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## Capital Needs Assessments Information Update 2009 CNA Provider Training

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## Introduction

- Historical Context
- Costs of a CNA
- Changes in CNAs / “Hot Topics”
  - Those “Determined”, “Determining”, or just considering (“Indeterminate”)
  - Update of a CNA (age related)
  - Revisions of a CNA (funding decision related)

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## Multi Family Housing Property Locations



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## Existing MFH Portfolio

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- Size of Portfolio:
  - 2003: 17,287 properties
  - 2008: 15,361 properties
  - (predominantly due to consolidations)
- Average Age of Property:  
28 years



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## Capital Needs Assessments

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### When Are CNAs 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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## Costs of a CNA

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- FY2006: (no data collected)
  - “probably \$3000 – 3500”
- FY2007: (602 CNAs reported)
  - \$3080 / CNA average (32 units)
  - \$93 / unit (for a 25-48 unit project)
- FY2008: (741 CNAs reported)
  - \$3298 / CNA average (36 units)
  - \$89 / unit (for a 25-48 unit project)



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## Costs of a CNA

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- Why track? CNA Reviewers asked to determine if costs “reasonable”
- Process:
  - End of Fiscal Year request data from all State Offices, analyze it
  - Provide summary data to all State Offices before NOFA, so available for next FY
  - Map for each Team, with number of CNAs, average number of units, and average cost per State for comparisons



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## Costs of a CNA

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Cost Data - Capital Needs Assessments  
MFH Section 515 Projects, FY08

IREM Regions III, IV, and VI  
Carlton Jarratt, Team Leader



For informational purposes only.  
Not for setting costs for CNAs.

AVERAGES:  
CNAs per state: 15  
Units per project: 25  
CNA Cost: \$3194

Team: 14  
39  
\$3125

LEGEND:  
ST - 7 = State / CNAs Done  
No = Average Number of Units  
\$6000 = Average CNA Cost



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## “Hot Topics” / Changes in CNAs

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- Come in flavors:
  - **Determined**
    - Will be changes in FY09 Unnumbered Letter on CNAs
  - **Determining**
    - Could use your input (here or later)
    - Will appear in UL if / when decided
  - **Indeterminate**
    - Long term issues we’re considering
    - Probably won’t make this year’s UL



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## Changes in CNAs - Determined <sup>10</sup>

- NOFA issues
  - Points awarded for having a CNA
  - Timing of the CNAs (if not selected...)
  - Extras (energy, “green”, etc.)
- Selecting a CNA Provider
  - *“Low bid” vs. “best qualified”*
  - *RD CNA Provider list phasing out*



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## “Updating” a CNA (by Provider) <sup>11</sup>

- From “annual” UL on CNAs (8/27/08):
  - if CNA over one year old (from date of RD approval) at application OR at underwriting, “update” required
  - May “update” the existing CNA
    - CNA Provider would review project with owner (“any changes made?”) and review costs
    - Reprint with new date, provide new electronic copy to Agency
    - *Include a statement in narrative that it is an update*
    - Should be less cost than a new CNA
    - If more than 2 years since site visit, must include a new site visit



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## “Revising” a CNA (by RD) <sup>12</sup>

- Expand policy explanation in FY09 CNA UL
- “Updating” a CNA = CNA Provider changes to CNA prior to RD approval / underwriting
- “Revising” a CNA = Agency changes to CNA during underwriting process (post RD approval)
  - As part of underwriting, the Agency may find it necessary to adjust timing, costs, or work to match the funds available
- Expect some confusion between the terms “updating” and “revising”
- *Some office may wish to have Provider “revise”*
  - *would no longer be independent*



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## Changes in CNAs - Determined <sup>13</sup>

- UL on CNAs to clarify who responsible to “revise” a CNA (RD)
  - Only says “by Rural Development” *once*
  - *CNA Reviewer and Underwriter cooperate*
- CNA Contract
  - Include “RD Addendum”, please!!!
    - Indicate format will be “RD CNA Template in Excel format” on page B-5
    - *May be reformatted* for new UL
    - *Include cost of CNA* (for our tracking purposes)



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## Changes in CNAs - Determined <sup>14</sup>

- RD Addendum (UL - Attachment B)
  - Page B-4 will be revised
  - Status of Proposed CNA
    - Owner has commitment for 3<sup>rd</sup> party funds:
      - *“as is” CNA to report present condition*
      - *Owner responsible for Scope of Work for rehab*
      - CNA Provider then create “post rehab” CNA
    - Owner *has / may request* 3<sup>rd</sup> party funds / rehab:
      - *“as is” CNA for sure*
      - *consult with RD about “post rehab” CNA*
    - Owner anticipates no 3<sup>rd</sup> party funds:
      - “as is” CNA



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## Changes in CNAs - Determined <sup>15</sup>

- RD Addendum (continued)
  - **Note: no “post rehab” CNA without RD approval language remains**
- During Underwriting
  - *“As is” CNA needed as “basis”*
  - *Actual Repair costs (not lines pulled from CNA) needed for funding analysis*
  - *Owner (not CNA Provider) responsible for repair list and cost estimates*
    - *From architect, cost estimator, or bids*
    - *Reported on 1924-13 (by trade line item)*



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**Changes in CNAs - Determined**

- Delete RD CNA Provider Directory list
  - *Will be ended 10/1/09 (this last FY)*
    - Established originally to educate owners of who can provide CNAs
    - Industry has become better known
    - No longer needed
    - Confusion of “must be on list?”
- “Information Package”
  - *“Include a completed questionnaire” will be deleted from UL on CNAs*



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**Changes in CNAs - Determined**

- Statement of Work (UL - Attachment C)
  - *Clarify language on items to be included in spreadsheets*
    - SOW page C-4 says “All materials and systems in the major groups shall be assessed”
    - Not every item in project must be listed
      - If not being replaced during this 20 year CNA, not required in “Item” list on spreadsheets
      - Imagine the size of the spreadsheet to include every material (item) used in the construction of an apartment complex....
      - Other items will appear in future CNAs



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**Changes in CNAs - Determined**

- The “Term” of CNA versus RUL
  - USDA / RD: 20 year Term (per SOW)
  - Fannie Mae: Term = mortgage + 2 years
  - What about items beyond the Term?
    - *Future “big ticket” items may “loom” in year 21*
      - *If major rehab in year 1, many items EUL = 20 years*
    - *Beyond 20 year items not caught / covered in this CNA*
      - *Reserve Account balance in year 20 will mitigate*
      - *Anticipate another CNA in year 6-10, those items will appear then, revise reserve deposits then*



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**Changes in CNAs - Determined**

- Varying the CNA Template
  - CNA Provider may make changes based on experience, just note it in “Comments”
    - Line item may not appear in drop down menu
    - Revise “Estimated Useful Life” based on your / project experience
    - Revise “Remaining Useful Life”
      - Based on condition / experience
      - Based on setting “Duration” correctly



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**Changes in CNAs - Determined**

- Setting a “Duration”
  - “Duration” BEGINS in year set
    - That means all items would last RUL, or more than RUL
  - RD wants “Duration” to “center”
    - Realistically, some items last < RUL, = RUL, > RUL
    - Will require adjusting “Age” to force centering
    - Note that adjustment under “Comments”
- 20 Year Durations – typically unrealistic
  - Do NOT spread costs of all items over 20 years
  - Only use if project very old, short EULs, or appropriate



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**Changes in CNAs - Determined**

- Using “lump sum” costs in a CNA
  - For example, bathroom rehab = \$3000
  - *Only when “appropriate”, “one time” fee*
  - Examples:
    - *conversion of a unit for accessibility*
    - *installing landscaping*
  - *Innumerate, explain in “Comments” or “Narrative” what done / included*
  - *May be used for kitchen / bath rehab only with RD concurrence, and explanation of what included (problem is replacing those items later)*



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## Changes in CNAs - Determining

- Changes in RD CNA Items
  - Some new items will be added to template
    - *Present RD CNA Template does not include concrete for parking / paving, fiber cement siding, septic systems (tanks, field lines, prepackaged), etc.*
  - Some items may be removed
    - *Items based on HUD urban properties may not be used in RD properties in rural areas*
  - Some EULs will be revised
    - *Based on Agency experience*



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## Changes in CNAs - Determining

- On site sewage treatment
  - Septic systems and small package treatment plants
    - What is appropriate Estimated Useful Life?
    - How to estimate replacement costs?
    - With septic:
      - Replace field lines only?
      - Replace tanks and field lines?
    - With package systems:
      - Replace whole unit, or components?



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## Changes in CNAs - Indeterminate

- Working with CNA Reviewers / Providers
  - Many of the “issues” between CNA Reviewers and Providers are personalities
  - Base CNA Reviewer comments on “content”, not “style”
  - *Hints for CNA Providers:*
    - *ask Owner if they've talked to RD....*
    - *Make introductory call to CNA Reviewer, discuss CNAs, and this property*
  - State law differences may be justified
  - RD Review of contract, draft CNA, and final CNA required



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## Changes in CNAs - Indeterminate

- Some Agency training issues:
  - CNA Provider selection:
    - Number of bids required (2 if > \$3500 and paid by reserves), more than 1 bid “recommended”
    - “Low bidder” not required
  - “Probable costs” vs. “rehab cost estimates”
    - CNA costs are for replacements, not a rehab!
  - CNA not an official repair schedule
    - An estimate of when repairs likely to occur
    - An estimate of costs for those repairs
    - A way to fund estimate reserves funding, not actual spending



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## Changes in CNAs - Indeterminate

- Inspecting crawlspaces and attics
  - UL on CNAs refers to ASTM standard
- Policy on items requiring additional testing / research and how to address those not clear at present
  - Mold, structural issues, asbestos removal, LBP issues, site grading, etc.



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## Contact Information

### MPR Public Website:

- Contact location for general public
- Information on MPR Program
  - includes CNA Provider List and application
  - Unnumbered Letter on CNAs
  - Latest RD CNA Template
  - 2008 data / information will be replaced with 2009 as it becomes available

<http://www.rurdev.usda.gov/rhs/mfh/MPR/MPRHome.htm>



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## Questions, Answers, Open Discussion

**Thanks!**



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