loan administration requirements found in the MAP Guide, the MAP Forms Book, and MAP Frequently Asked Questions.
- B. Analyze escrow administration to assure that the escrows are properly funded and that the funds are only used for their intended purposes.
- C. Analyze procedures for collection and recordation of payment receipts; escrow bills; disbursements from escrow; and claim submissions.
- D. Analyze procedures that were use for handling letters-of credit.
- E. Analyze procedures that were use for handling the investment of construction loan escrows.
- F. Analyze the procedures for processing construction loan advances, change orders and notification of surety, cost certifications, and post endorsement escrows.
- G. Analyze delinquent loans and loans in foreclosure to determine compliance with HUD-FHA fiscal requirements and procedures such as timely assignments and extension requests, property preservation requirements and inspections.
- H. Review claim submissions on projects that have not reached final endorsement to assure that all efforts have been exhausted to “work-out” the loan and that all claims are properly documented, supported, and filed in accordance with HUD-FHA requirements.
- I. Follow the instructions in the Phares Company Procedures Guide for data entry and procedures guidance on daily operations.

The Phares Company

Ford Phares, President

Appendix 1-A
Lender's Appraisal Review Checklist
For Section 220 or 221(d) appraisal processing

1. Does the appraiser meet the qualification and competence requirements outlined in the MAP Guide?
2. Is the appraisal a narrative self-contained report that is inclusive of and supportive of all required HUD Form Documentation (HUD 92264, HUD 92264a, HUD 92273 and HUD 92274)?
3. Does the appraisal have an effective date within 120 days before the date of firm commitment?
4. Does the appraisal include the appraiser's USPAP required certification?
5. Did the primary appraiser designated by the lender and approved by HUD perform the property inspection and sign the appraisal report and supporting form documentation?
6. Did the appraisal include photographs of the subject, the comparable sales and comparable rentals?
7. Does the appraisal adequately describe and analyze the geographic area, neighborhood, rental competition, sales comparables, the site and the subject improvements?
8. Does the appraisal establish the project's "Replacement Cost" in accordance with Section 7.4 of the MAP Guide, and Form HUD-92264 instructions?
9. Substantial Rehabilitation – Does the appraisal include a supplemental HUD 92264 that identifies the "As Is" Value of the improvements, supported by the income and direct sales comparison approaches, as defined in HUD Handbook 4465.1 and the MAP Guide?
10. New Construction – Does the appraisal identify the "Warranted Price of land as defined in HUD Handbook 4465.1 and the MAP Guide?
11. Does the appraisal identify the "Estimate of Market Rent by Comparison", as of the appraisal date, arrayed in the included HUD-92273 and as defined in the form's instructions.
12. Does the appraisal identify the project's estimated potential gross income and stabilized occupancy ratio in the included HUD-92264 and defined in the form's instructions.
13. If commercial facilities are located within the project, does the appraisal include a separate analysis of the effect the commercial space will have on the project, as outlined in the MAP guide; and does the commercial space meet the income and floor area limitations outlined in the MAP Guide?
14. If any comparables have rent concessions, did the appraisal accounted for them in the market rental analysis as defined in the MAP Guide?
15. Does the appraisal identify the project's estimated operating expenses, based upon at least three expenses comparables arrayed in the included HUD- 92274, and as defined in the form's instructions?
16. Does the appraisal properly update the expense comparables, meet disclosure requirements for the comparables, and has the subject property's expenses been

- updated to the date of the appraisal per Form HUD 92274 instructions?
17. Does the appraisal identify the estimated operating deficit and replacement reserve requirements, as defined and outlined in the MAP Guide?
 18. Does the appraisal provide an estimation of the maximum insurable mortgage by completing a Trial Form HUD-92264a?

Appendix 1-B
Lender's Appraisal Review Checklist
For 223(f) appraisal processing:

1. Does the appraiser meet the qualification and competence requirements outlined in the MAP Guide?
2. Is the appraisal a narrative self-contained report that is inclusive of and supportive of all required HUD Form Documentation (HUD 92264, HUD 92264a, HUD 92273 and HUD 92274)?
3. Does the appraisal have an effective date within 120 days before the date of the submission of the application for a firm commitment?
4. Does the appraisal include the appraiser's USPAP certification?
5. Did the primary appraiser designated by the lender and approved by HUD perform the property inspection and sign the appraisal report and supporting form documentation?
6. Did the appraisal include photographs of the subject, the comparable sales and comparable rentals?
7. Does the appraisal adequately describe and analyze the geographic area, neighborhood, rental competition, sales comparables, the site and the subject improvements?
8. Does the appraisal establish the project's fair market value supported by reconciliation of the cost, income and sales comparison approaches in accordance with Section 7.4 of the MAP Guide, and Form HUD-92264 instructions?
9. Does the appraisal establish a total estimated replacement cost and apply all applicable forms of depreciation for use in the final reconciliation process?
10. Does the appraisal identify the "Warranted Price of land as defined in HUD Handbook 4465.1 and the MAP Guide?
11. Does the appraisal identify the "Estimate of Market Rent by Comparison", as of the appraisal date, arrayed in the included HUD-92273 and as defined in the form's instructions.
12. Does the appraisal include the current rent roll, a statement of current occupancy, and does it identify the project's estimated potential gross income and stabilized occupancy ratio in the included HUD-92264 and defined in the form's instructions.
13. If commercial facilities are located within the project, does the appraisal include a separate analysis of the effect the commercial space will have on the project, as outlined in the MAP guide; and does the commercial space meet the income and floor area limitations outlined in the MAP Guide?
14. If any comparables have rent concessions, did the appraisal accounted for them in the market rental analysis as defined in the MAP Guide?
15. Does the appraisal present at least three years of historic expenses, and have the forecasted expenses been based upon the historic operation of the property supported by at least three expense comparables arrayed in the included HUD-92274, and as defined in the form's instructions?

16. Did the appraisal properly updated the expense comparables, meet disclosure requirements for the comparables, and has the subject property's expenses been updated to the date of the appraisal per Form HUD 92274 instructions?
17. If it is applicable, does the appraisal identify the estimated operating deficit and replacement reserve requirements, as defined and outlined in the MAP Guide.
18. Does the appraisal provide an estimation of the maximum insurable mortgage by completing a Trial Form HUD-92264a?

Appendix 2
Lender's Market Analysis Review Checklist

1. Does the market analyst meet the qualification and competence requirements outlined in the MAP Guide?
2. Is the market study a narrative self-contained report?
3. Does the market study have an effective date within 120 days before the date of submission of the preapplication, or, with refinancing, within 120 days of submission of the application for a firm commitment?
4. Does the market study adequately describe and analyze the geographic boundaries and general characteristics of the market area, specific market conditions, characteristics of projects under construction and in the planning stages, and contain a supply and demand estimate and analysis and estimated absorption time (if applicable)?
5. Is the market study prepared in accordance with the information supplied by the MAP lender described in Appendix 4 of the MAP Guide?
6. Is the market study prepared in accordance with the format prescribed in the appropriate MAP Guide Appendix?
7. Does the market study include the market analyst's certification?

Appendix 3-A
Lender's Architectural Review Analyst's Checklist
Sections 220 and 221(d)

1. Has the Architectural Analyst determined that the Mortgagor's Architect (or other persons or organizations providing architectural services) is qualified to provide the design services to the project and to administer the construction contract?
2. Owner-Architect Agreement (AIA Document B-181) (If separate B-181s are required for design and construction services, indicate)
 - a. Are all necessary services included without deletion?
 - b. Is compensation other than fixed fee?
3. Architectural Standards. Does the Lender's Architectural Analyst review report address:
 - a. HUD Minimum Property Standards
 - b. Applicable building codes
 - c. Accessibility laws:
 - i. Fair Housing Act
 - ii. UFAS (if Part 504 is applicable)
 - d. Energy efficiency
4. Does report address the mortgagor's A&E exhibits:
 - a. Are drawings and specs complete and correct?
 - b. Availability of utility service?
5. Experience and qualifications of general contractor:
 - a. Did the Lender's architectural analyst prepare a written review of the general contractor?
 - b. Does the review indicate acceptance?
6. Identity of Interest review: Did Lender's architectural analyst perform an Identity of Interest review as described in 6 a,b,and c?
 - a. Is there a description of any and all identities of interest that exist between the owner's architect or engineer, the owner, and the general contractor?
 - b. Is there a description of any and all identities of interest that exist between the general contractor, subcontractor(s) and material supplier(s)?
 - c. If no identities of interest exist, is this stated?
7. Site visit: Does report address:
 - a. Physical features (existing construction, topography, drainage, etc)
 - b. Unusual site conditions, demolition, offsite construction
 - c. Environmental conditions/hazards
8. Architectural liaison with mortgagor's Architect:
 - a. Is there a processing record of architectural/engineering actions?
 - b. Is there an acceptable journal of architectural actions?
 - c. Is there an organized file of HUD applications, forms, documents?
 - d. Is there a record of meetings and contacts with the mortgagor's Architect?
Is there clear documentation?
9. Liaison with HUD labor relation staff:
 - a. Is there documentation of applicable Davis-Bacon wage rates including

- verification that the wage rates did not change during processing?
10. Liaison with Lender's cost analyst:
 - a. Has the Lender's cost analyst been supplied with current information concerning:
 - i. Davis-Bacon Wage Rates;
 - ii. Type of construction, construction methods and materials;
 - iii. Scope of work to estimate project Architect's fee?
 11. Lender's architectural analyst's Review Report of Firm Commitment architectural/engineering exhibits:
 - a. Is there a clear and complete exhibit review list?
 - b. Is there a statement indicating that:
 - i. Firm Commitment architectural exhibits are acceptable without condition.
 - ii. All deficiencies have been acceptably corrected.
 - c. Does report address:
 - i. Completeness of contract documents
 - ii. Conformance to local building codes and HUD standards
 - iii. Accessibility for persons with disabilities
 - iv. Site design
 - v. Building design
 12. Preparation of architectural portions of Form HUD-92264:
 - a. Is there a Form HUD-92264 with all architectural portions complete:
 - i. Section A – Architectural portions
 - ii. Section B - Architectural portions
 - iii. Section C - Unit breakdown with net areas
 - iv. Section D - Architectural portions
 - b. Has the architectural analyst signed the form?
 13. Standard Certification:
 - a. Did the Lender's architectural analyst submit a Standard Certification (MAP Section 11.2.K)?
 14. Mortgagor's Architect's certification:
 - a. Is there a Design Architect's Certification (MAP Appendix 5N)?
 15. Substantial Rehabilitation projects:
 - a. Has the Lender's architectural analyst submitted a report of the Joint Inspection?
 - b. Does the report indicate that a complete and thorough inspection was conducted?
 - i. All features of the project site
 - ii. Sufficient living units
 - c. Has the Lender's architectural analyst prepared a report on the mortgagor's Architect's Detail Work Write-up?
 - i. Does the report address:
 - (1) All general work requirements
 - (2) Specific work requirements
 - (3) Clarity or vagueness of work requirements

- (4) Historic requirements
- d. Has the Lender's architectural analyst indicated whether there are Engineering Reports?
 - i. Has mortgagor been notified of requirements?
 - ii. Has exact nature of engineering report been covered?
 - iii. Any special tests?
 - iv. Seismic resistance in applicable seismic zones?

Appendix 3-B
Lender's Architectural Analyst's Review Checklist
Sections 223(f)

1. Liaison with Lender's cost analyst:
 - a. Is there documentation of contacts regarding:
 - i. Nature and cost of repairs?
 - ii. Replacement reserve items?
2. Lender review of Project Capital Needs Assessment (PCNA):
 - a. Does Physical Inspection Report (PIR) address:
 - i. Adequacy of number of dwelling units inspected
 - ii. Condition of project
 - iii. Repair Work Write-up
 - (1) Critical repairs
 - (2) Non-critical repairs
 - iv. Expected component replacement and major maintenance needs
 - (1) Near Term
 - (2) Long Term
 - (3) Remainder
 - (4) Compliance with accessibility laws (for projects built after 3/13/1991).
 - b. Does Statement of Resources and Needs address:
 - i. Review and possible adjustment to the PIR
 - ii. Identification of Critical and Non-Critical Repairs
3. Review of mortgagor's exhibits:
 - a. Has Lender's architectural analyst prepared a review report of mortgagor's exhibits?
 - b. Does report indicate whether exhibits are complete and correct?
4. Preparation of architectural portions of Form HUD-92264:
 - a. Is there a Form HUD-92264 with all architectural portions complete:
 - i. Section A – Architectural portions
 - ii. Section B - Architectural portions
 - iii. Section C - Unit breakdown with net areas
 - iv. Section D - Architectural portions
 - b. Has the architectural analyst signed the form?
5. Standard Certification:
 - a. Has the Lender's architectural analyst submitted a Standard Certification (MAP Section 11.2.K)?

Appendix 4-A
Lender's Cost Analyst's Review Checklist
Sections 220 and 221(d)

1. Did the Lender hire a qualified construction cost estimator with experience in multifamily cost estimating?
2. Detailed independent cost estimate: Estimate must provide:
 - a. Documentation of method of estimation and data source
 - b. To be summarized on Form HUD-92326:
 - i. Detailed structure(s) and land improvement cost estimates, and costs of unusual site development
 - ii. Contractor's General Requirements
 - iii. Contractor's General Overhead
 - iv. Contractor's Profit (for non-BSPRA cases)
 - v. Architect's Design and Supervision fees
 - vi. Bond Premium and Mortgagor's and Contractor's Other Fees
 - vii. Onsite demolition costs
 - viii. Offsite improvements costs
 - ix. Project's Cost Not Attributable (CNA) to dwelling use
 - x. For sub rehab projects, complete Rehab CNA Worksheet (MAP Appendix 6C).
3. Preparation of cost portions of Form HUD-92264:
 - a. Is there a Form HUD-92264 with all cost portions complete:
 - i. Section G – Cost portions
 - ii. Section M
 - b. Has the cost analyst signed the form?
4. Review of Form HUD-2328, Contractor's and/or Mortgagor's Cost Breakdown:
 - a. Is HUD-2328 complete and signed by all parties?
 - b. Has Lender's cost reviewer prepared a comparison of Form HUD-2328 and the independent cost estimate on Form HUD-92326:
 - i. Line item comparison on Form FHA-2331-B
 - ii. Written documentation of resolution of significant differences in Lender's HUD-92326 and contractor's HUD-2328 cost estimates.
 - iii. Has Lender's cost reviewer prepared a written recommendation of approval or disapproval of contractor's HUD-2328?
5. Property Insurance Schedule, Form HUD-92329:
 - a. Has the Lender's cost analyst prepared and signed Form HUD-92329?
 - b. Is there a backup worksheet indicating how the Insurable Value(s) of the project structure(s) were determined?
6. Identity of Interest Review:
 - a. Has Lender's cost reviewer been supplied with Identity of Interest information by Lender's architectural reviewer?
 - b. For Identified general contractor:
 - i. Does the cost estimate indicate "BSPRA" under Builder's Profit?
 - ii. Has the 50-75% rule been applied to determine whether the

- contractor qualifies for general overhead and profit or BSPRA, or should be replaced by the dominant subcontractor?
- c. For Identified subcontractors and/or material suppliers:
 - i. Is there documentation that the Identity of Interest subcontract(s) were submitted for prior approval of overhead and profit?
 - ii. If any subcontract(s) were not submitted, has overhead and profit been deleted from the accepted contract amount?
 - iii. Have letter(s) of approval/disapproval been prepared for the mortgagor and general contractor?
7. Standard Certification:
- a. Did the Lender's cost analyst submitted a Standard Certification (MAP Section 11.2.K)?
8. Substantial Rehabilitation projects:
- a. Joint Inspection Report and Architect's Detail Work Write-up:
 - i. Does the Lender's cost analyst have a copy of the Joint Inspection report?
 - ii. Does the Lender's cost analyst have a copy of the mortgagor's Architect's Detail Work Write-up?
 - iii. Do the Joint Inspection Report and Architect's Detail Work Write-up include Reserve for Replacement (R4R) items?
 - (1) Is there an itemized breakdown of R4R items?
 - (2) Does the breakdown indicate the age and remaining useful life of the R4R items?
 - b. Detailed Cost Estimate:
 - i. Does the Lender's cost analyst's detail cost estimate clearly reflect all the scope of work items in the Detail Work Write-up?
 - c. Reserve for Replacement estimate:
 - i. Has the Lender's cost analyst provided an R4R cost estimate?
 - ii. Is the R4R cost estimate itemized and incorporate the remaining useful life for the R4R items?
 - iii. Is there a replacement schedule for the R4R items?

Appendix 4-B
Lender's Cost Analyst's Review Checklist
Sections 223(f)

1. Qualifications of Lender's Cost Analyst and Needs Assessor are acceptable?
2. Liaison with Lender's architectural analyst:
 - a. Has Lender's cost analyst been supplied with:
 - i. Sufficient project information to determine a hypothetical "as new" building?
 - ii. A copy of the completed PCNA
3. Summary cost estimate for hypothetical "as new" building:
 - a. Estimate provided
 - i. Documentation of method of estimation and data source
 - ii. Summary "bottom-line" cost estimate:
 - (1) Structure(s) and land improvement cost estimates, for hypothetical "as new" building:
 - (2) Contractor's General Requirements
 - (3) Contractor's General Overhead
 - (4) Contractor's Profit
 - (5) Architect's Design and Supervision fees
 - (6) Bond Premium and Mortgagor's and Contractor's Other Fees
4. Preparation of cost portions of Form HUD-92264:
 - a. Is there a Form HUD-92264 with all cost portions complete:
 - i. Section G – Cost portions (hypothetical "as new" costs)
 - ii. Section M must be blank.
 - iii. Are Critical Repair costs and Non-Critical Repair costs summarized in Section O?
 - b. Has the cost analyst signed the form?
5. Lender review of Project Capital Needs Assessment (PCNA):
Does report address:
 - a. Cost portions of Project Inspection Report (PIR):
 - i. Cost of Critical repairs
 - ii. Cost of Non-critical repairs
 - iii. For all deferred non-critical repairs, estimate of required escrow amount
 - b. Expected cost of expected component replacement and major maintenance needs for:
 - i. Near term
 - ii. Long term
 - iii. Remainder
 - c. Statement of Resources and Needs recommending:
 - i. Initial Deposit to the Reserve for Replacement, if any
 - ii. Annual (or monthly) deposit to the Reserve for Replacement

- iii. Near Term replacement schedule indicating annual deposits, itemized expenditures, and remaining funds at the end of each year.
 - iv. Changes to Needs Assessor's PCNA conclusions.
- 6. Property Insurance Schedule, Form HUD-92329:
 - a. Has the Lender's cost analyst prepared and signed Form HUD-92329?
 - b. Is there a backup worksheet indicating how the Insurable Value(s) of the project structure(s) were determined?
- 7. Standard Certification:
 - a. Has the Lender's cost analyst submitted a Standard Certification (MAP Section 11.2.K)?

Appendix 5
Lender's Underwriting Review Checklist
Sections 220 and 221(d)

1. If new construction or substantial rehabilitation, did the pre-application submission include an acceptable narrative summary, summarizing the market study and extent of competition as well as describe the features of the proposal which may present problems, such as zoning, ground leases, and environmental issues.
2. Did the Lender's pre-application submission list the proposed MAP Lender reviewers? Were any proposed reviewers rejected by the Hub, and, if so, why?
3. In the application for the firm commitment, did the Lender provide a narrative analysis which discussed the characteristics of the project for which mortgage insurance was sought, presenting the reasons that the Lender recommends the loan for mortgage insurance?
4. Did the Lender's narrative analysis for the firm commitment application discuss the risk factors?
5. Did the narrative analysis for the firm commitment application properly evaluate the financial capacity and the experience in multifamily housing of the principals of the borrower?
6. If the application is for refinancing or purchase, did the narrative analysis provide a satisfactory description of the property?
7. Did the Lender's narrative analyses provide a satisfactory analysis of the market, the rents, and expenses, and the estimated rent-up costs and operating deficit?
8. For refinancing, did the Lender determine the adequacy of the reserve for replacement?
9. Did the underwriter make any changes to the appraisal or technical reports? If so, what were they, what was the justification?
10. At the Lender's request, did the Hub or Program Center Director waive any of the MAP requirements? If so, what requirements were waived and were there justification for the waivers?
11. At the Lender's request, were any waivers requested by the Hub Director from HUD Headquarters? If so, what were the waivers requested, and was the request approved or rejected and why?
12. Did the Lender obtain the necessary certifications from the individual reviewers?
13. Did the Lender certify that the proposed loan represented an acceptable risk to the Department (Section 221d3 or 221d4 or 220) or is economically sound (Section 223(f)), based upon the Lender's analysis, and that the loan complied with all FHA statutory, regulatory and administrative requirements?
14. Did the Lender prepare a Master HUD 92264 signed by the Lender's underwriter?
15. Did the Lender submit an application for a firm commitment within 120 days of the date of the invitation letter. If not, did it request an extension, providing justification for the extension request?

16. Were any changes made by the underwriter to a technical report's finding, conclusions and/or recommendations. If so, was it documented fully and supported by data.
17. Credit reports on businesses and individuals.
 - a. Determine whether the loan file contains business and individual credit report(s) on the appropriate principals, sponsor, mortgagor, and general contractor, if applicable.
 - b. Determine if more than one credit report was ordered on the same principal/company; and if so, whether the most current credit reports were submitted with the loan package to HUD-FHA.
 - c. Determine whether any outstanding judgments shown on the credit report(s) were accompanied by an explanation and supporting documentation. If delinquent Federal debt existed, the Lender must have included a letter from the Federal agency in accordance with Section 8.3G of the MAP Guide.
18. Determine whether verifications of deposit and trade references were sent, received and considered in the project underwriting.
19. Determine whether all conflicting information or discrepancies were reconciled and properly documented in writing.
20. Determine that the loan file contains a financial statement(s) on the principals, sponsor, and on the mortgagor. If the project involved new construction or substantial rehabilitation, determine if a financial statement was obtained from the general contractor.
21. Determine that the financial statements were analyzed following generally accepted business practices to determine financial capability.
22. Verify that the MAP underwriter determined that the sponsor and/or general contractor had a sufficient level of experience for the type and/or size of project that was approved.
23. Determine if all negative information about the project and individuals or entities involved in the transaction was disclosed to HUD in the underwriter's written summary.
24. Determine if the underwriter performed due diligence quality control over the work of the MAP Lender's staff and/or third party contractors used in underwriting the project.
 - a. Determine if the preparers of the forms/reports/reviews are qualified as required by the MAP guide, and have insurance, if the MAP Guide requires any.
 - b. Determine if the forms/reports/reviews were prepared in the manner required by the MAP Guide and that the forms/reports/reviews are complete and accurate.
 - c. Determine if the proposed loan represents an acceptable risk based on the underwriters review and analysis.
 - d. Determine if the required reports and documentation flowed in a timely manner from one discipline to another.
25. Determine that the underwriter analyzed the project's proposed management

program. This includes a review of the management agent's past experience and performance to determine the agent's capacity and track record to assure that the development should be managed in a prudent, efficient and cost-effective manner.

26. Determine if the underwriter verified the professional used in the environmental review and selected by the sponsor/developer was qualified for the assigned responsibilities
27. Determine if the underwriter provided HUD with a narrative report and supporting documentation plus the Phase I Environmental Site Assessment (ESA) or Phase II ESA.
28. Determine if any of the Sponsors, architects, contractor's, underwriting contractors, or others involved are subject to a HUD Limited Denial of Participation (LDP) or are listed on the Excluded Parties List System (EPLS) as defined in 24 CFR 24.105.