

1

Capital Needs Assessments "CNA 101"

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2

Our Objectives Today

- Not intended as training on complete CNA process
- Focus on basics of a CNA
- Basics of how the RD CNA Template works
- Understand the purpose, items, and comments typically associated with a CNA



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3

Capital Needs Assessments

What is a CNA ?

- A written report which identifies the repair, replacement, and improvement needs of a property over an extended period of time.
 - (Necessary data for underwriting process)
- For RD purposes, these costs are associated by year over a 20 year period.
 - (HUD uses "remaining life of loan + 2 years")
- Intention/Goal is to make the property financially "self sufficient", to support itself.



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4

Capital Needs Assessments

WHEN ARE THEY REQUIRED?

1. New Construction Loans
2. Rehabilitation Loans
3. Transfer of project ownership
4. Loan Servicing:
 - a. Loan Reamortization.
 - b. Loan Write-down.
5. MultiFamily Housing Preservation and Revitalization program (MPR)



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5

Capital Needs Assessments

What Documents to Use?

- Until replaced with new UL, use Unnumbered Letter from last year's MPR program as guidance
- Include Attachment B, CNA Contract Addendum
- Include Attachment C / SOW
- Attachments on Accessibility (help for CNA Providers, Reviewers)
 - Accessibility Checklist
 - Accessibility Q&A document
- Underwriter and CNA Reviewer sign final report



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6

The CNA Process

Updating a CNA

- If cost data is more than 1 year old, a CNA update will be required
 - Complete new CNA is not necessary
 - Common if CNA gotten before application for points
- Provider can revise the CNA based on a review of property changes with the owner
 - Consult with owner on changes, replacements or repairs made since initial site visit
 - Review and, if necessary, revise cost information
 - Revise and reprint RD Template *with notation*
- If 2 years since site visit, new inspection



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The CNA Process

7

Owner selects CNA Provider

- RD provides Owner and CNA Provider copy of U.L., Contract Addendum, SOW, etc.
- HB-2-3560, Chapter 4.17.B
 - If owner (or new owner) pays, they pick
 - If operating budget pays, they pick
 - If reserves & under \$3500, they pick
 - If reserves & over \$3500, 2 bids required
 - If reserves & over \$3500 & IOI, 3 bids required
 - "Low bidder" not required, "reasonable" price
 - Not construction procurement, treat like professional services (architect, engineer)
 - "Get what you pay for...."



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The CNA Process

8

DIRECTORY OF PROVIDERS:

- Maintained by RD National Office.
- List of interested contractors.
- NOT a list of approved contractors.
- Contractors NOT required to be on the list.
- This Directory is NOT all-inclusive.
- Directory updated from time to time.
- Plan to terminate 10/1/09 (after this FY)



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The CNA Process

9

The CNA Contract Addendum

- Page B-4 of Attachment B to U.L. on CNAs
 - Status of CNA:
 - committed 3rd party funds,
 - requested 3rd party funds, or
 - no 3rd party funds
 - Note: Owner will not instruct CNA Provider to do "as improved" / post rehab CNA without RD approval
- Page B-5
 - Format for CNA report (our "RD CNA Template in Microsoft Excel format" best)



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10

The CNA Process

The CNA Statement of Work

Says CNA Provider Shall:

- Perform a Capital Needs Assessment
- Inspect the property
 - Minimum of 25% of all dwelling units
 - 20% if 50-99 units; 15% if 100 or more units
 - All accessible units inspected (or explain why not)
 - Responsible for consulting with property manager for appropriate unit sampling
- Inspect Site improvements, Architectural (common areas, and building exteriors), Mech & Elec, Dwellings
- Interviews with property owner, management, staff, and tenants as needed



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11

The CNA Report

Prepare a report using RD CNA Template or similar (our template is preferred)

- Project Summary
 - Identification of provider, owner, and project.
- Narrative
 - Description of property: rehabilitated? Family or elderly? 1 or 2 story? Crawlspace or slab?
 - Health and Safety issues?
 - Site, Architectural and structural elements, Mechanical and Electrical systems, Dwelling Units.
 - Compliance with Accessibility requirements (see next slide)



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12

The CNA Report

Accessibility requirements

(see Attachment F & G of U.L. on CNAs)

- If available, Owner to provide copy of Self Evaluation / Transition Plan to CNA Provider
- If none available, CNA Provider to use the Checklist in U.L. Attachment F
- CNA Provider uses information from SE/TP



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13

The CNA Report

- Narrative cont.
 - Environmental concerns (LBP, mold, etc.)
 - Recommendations
 - any professional reports necessary?
 - 3rd party funds committed / rehab:
 - Description of work, funding source, completion year, and total estimated costs
 - CNA based on "post rehab" needs if work will begin within 12 months
 - Remember to include rehab items in 20 year CNA if appropriate
 - Verify rehab items against owner's info
 - If no 3rd party funds or no rehab, "as is" CNA



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14

The CNA Report

- Inspected Units
 - List of units inspected
 - Percentage correct?
 - HC units visited? If not, why not?
- Site
- Architectural
 - Building exteriors, common areas, etc.
- Mechanical & Electrical
- Dwelling Units
- Executive Summary
 - Sums repair expenses from previous sheets
- Photos
 - Pictures of apartment complex



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15

The CNA Report

- Materials and Conditions
 - Item description
 - Use drop down menu, or create own
 - Expected Useful Life (EUL)
 - Pre-filled from Fannie Mae tables, or create own
 - Age of item, material, or system
 - Remaining Useful Life (RUL)
 - (RUL=EUL minus Age)
 - Condition
 - menu: Excellent, Good, Fair, or Poor
 - Needed action
 - menu: Repair, Replace, Maintain, Construct, or No Action)



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The CNA Report

16

- Materials and Conditions cont
 - Duration
 - Number of years work will take
 - Quantity
 - How many of the item?
 - Unit (of measurement)
 - Each? Square foot? Linear foot?
 - Unit Cost
 - Cost of that quantity (each, sq ft, lf)
 - Total Cost
 - Multiply: Quantity x Unit Cost
 - Comments or field notes relevant to report
 - Explanations / Information



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The CNA Report

17

- Capital Needs tables
 - Located on sheets labeled Site, Architectural, Mech & Elec, Dwelling Units, to right of repair items
 - Pulls data entered by CNA Provider
 - Calculates costs of each line item
 - Places cost in appropriate year(s)
 - Totals costs for that sheet
- Executive Summary
 - Totals costs from all Capital Needs tables
 - Costs sorted by year
- Photos
 - 10-25 digital photos of property
- Change History
 - Used by programmer to track changes / versions



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The CNA Report

18

- Calculating Reserves
 - Provider shall NOT analyze the adequacy of the property's existing or proposed reserve account nor its deposits
 - This will be addressed during underwriting
- Delivery
 - pdf file = electronic, can print, but can't change
 - you want "RD CNA Template in Microsoft Excel format"
 - good change Agency will "revise" the CNA as a part of the underwriting process, and will need the Excel version to be able to manipulate



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CNA Questions

19

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Capital Needs Assessment

20

Questions & Answers



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