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UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

HUD Addressed Multifamily Mortgage Application Processing Delays, but Additional Action Is Needed To Better Manage Future Backlogs

Audit Report Number: 2024-NY-0002

August 9, 2024

To: Ethan D. Handelman
              Deputy Assistant Secretary for Multifamily Housing, HT

              //signed//
From: Kilah S. White
              Assistant Inspector General for Audit, Office of Inspector General, GA

Subject: HUD Addressed Multifamily Mortgage Application Processing Delays, but Additional Action Is
              Needed To Better Manage Future Backlogs

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the Office of Multifamily Housing Programs' efforts to address multifamily mortgage application processing delays.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, as amended, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at https://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call Kimberly S. Dahl, Audit Director, at (202) 617-6886.

Highlights

HUD Addressed Multifamily Mortgage Application Processing Delays, but Additional Action Is Needed To Better Manage Future Backlogs | 2024-NY-0002

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development (HUD), Office of Multifamily Housing Programs' efforts to address multifamily mortgage application processing delays. When applications for these loans are delayed, it slows the production and availability of affordable multifamily housing units. During the COVID-19 pandemic, HUD took action to eliminate a backlog of over 500 applications waiting to be assigned to underwriters for review. We did this audit to assess HUD's efforts for receiving and screening applications and assigning them to underwriters.

What We Found

HUD took steps to address delays in assigning applications to underwriters, but its methods and systems could be improved to help it manage applications and future challenges. HUD used several methods to address delays, including implementing (1) a nationwide queue, (2) an application completeness screening, (3) priority application processing, (4) use of contract underwriters, (5) workload sharing, and (6) an option to bypass initial feasibility reviews for certain applications (one-step processing). Although HUD eliminated the nationwide queue in November 2022, it was unable to transition successfully to a state-of-the-art processing platform. As a result, HUD still uses multiple systems, email, and other manual methods to process applications. We found this creates a future risk that HUD cannot process applications as quickly and effectively as possible. With a more integrated system and a plan for which methods will be used when applications exceed underwriter capacity, HUD can more easily identify, monitor, and address processing delays; evaluate its performance and processes; and manage future challenges, such as fluctuations in application volume.

What We Recommend

We recommend that HUD enhance its system for receiving, processing, and assigning applications in several important ways. These include tracking applications and capturing application intake, screening, and status, including key dates; capturing data on the type of underwriter used; developing a portal for receiving documents and communicating with lenders; and generating Federal Housing Administration (FHA) loan numbers. Further, we recommend that HUD update its policies and procedures to include methods that will be used when applications exceed underwriter capacity, align intake and screening processes, and explain when timeframes will be enforced. Last, we recommend that HUD issue an industry wide letter to reinforce how intake, screening, and enforcement of timeframes will be handled.

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Background and Objective

FHA provides mortgage insurance for multifamily properties, which protects lenders in the event of default by property owners. HUD's Office of Multifamily Housing Programs is responsible for the overall management, development, direction, and administration of HUD's multifamily housing programs that facilitate the construction, substantial rehabilitation, purchase, and refinancing of multifamily properties. While these programs can be used for large properties, such as those with hundreds of rental units, they can also be used for properties with as few as five units. HUD's Office of Multifamily Housing Production provides direction and oversight for FHA mortgage insurance loan origination, including implementation of Multifamily Accelerated Processing (MAP).

HUD processes mortgage applications through MAP and Traditional Application Processing. In 2000, HUD introduced MAP as a pilot program to facilitate faster loan application processing for FHA multifamily mortgage insurance. Under MAP, approved lenders prepare, process, and submit loan applications for underwriting with HUD. Underwriting is then handled through five regional centers and seven satellite offices, as well as contract underwriters.

As shown in figure 1 below, the volume of multifamily loans significantly increased in 2020, 2021, and 2022 after decreasing in 2018 and 2019.

Figure 1: Multifamily loan volume over time[1]
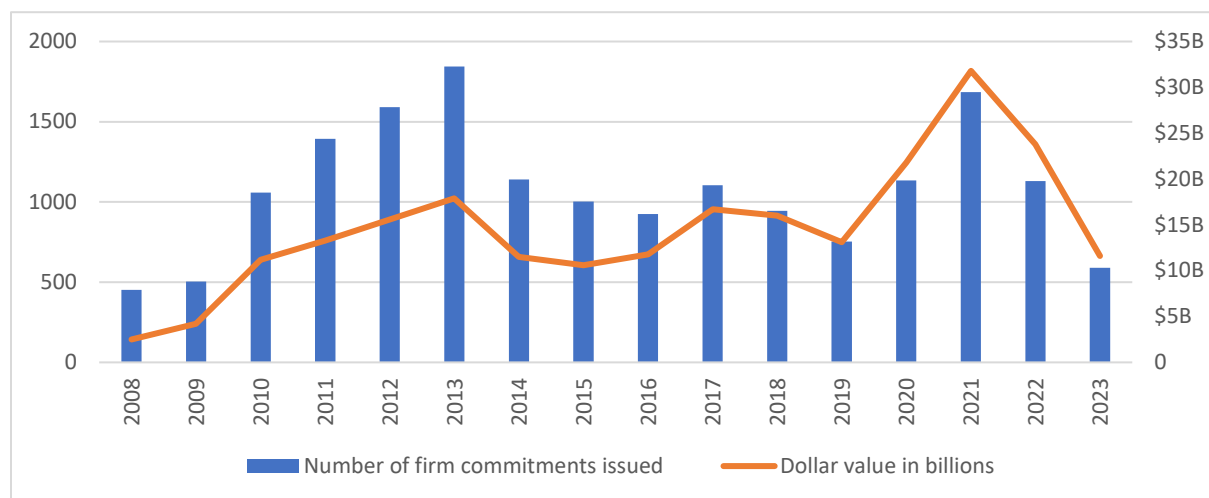
While HUD received a sharp increase in applications during this period, there were significant fluctuations in the past. For example, between 2008 and 2013, HUD went from having fewer than 500 firm commitments during the year to more than 1,800. Following this increase,[2] HUD began assigning

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[1]   While this figure is based on loan commitments, final endorsement may occur in a different year.
[2]   A June 2015 Multifamily for Tomorrow Transformation Progress Report discussed the changes made. Page 2 explained that during the volume increase preceding these changes, average application processing times were in excess of 9 months, with some customers waiting nearly 2 years for service. While this cannot be easily compared to the backlogs discussed in this report because HUD operated differently at that time and this report focused on delays in assigning loans to underwriters, it showed that HUD experienced fluctuations and backlogs in the past.

applications to a single underwriter based on application risk and complexity. It also began workload sharing to relieve bottlenecks, optimize staff use, and reduce wait times and backlogs. HUD also tried moving to a fully electronic processing platform, but this system was not implemented. Until the COVID-19 pandemic, lenders submitted applications and exhibits to HUD via mail or by flash drive. During the pandemic, HUD moved to receiving applications and exhibits through email and a third-party drop box service before integrating application submission into FHA Catalyst.[3]

The increase in loan applications received between 2020 and 2022 can be attributed to several factors that occurred during this period, including historically low interest rates, the economic effects of COVID-19 on capital markets and the lack of other funding avenues for builders, and the introduction of the updated 2020 MAP guide. HUD did not have staff capacity to meet the surge in applications during this time. At its height, in April 2021, there were more than 500 applications waiting to be assigned to an underwriter.

Our objective was to assess HUD's efforts to address multifamily mortgage application processing delays. Specifically, this audit focused on delays in assigning applications to underwriters.

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[3] FHA Catalyst is a secure, web-based portal that allows lenders to electronically submit applications to FHA for insurance on multifamily properties.

Results of Audit

HUD Addressed Application Processing Delays, but Additional Action Is Needed To Better Manage Future Backlogs

HUD took steps to address delays in assigning applications to underwriters, but its methods and systems could be improved to help it manage applications and future challenges. HUD used several methods to address delays, including implementing (1) a nationwide queue,[4] (2) an application completeness screening, (3) priority application processing, (4) contract underwriters, (5) workload sharing, and (6) an option to bypass initial feasibility reviews for certain applications (one-step processing). Although HUD eliminated the nationwide queue in November 2022, it was unable to transition successfully to a state-of-the-art processing platform. As a result, HUD still uses multiple systems,[5] email, and other manual methods to process applications. We found this creates a future risk that HUD cannot process applications as quickly and efficiently as possible.

HUD Used Several Methods To Resolve Application Processing Delays

Although HUD eventually brought its backlog of applications to zero using several methods, it did not have a written plan detailing these methods or note the methods it would use when applications exceeded underwriter capacity. Further, we identified several ways in which its methods and systems for application processing could be improved.

Nationwide Queue

HUD implemented a nationwide queue in which to place applications that it could not yet assign to underwriters to manage nationwide applications. The queue was used to manage the nationwide pipeline of applications and increase transparency to the lending community on the status of applications. Because HUD's systems did not contain a nationwide queue, weekly queue spreadsheets were manually prepared by staff and posted to HUD's website between September 2020 and November 2022. A total of 2,425 applications were placed into the queue during this period. Queue data for nearly all the 2,425 applications placed into the queue was reconciled with HUD's Development Application Processing system, while only 18 had incorrect loan numbers.

Application Completeness Screening

HUD enhanced its initial screening to ensure that all material documents necessary for processing were included in lender submissions before an application was placed into the queue. When applications were received, HUD staff reviewed them for all necessary documents before placing the applications in the queue. This measure was important because HUD noted that there was a decrease in the quality of applications in the months before implementing the nationwide queue. During the queue period, initial screening took place before an application could be placed into the queue spreadsheet to be assigned to

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[4]   The queue was used from September 25, 2020 to November 11, 2022.
[5]   HUD used Development Application Process (DAP) system to manage applications, along with its FHA Catalyst system to receive applications and supporting documents; email to communicate with lenders about applications; and various manual data such as the nationwide queue.

an underwriter. This measure helped reduce the amount of valuable underwriter and staff time being spent on incomplete applications.

HUD's systems did not capture screening, which made it difficult to track and determine how the enhanced screening impacted processing times or the quality of applications submitted over time. Further, HUD indicated that it did not enforce the 5-day requirement for lenders to fix incomplete applications with clerical or administrative errors found during the completeness screening. While HUD said that it did not enforce the timeframe laid out in its September 2020 memorandum to lenders because it was trying to be a good partner,[6] this gesture may have undercut its efforts to push lenders to submit complete applications. Further, HUD's MAP guide did not detail its intake and screening process, and some regions used supplemental resource materials.[7]

Priority Application Processing

HUD reportedly used priority processing to organize applications in the queue to prioritize loans for affordable housing projects.[8] However, HUD's systems did not have a data field identifying the priority type, so we were unable to determine the extent to which priority application processing was used. While the queue spreadsheets listed applications in priority order, we were unable to determine the extent to which priority processing was used because of the nature of the manual spreadsheets and the lack of priority type data in HUD's systems. HUD noted that staff with the knowledge and experience needed for a higher priority application may not always be available, which could impact its use of priority processing.

Contract Underwriters

HUD used two underwriting contractors during the queue period and assigned less complicated applications to them. According to data manually tracked by HUD, at least 368 of the 2,425 applications were assigned to contract underwriters during the queue period. Because its systems did not identify which applications were assigned to them, a HUD staff member prepared a spreadsheet listing the loans assigned to contractors, using information obtained from the regions. HUD noted that while it assigned less complex applications to its contractors, it sometimes needed to keep these basic applications for training its newer underwriters.

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[6] HUD's September 2020 memorandum emphasized the importance of submitting complete applications, discussed how lenders would have 5 business days to fix clerical or administrative errors, and explained that applications found incomplete during a second screening would be rejected and application fees would be considered earned. HUD's MAP guide also included a 5-day deadline to fix deficiencies during the loan process, although it allowed regional directors flexibility to set different timeframes.

[7] In addition to using MAP guide checklists indicating what documents should be included for each loan type, some regions used supplemental resource materials. For example, one region developed a more detailed checklist that incorporated guidance on what the reviewer should check for, such as the age of a document, how critical a given item was to the application, and a place for the reviewer to enter comments. A second region later adopted the more detailed checklist to assist with its initial screening.

[8] HUD used priority processing to prioritize applications for new pilot Low Income Housing Tax Credit Section 221(d)(4) program loans and opportunity zone transactions, and later added applications for new Low Income Housing Tax Credit properties as one of its priorities. Based on the priority list in effect at the time, these types of applications would be assigned to an underwriter before other applications that were lower on the priority list.

Workload Sharing

HUD used workload sharing to move application processing from one region to another to reduce bottlenecks, optimize staff use, and reduce wait times for customers.[9] According to its data, HUD used workload sharing to process at least 37 of the 2,425 applications during the queue period. However, HUD indicated that it was limited because regions had insufficient capacity to take on the additional workload of other regions. Based on queue data over time, it appears that most regions had loans in the queue, waiting to be assigned to an underwriter, until the fall of 2022. The Midwest region was the only region that frequently had zero loans in the queue, and it absorbed 26 of the 37 loans where HUD used workload sharing. HUD staff had to manually change the name of the production office in the Development Application Processing system, and workload sharing was discussed during biweekly meetings.
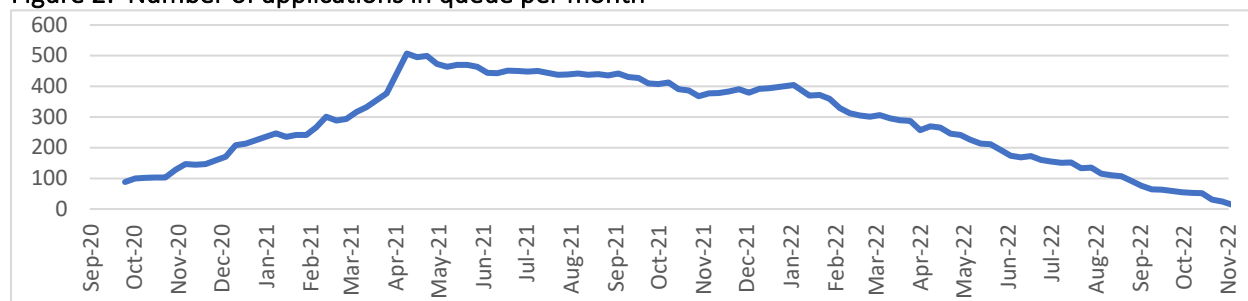
One-Step Processing

During the queue period and in response to rising material costs and increasing supply chain issues, HUD allowed direct-to-firm processing for eligible Section 221(d)(4) program applications, which involve new construction or substantial rehabilitation and tend to require experienced HUD underwriters.[10] According to HUD's data, at least 181 applications were processed using one-step processing during the queue period. HUD said that this measure helped to reduce delays because it allowed eligible preapplications to convert to firm applications while in the queue and allowed eligible applicants to submit a firm application without having to submit a preapplication. Lenders could bypass the process in which HUD got an overview of the project to review its feasibility and decide whether to undertake it. To qualify for one-step processing, HUD required development team members to have significant prior experience and properties not to involve certain complex issues, such as complex environmental issues. However, HUD's systems did not identify when lenders chose not to use one-step processing.

The Collective Process

We were unable to determine the specific impact of each of HUD's methods for addressing the delays. As shown in figure 2 below, the number of applications in the nationwide queue declined until November 2022, when it no longer had applications waiting to be assigned to an underwriter.

Figure 2: Number of applications in queue per month

We found HUD responded to the significant backlog in applications using its normal methods with a few modifications, but we could not determine how effective its methods were for preventing future backlogs or where breakdowns occurred because its systems do not fully capture the application process. HUD used multiple systems, email, and other manual methods to process applications because its previous attempt to create a state-of-the-art processing platform was unsuccessful.

HUD used its Development Application Processing system to manage applications, but this system does not (1) capture applications received; (2) capture screening of applications; (3) track all application statuses, which would instead be done manually; (4) allow HUD to calculate time elapsed between the date on which an application was received and the date on which an application was assigned to an underwriter; or (5) document communication between HUD and lenders, which would instead take place through email. While HUD began to use its FHA Catalyst system to receive applications and supporting documents, this system does not communicate with the Development Application Processing system.

HUD Should Take Additional Action to Better Manage Future Backlogs

HUD's ability to measure the effectiveness of its efforts to manage applications would be improved by having a more integrated system that incorporates a nationwide queue or manages unassigned applications, captures application screening, identifies priorities and staff experience and availability, includes contract underwriter information, incorporates a mechanism to facilitate and track workload sharing, and captures one-step processing eligibility and use.

HUD is developing a new system, the Portal and Loan Underwriting System (PLUS), which will replace the Development Application Processing and FHA Catalyst systems for multifamily applications and is intended to make application processing more efficient and effective. HUD's PLUS should include functionalities that the current system does not have, such as portals to receive applications and communicate with lenders and the capability to capture application screening and track different application statuses. It should also be able to establish a nationwide queue when needed and allow HUD to easily calculate the number of days elapsed between the date on which an application was received and the date on which it was assigned to an underwriter.

Conclusion

HUD eliminated delays in assigning applications to an underwriter after 2 years of focused effort and a decrease in new applications received, but it could improve its application processing methods and systems for more efficient response times. If HUD implements a more integrated system, it can more easily identify, monitor, and address processing delays on a continuous basis; evaluate its performance and processes; and manage future challenges, such as fluctuations in application volume. Further, if HUD updates its policies, procedures, and processes, to include methods that will be used when applications exceed underwriter capacity and to ensure that intake and screening processes align, its application processing can be more efficient and effective and help mitigate delays.

Recommendations

We recommend that the Deputy Assistant Secretary for Multifamily Housing

> 1A. Require that the PLUS system for receiving, processing, and assigning applications tracks applications and captures application intake, screening, and status, including key dates;

captures data on the type of underwriter used; includes a portal for receiving documents and communicating with lenders; and generates FHA loan numbers. This will allow HUD to identify, monitor, and address processing delays and issues on a continuous basis; evaluate its performance and processes; and manage future challenges.

1B. Update policies and procedures to include methods that will be used when applications exceed underwriter capacity, align intake and screening processes, and explain when timeframes will be enforced, including in PLUS.

1C. Issue an industry wide letter to reinforce how intake, screening, and enforcement of timeframes will be handled.

Scope and Methodology

We performed our audit work between April and November 2023. We did not conduct onsite fieldwork for this audit. Our audit covered the period September 1, 2020, through February 28, 2023.

To accomplish our objective, we

- Reviewed relevant sections of the 2016 and 2020 MAP guides, HUD memorandums, the National Housing Act (12 United States Code), and regulations (24 Code of Federal Regulations).
- Interviewed HUD staff to gain an understanding of the application process and relevant controls, including its processes for intake, screening, and assignment of applications to underwriters in its five regional offices.
- Analyzed computer-processed data from FHA Catalyst and the Development Application Process system as well as manually prepared data for loan applications included in the queue.
- Reviewed records provided by HUD, including regional application logs, weekly queue spreadsheets, staffing data, contract underwriter data, and guidance provided to lenders.
- Reviewed a prior HUD OIG audit report and related audit resolution.[11]

We relied in part on data provided by HUD from its DAP and FHA Catalyst systems as well as data in its weekly queue spreadsheets. We used the data to determine whether application completeness screening was documented in HUD's computer systems and whether data showed HUD's efforts used to address application processing delays. We assessed the reliability of computer-processed data and determined that the data were sufficiently reliable to achieve our audit objective.

We determined that internal controls over program operations (effectiveness and efficiency of operations) and reporting (reliability of reporting information for internal and external use) were significant to our audit objective. We assessed HUD's controls for application processing and methods used to address mortgage application processing delays, including its information systems and data.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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[11]   https://www.hudoig.gov/sites/default/files/documents/2016-AT-0001.pdf

Appendixes

Appendix A – Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation – Auditee Comments

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

OFFICE OF HOUSING

July 26, 2024

MEMORANDUM FOR: Kilah S. White, Assistant Inspector General for Audit

WILLIE FOBBS
Digitally signed by: WILLIE FOBBS
DN: CN = WILLIE FOBBS C = US O = U.S. Government OU =
Department of Housing and Urban Development, Office of Housing
Date: 2024.07.26 16:10:03 -04'00'

FROM: Willie Fobbs III, Director, Office of Multifamily Production

SUBJECT: Response to Discussion Draft Report - HUD Addressed Multifamily Application Processing Delays, But Additional Action Is Needed To Better Manage Future Backlogs

Thank you for giving us the opportunity to review and respond to the Discussion Draft Report - HUD Addressed Multifamily Application Processing Delays, But Additional Action Is Needed To Better Manage Future Backlogs.

The Office of Multifamily Housing (MFH) appreciates the comprehensive review and recommendations from the Office of Inspector General (OIG). MFH is pleased that the OIG recognizes the IT modernization efforts already underway by our program, and we agree with the OIG's recommendation to continue the development of PLUS (Portal and Loan Underwriting System). MFH will continue to seek funding for additional development phases of PLUS.

As described in the OIG's report, MFH experienced a significant surge in FHA loan applications in 2020-2021 in response to the 2020 MAP Guide implementation and the economic effects of the COVID-19 national emergency, including historically low interest rates. Demand exceeded internal capacity, and MFH utilized multiple tools, including contractor support, to respond to the surge, underlining the importance of MFH staffing and resources. We appreciate the report's acknowledgment of the numerous efforts by our program to address the surge and manage the queue, and we are proud of the record production volume by our platform and the hard work of MFH staff to process a backlog of over 500 applications during this challenging period.

MFH leadership and staff are committed to the office's mission to increase the national rental housing supply, create and preserve affordable housing, and provide a countercyclical source of capital in the multifamily credit market. MFH is also committed to continuous improvement and streamlining delivery of FHA multifamily loan products, and we agree with the report's recommendations – MFH's responses are below:

Recommendation 1A: *Require that the PLUS system for receiving, processing, and assigning applications tracks applications and captures application intake, screening, and status, including key dates; captures data on the type of underwriter used; includes a portal for receiving documents and communicating with lenders; and generates FHA loan numbers. This will allow HUD to identify, monitor, and address processing delays and issues on a continuous basis; evaluate its performance and processes; and manage future challenges.*

💬 **Comment 1 >**

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Comment 1 >

➤ MFH will continue to develop and implement PLUS in phases, and the recommended functionalities are planned to be included in Phases 1 and 2. Phase 1 (the internal DAP replacement) is nearly complete and targeted for release in fall 2024. Phase 2 (the external-facing lender portal) will be developed in 2025. Additional features are planned for subsequent phases. MFH has a five-year contract (base year plus four option years, through March 2028) to develop PLUS. Currently, Phases 1 and 2 are funded; additional funding will be required for subsequent PLUS phases.

Recommendation 2A: *Update policies and procedures to include methods that will be used when applications exceed underwriter capacity, align intake and screening processes, and explain when timeframes will be enforced, including in PLUS.*

Comment 2 >

➤ MFH will update policies and procedures as recommended. Decisions regarding locations for updates and additional documentation will be made by 9/30/2024.

Recommendation 3A: *Issue an industry wide letter to reinforce how intake, screening, and enforcement of timeframes will be handled.*

Comment 2 >

➤ MFH will issue updated guidance to the lender industry as recommended. Decisions regarding content and format will be made by 9/30/2024.

Comment 3 >

MFH will continue IT modernization efforts, and MFH will update policies and strengthen internal procedures as recommended in the report. These tools will help MFH respond to and manage future application surges as efficiently as possible.

Should you have any questions or need additional information, please contact me at (202) 402-6257.

OIG Evaluation of Auditee Comments

Comment 1   We recognize HUD's commitment to continuous improvement and streamlining of delivery of FHA multifamily loan products. We acknowledge HUD's ongoing efforts to develop and implement PLUS in phases, including its plan to implement the recommended functionalities in the first two phases, which are already funded. We look forward to working with HUD through the audit resolution process.

Comment 2   We acknowledge HUD's plan to provide management decisions and details by September 30, 2024, on its plans to update policies and procedures and to issue updated guidance to the industry. We look forward to working with HUD through the audit resolution process.

Comment 3   We recognize HUD's IT modernization efforts and agreement with our recommendations, which will help it respond to and manage future application surges as efficiently as possible. We look forward to working with HUD through the audit resolution process.