



Summer may be winding down but it's still heating up outside and so are we!

August is upon us, and so is the heat. Yep, it's hot out and so are the affordable and workforce housing markets. What's not so hot is the current state of HUD; facing uncertainties with the federal budget, political staff appointments, workforce shortages, and a growing production queue. In this newsletter issue we hit on a few big things in the recent world of HUD and FHA financing, including:

- **HUD Energized, or Not?** - The Green MIP Reduction program is full-steam (or should I say kW/hr?) ahead and continues to be the preferred financing method with market-rate new construction. The article below is about National Green Building Standard (NGBS), and what I found most enlightening is the Remodeler Path, which can often achieve the reduced MIP for Section 223(f) deals! On the flip side, HUD's energy programs under the MAP Guide and Section 8 programs took a significant step backwards last week. HUD confirmed on an MBA - FHA Underwriter conference call that the utility benchmarking and energy auditing requirements of the proposed Benchmark Rule (10-04-2016 Federal Register) and FHA MAP Guide are suspended until further notice. This was reiterated via the HUD [Office of Multifamily Housing Programs August 14, 2017 Clarification letter on Utility Benchmarking and CNA e-Tool](#).
- **HEROS** - It's here and is THE buzz right now. All 3rd party environmental consultants should be reporting in the HEROS platform for any FHA deal, including MAP, RAD, SAC and risk-share. As you will learn from the article below, HEROS is a large environmental processing gate keeper for HUD. Gone are the days of "just submitting" a loan application with some missing parts. If ALL the environmental parts of HEROS are not prepared and ready for upload, HUD cannot begin their environmental review and sign-off. Say "so long" to delayed or deferred environmental submissions!
- **E-Tool CNA Platform** - The last week of July, on an MBA FHA Underwriters Call, HUD's Office of Multifamily Housing officially suspended the mandatory energy benchmarking and energy audit requirements of the MAP Guide. While this news was welcomed by most FHA MAP Lenders, it was countered by HUD restating that the CNA E-Tool will remain a mandatory submission for all MAP deals starting on October 01, 2017. This was reiterated via the [HUD Office of Multifamily Housing Programs August 14, 2017 Clarification letter on Utility Benchmarking and CNA e-Tool](#). This means nearly any deal a lender engages going forward should be in the new CNA e-tool (assuming a 60-day window to get the study and underwriting completed).

D3G News

We're walking the talk! D3G was honored to accept a GRACRE (Greater Richmond Area Commercial Real Estate) Award for 'Best Sustainable Design' for our new headquarters renovation.

And we also celebrated our 23rd year in business on August 8th. How cool is that! Even more impressive is that 51 of our employees have been with us more than five years!



Green MIP and National Green Building Standard (NGBS)

The HUD MIP Reduction program accepts nine national and regional green building standards including Energy Star High Rise or Home, NGBS, LEED, Green Point Rated New Home Multifamily, Passive House, Enterprise Green Communities, Earthcraft, Earth Advantage and Living Building Challenge. All of these Green Building Standards are credible and have numerous strengths. Based on our experience, we have found that NGBS has been a popular choice for many developers based on cost and speed.



In March 2017, NGBS celebrated its 100,000th green accredited multifamily unit, including over 2,500 multifamily buildings. NGBS is consensus-based, approved by ANSI as an American National Standard and is tailored to the residential market. New Construction, Gut Rehab, Sub Rehab and smaller renovation projects can leverage NGBS. The Remodeler Path of NGBS is perfect for Section 223(f) loans with light to moderate energy retrofits. Certification requires onsite project inspection by a qualified, independent third-party known as an NGBS Green Verifier. This verifier will confirm that all green design and construction practices claimed by the builder toward green certification are incorporated into the project.

Securing the Green MIP energy modeling, energy data acquisition plans and other due-diligence services along with the green building verification from the same team can be more efficient and effective. To better serve our clients, we are adding to our green building expertise and now offer green verification services as well. Both Stephen Evanko and Tim Bryant are certified as NGBS green verifiers.

Projects seeking NGBS Green certification using the 2012-NGBS must be registered by June 30, 2018. After that date, projects will need to register under the 2015-NGBS standard which will require additional diagnostic testing.

If you are interested in learning more about how D3G can support your green MIP project from start to finish, let us know and we'll be happy to walk you and your team through the process and provide an overview of NGBS.

HEROS - Is it Super?



Although HUD's Environmental Review Online System (HEROS) is not what we typically think of when we think of the term HEROS, the acronym has taken the industry by storm and replaced our notions of Wonder Woman and Spider Man with a new web-based platform replacing the simplistic Form HUD 4128. HEROS is a web-based system for Responsible Entities and HUD to prepare and manage their Environmental Review Records (ERR) for both 24 CFR Part 50 and Part 58 compliance. HEROS applies to all environmental reviews for HUD-assisted projects. HEROS has been released in phases with Multifamily Housing utilizing the system since late 2016. In this white paper, we will discuss some of the issues encountered by the advent of the HEROS platform and what changes D3G has made to combat these challenges.

Why is this required?

HUD is required by law to review each of the Related Federal Laws and Authorities by the National Environmental Policy Act (NEPA) of 1969. NEPA requires Federal agencies to consider environmental effects that include impacts on social, cultural, and economic resources, as well as natural resources.

Access Limitations

At this time, D3G has not been able to access HEROS and is only familiar with the 17 Partner Worksheets for the Related Federal Laws and Authorities. There is currently pilot testing taking place for a future release to occur that will allow consultants and others (e.g. municipalities and responsible entities) access to the platform. The inability to see how the platform works has caused consequences on being able to provide HUD staff with what they need to complete their Environmental Review's and has been known to cause processing delays. Multiple adjustments have been made to our environmental reporting based on HUD's comments with the ultimate goal of making the conversion from the Partner Worksheets to the HEROS platform as efficient as possible for HUD staff. D3G has been advised that once the pilot test concludes, HEROS will be rolled out late summer to consultants and this should resolve many issues by allowing HUD to only review the data and documentation.

Bygone 4128

HUD's 10-page Form 4128 and Sample Field Notes and Checklist have been replaced with 17 Partner Worksheets for the Related Federal Laws and Authorities. These 17 Partner Worksheets are utilized by HUD to input into the web-based platform. The simplistic 4128 seems like a distant memory due to the details required for completion of each Partner Worksheet and even more burdensome source documentation requirements. Although the Partner Worksheets provide direction as to next steps to ensure compliance with each Related Federal Law and Authority, they have added extra time to the process. To aid HUD in their use and adaption to this system, HUD has recommended that the Partner Worksheets be separated from the ESA report. D3G has addressed this concern by preparing a Phase I ESA that is ASTM E 1527-13 compliant and a separate Environmental Review Record containing all applicable Partner Worksheets for the Related Federal Laws and Authorities in the order that HUD will review and upload source documentation in the web-based platform.

Source Documentation

You guessed it... everything needs a source document, as in each of the 17 Worksheets requires a source document. This could include anything from a map with a one mile radius for above ground storage tanks to a list from the U.S. Fish and Wildlife Service indicating there are no Coastal Barriers in the State of Colorado. Although this initially caused some growing pains, D3G has adapted to the requests and is providing all necessary source documentation.

Correspondence

Correspondence letters and more importantly, the responses, have become even more paramount with the advent of HEROS. This includes correspondence with the State Historic Preservation Officer, Sole Source Aquifers and Coastal Zone Management to name a few. Without a response, HUD is unable to complete their Environmental Review in HEROS and therefore is unable to issue a Firm Commitment. It is of utter importance that your consultant reach out early to the State or Federal agency for compliance and that follow-up is made constantly. In order to make improvements to our internal process for correspondence letters, D3G created a new position early in 2017 for the goal of tracking correspondence requests to government agencies and to make improvements on response turnaround times.

Reviews Online

Curiously enough, all reviews are available on the HUD Exchange website. If you are looking to see what a completed Part 50 Environmental Review Record looks like once HUD staff has inputted the details included on the Partner Worksheets into the web-based platform, you can do so on the HUD Exchange website at:

<https://www.hudexchange.info/programs/environmental-review/environmental-review-records/>

In closing, D3G has continued to modify our reporting to meet the needs of HUD staff and will continue to do so as necessary to ensure a seamless transaction. Although we have been required to comply with the Related Federal Laws and Authorities since the inception of the MAP Guide, the HEROS platform has required many changes in the reporting requirements that were previously found acceptable within the 4128. We expect a huge sigh of relief as soon as the HEROS platform is released for consultant use and eagerly await its release.

CNA eTool

HUD recently re-released the CNA e-Tool with several enhancements on August 03, 2017.

The mandatory usage date has been officially pushed back to October 1, 2017 from the original date of July 1, 2017 to account for the delays. The development of the e-Tool has been a long process filled with delays and personnel changes within the development team. During the last six months HUD and their development team have focused on improving the efficacy of the software and it has been an interesting experience to observe.

Approximately two years ago D3G set out to thoroughly test the most recently available version of the e-Tool and the corresponding validation site. D3G's primary goals were to:

- Test the software for general usability and efficacy
- Report back to HUD with findings of bugs and ideas for improvements
- Map out internal strategies for efficient workflow
- Assess impact of the new reporting tools with industry partners

D3G experienced numerous challenges while trying to test the e-Tool over the past two years. The fields in the user forms were discovered to not populate the fields in the corresponding worksheets. The software would grind if you had a different Excel spreadsheet open simultaneously and the visual basic code in the e-Tool had compiling errors and would not run through anticipated routines. Two years ago, the e-Tool was far from being a usable product and could not be vetted or tested thoroughly. D3G observed very little public movement with the e-Tool from the middle of 2015 until the fall of 2016. Even more frustrating for us, is that many of the bugs reported during 2015 industry beta-testing remained as bugs until early 2017.

During this quiet period D3G admittedly shared its concerns with industry partners over the future of the development of the software. Fortunately, during the last six months HUD has dramatically increased their roll-out with an abundance of tool literature, hands-on key training and updated software versions. During this same period, D3G decided to parallel HUD's efforts and we dramatically increased our efforts to test the new software and validation site. As industry pioneers, we took it upon ourselves to map out the CNA E-Tool architecture, and marry with our own proprietary capital needs assessment (CNA) reporting software. We asked ourselves "Could we streamline reporting on our side of the technology, and still have our systems "talk" to the new E-Tool platform?" After dedicating two full time technology and programming engineers towards the initiative the answer was yes.

Subsequently, D3G has made great strides in improving our efficiency with the tool, savings we hope can be passed on to the end users of the product (Lenders and Borrowers). What we have built is impressive, and makes the HUD platform more usable, efficient and effective.

You can find more information about HUD's most recent CNA e-Tool system release [here](#). Additionally, please contact your D3G Account Manager if you would like to inquire about CNA e-Tool training by D3G subject matter experts or would like a quote for a CNA e-Tool completion.



Affordable Housing, HUD, and FHA Industry Scuttlebutt!

Recently we have seen HUD remove barriers to multifamily housing production and preservation. Suspension of the energy benchmarking requirements in late July was well received by the MAP Lenders. President Trump rescinded Executive Order 13690, the Federal Flood Risk Management Standard on August 15th, a move I applaud. While these small changes are welcomed, more impactful changes are necessary, including such things as revamping Davis Bacon Wage Rate determinations and modernization of the archaic National Environmental Policy Act (NEPA) regulations, just to name a couple.

This summer's multifamily housing conference circuit, ranging from the Texas Affordable Housing Conference (TAAHP) in Austin, to National Leased Housing Association (NLHA) in Washington, DC and even the National Housing and Rehabilitation Association (NH&RA) conference in Quebec City, Canada, had similar dominant topics of discussion. "What is going on in DC?" was the common question. Here we are in August, and "Hello Washington, is anybody listening?". We need a budget. We need political staff at agencies like HUD, USDA and the EPA. We need tax reform that enhances the LIHTC. We need the RAD cap to be lifted. We need effective regulatory change. We need so much, in order to provide safe, decent and sanitary affordable housing to this country's workforce.

The multifamily housing industry has the knowledge and is prepared to meet the needs of this country, we just need a government with a desire to help solve the problem.

D3G On The Road

We're hitting the road again and will be at the following conferences over the next 60 days. Be on the lookout for Rob and Jen!

Aug. 29-30: **Affordable Housing BizSense**, Atlanta, GA
Sept. 12-14 **National Multifamily Housing County**, Washington, DC
Sept. 17-20: **Western Mortgagee Advisory Council**, Denver, CO
Sept. 26-28: **Virginia Housing Credit Conference**, Richmond, VA
Sept. 27-29: **Midwest Lenders Association**, Chicago, IL
Oct. 4-6: **LAHP**, New Orleans, LA
Oct. 5-6: **Novogradac Affordable Housing Tax Credit Conference**, New Orleans, LA
Oct. 10-13: **Colorado Housing Conference**, Vail, CO
Oct. 19-20: **NLHA 2017 Fall Seminar**, Washington, DC

As always, we appreciate your business and we love hearing from you! Please keep us in mind for your next deal. We have competitive pricing and the experience to ensure your next project is a success!

Sincerely,

[Rob Hazelton](#), President
Dominion Due Diligence Group (D3G)



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