OFFICE OF AUDIT
REGION 4
ATLANTA, GA

Prudential Huntoon Paige Associates, LTD
Arlington, VA

Multifamily Accelerated Processing Program

2014-AT-1015

SEPTEMBER 30, 2014

Issue Date: September 30, 2014

Audit Report Number: 2014-AT-1015

TO: Benjamin Metcalf, Deputy Assistant Secretary for Multifamily Housing, T

Dane Narode, Associate General Counsel for Program Enforcement, CACC

Craig T. Clemmensen, Director, Departmental Enforcement Center, CACB

//signed//

FROM: Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: Prudential Huntoon Paige Associates, LTD Did Not Underwrite and Process a $49 Million Loan in Accordance With HUD Requirements.

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Prudential Huntoon Paige Associates'(Prudential) underwriting of a 221(d)(4) project, Preserve at Alafia (Alafia).

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, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.

September 30, 2014

Prudential Huntoon Paige Associates Did Not Underwrite and Process a $49 Million Loan in Accordance With HUD Requirements

Highlights

Audit Report 2014-AT-1015

What We Audited and Why

We audited Prudential's underwriting of a $49 million mortgage loan to develop the Preserve at Alafia, a multifamily project located in Riverview, FL. We initiated the review based on the early default, assignment, and significant amount of the project. Our objective was to determine whether Prudential underwrote and processed the loan for the Preserve of Alafia according to the U.S. Department of Housing and Urban Development's (HUD) requirements.

What We Recommend

We recommend that the Multifamily Hub refer Prudential to the Mortgagee Review Board to take appropriate action against its noncompliance, the Office of General Counsel take appropriate enforcement actions against the responsible parties and pursue civil remedies under the False Claims Act, if legally sufficient, and the Departmental Enforcement Center pursue administrative actions, if warranted.

What We Found

Prudential did not underwrite and process the loan for the Preserve at Alafia in accordance with HUD's guidelines and regulations. Specifically, Prudential did not properly analyze the appraisal and market study, accurately estimate the project income and rental rates, completely disclose all debts related to the property, adequately analyze the eligibility of the participants, and properly document prepaid costs. This condition was caused by Prudential's failure to practice prudent underwriting and its failure to conduct a sufficient review of related documents and third party reports that HUD relied on. As a result, Prudential exposed the Federal Housing Administration insurance fund to unnecessary risk and a loss of more than $20 million.

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BACKGROUND AND OBJECTIVES

Prudential Huntoon Paige Associates, LTD is one of the nation's leading originators of FHA multifamily and healthcare loans with regional offices located throughout the United States. Prudential is a MAP approved lender that underwrote and processed a 221(d)(4) new construction of the Preserve at Alafia which consists of 351 units located in Riverview, FL.

Section 221(d)(4) of the National Housing Act authorizes loans to be insured by the Federal Housing Administration (FHA) for the construction, substantial rehabilitation, and purchase or refinancing of multifamily projects. By insuring mortgages, HUD encourages private lenders (mortgagees) to enter the housing market to provide financing which otherwise might not be available to owners (mortgagors). Under the U.S. Department of Housing and Urban Development's (HUD) Multifamily Accelerated Processing program (MAP), approved lenders prepare, process, review, and submit loan applications for multifamily mortgage insurance. In accordance with MAP guidelines, the sponsor works with the MAP approved lender, which submits required exhibits for the pre-application stage. After HUD reviews the exhibits, it either invites the lender to apply for a firm commitment for mortgage insurance or declines the application. For acceptable exhibits, the lender submits the firm commitment application, including a full underwriting package, to HUD to determine whether the loan is an acceptable risk. Considerations include market need, zoning, architectural merits, capabilities of the borrowers, and so forth. If HUD determines that the project meets program requirements, it issues a firm commitment to the lender for mortgage insurance.

In accordance with MAP guidelines and federal regulations, Prudential is responsible for reviewing all documents submitted to HUD for insurance. The pre-application for Alafia was submitted in August 2008, and the firm submission was submitted in April 2009, with approval granted in July 2009. This project was initially endorsed in December 2009 for more than $48 million and finally endorsed in March 2012, for more than $49 million, after receiving a $1.2 million mortgage increase. No principal payments were made for the loan that defaulted in May 2012, and assigned to HUD in December 2012. A claim was paid in March 2013, and the loan was included in a July 2013 note sale for $29 million, which resulted in more than a $20 million loss to HUD.

HUD's Office of Multifamily Housing Programs is responsible for the overall management, development, direction and administration of HUD's Multifamily Housing Programs. The Office of Multifamily Housing Development provides direction and oversight for FHA mortgage insurance loan origination including the implementation of the MAP program.

The Lender Qualifications and Monitoring Division, which is a part of HUD's Office of Multifamily, required Prudential to obtain a project default review of the Preserve at Alafia Apartments from a third party source. Its purpose was to determine what caused the default and whether the MAP lender complied with program requirements. Prudential hired a third party contractor that reviewed the loan documents and submitted its report on February 11, 2014, regarding Prudential's non-compliance with the MAP Guide and HUD guidance, and management of the default and election to assign processes. Our audit was initiated prior to the issuance of this report and was separate from this review.

Our audit objectives were to determine whether Prudential underwrote and processed the loan for the Preserve of Alafia according to HUD's requirements.

RESULTS OF AUDIT

Finding: Prudential Did Not Underwrite and Process a $49 Million Loan in Accordance With HUD Requirements.

Prudential did not underwrite and process the loan for the Preserve at Alafia in accordance with HUD's guidelines and regulations. Specifically, Prudential did not properly analyze the appraisal and market study, accurately estimate the project income and rental rates, completely disclose all debts related to the property, adequately analyze the eligibility of the participants, and properly determine eligibility and document prepaid costs. This was caused by Prudential's failure to practice prudent underwriting and to conduct a sufficient review of related documents and third party reports that HUD relied on. As a result, Prudential exposed the FHA insurance fund to unnecessary risk and a loss of more than $20 million.

Prudential Did Not Perform an Adequate Review of the Appraisal

Prudential was responsible for hiring third party appraisers, reviewing appraisals, ensuring that the appraiser was prudent and the appraisal included supported and verifiable information.[1] The land value determined by the appraisal of $10.5 million was used to calculate the mortgage amount that was insured by FHA. Prudential signed certifications stating that all of the in-house, third party forms, reports, and reviews were reviewed by Prudential in accordance to HUD guidelines. In addition, Prudential's appraiser certified that the appraisal conformed with Uniform Standards of Professional Appraisal Practice. During our discussions, Prudential underwriting staff stated that the appraiser acted prudently and had extensive experience in appraising multifamily developments.

Based on our review of various related documents, such as site plans, architectural reports, and correspondence and market data, we identified deficiencies with the appraisal and information that appeared to mislead the reader. The deficiencies included inappropriate comparable sales allowing land value to be overstated, unsupported adjustments, and inaccurate site information relevant to the appraisal.

Inappropriate Comparable Sales

We conducted a review of the appraisal and determined that an outlier[2] was used in the calculation of land value. The outlier consisted of a significantly higher

[1] MAP Guide, Revised 2002, Section 11-1, 7-2, 2-10A, 15-1-A, Uniform Standards of Professional Appraisal Practice, Edition 2008-2009 Standard Rule 3, 3-1, 3-4

[2] An outlier is something that lies outside of a reasonable range of values and varies significantly with data provided.

land sale on Main Street in Tampa, FL, with significantly different characteristics that skewed the land value (see Table 1). This particular land sale was inappropriately used because it was not comparable to the Preserve at Alafia in location and size, violating requirements.[3] We obtained market data for the comparable land sale which identified that the property was located in the Westshore Business District in Tampa, FL, the largest business district in Florida. The Preserve at Alafia; however, is located more than 20 miles south in Riverview, FL, next to the Alafia River, in a residential area under development, that also contained wetlands, and is significantly different from the Tampa Westshore Business District market.

Taking a conservative approach and solely excluding the outlier, as discussed above, the estimated amount was $6.4 million or more than $4 million less than the $10.5 million appraised value (see Table1).

Table 1 – Comparable land sales

Properties (Used by lender for value estimate)	Comparables included in the appraisal		
		A	**B**
	Size (acres)	**Prudential's appraiser adjusted price/square foot**	**Recalculated adjusted price/square foot**
Subject Property: Riverview, FL	26.62		
Sale 1: Phillips- Riverview, FL	49.00	$ 2.67	$ 2.67
Sale 2: Main Street - Tampa, FL	5.70	$ 33.36	Excluded-not comparable
Sale 3: Foxworth- Riverview, FL	25.20	$ 8.29	$ 8.29
Sale 4: 78th Street- Tampa, FL	16.14	$ 5.92	$ 5.92
Sale 5: Oaks at Stone- Tampa, FL	4.66	$ 7.23	$ 7.23
Sale 6: Courtney Trace- Brandon, FL	15.11	$ 7.20	$ 7.20
Sale 7: Rocky Creek-Tampa, FL	10.20	$ 2.78	$ 2.78
Sale 8: Lake Kathy- Brandon, FL	22.91	$ 5.06	$ 5.06
Average price per square foot		$ 9.06	$ 5.593
Adjusted average price per square foot		$ 9.05	
Property square foot.		1,159,567	1,159,567
Land value (price/square foot times project square feet.)		**$ 10,494,081.35**	**$ 6,485,292.58**

In conducting additional reviews of the appraisal, we reviewed all land sales and adjustments and identified four of the eight sales used by Prudential's appraiser, were out of the market area and were not comparable to the Preserve at Alafia. Land sales are required to be comparable in location and size according to HUD Handbook 4465.1.[4] We contacted local realtors and appraisers who provided additional sales in the Brandon, FL[5], and Riverview, FL, areas, which supported a range in value from $2.75 to $7.64 per square

[3] HUD Handbook 4465.1, Section 2-1
[4] HUD Handbook 4465.1, Section 2-1
[5] Brandon, FL, was a submarket of Riverview, FL. Alafia is located in Riverview, FL.

foot. These land sales were available in public records for Prudential's appraiser at the time of the original appraisal. We also determined that Prudential's appraiser disregarded various indicators of the market downturn, and projected land value on the upper end of the scale. Based on this additional information, we recalculated the land value at an even lower amount of $6.1 million and not the $10.5 million calculated by Prudential's appraiser.

Prior to final approval, HUD questioned Prudential's final submission. HUD's correspondence to Prudential, dated June 3, 2009, stated that the $10.5 million land value was not supported, the price per unit should have been used instead of price per square foot to calculate land value, and requested justification for adjustments used in the appraisal. Prudential provided HUD a response including an additional appraisal which supported a $10.5 million value using price per unit. The appraiser obtained an average price per unit of $21,723, but used $30,000 per buildable unit, stating that the unit value was closer to the upper end of the price range but did not provide support. We do not agree that the new appraisal was representative of the current market.

In addition, Prudential's appraiser justified the appraisal and addressed HUD's concerns by stating that more recent land sales could not be obtained, that the land values closer to the Tampa area did not experience a significant decrease, and that the waterfront location insulated it from fluctuations in the market. However, during the review of Prudential's appraisal, we obtained two additional land sales that were available in public records and more comparable to the subject site (see Appendix C). Prudential allowed both appraisers to use the upper end of the scale to calculate land value and did not require the first appraiser to use land sales that were comparable to the Preserve at Alafia and were questioned by HUD, which resulted in an overstated land value.

Inappropriate Adjustments

The appraiser made adjustments based on the river location; however, the market reactions for multifamily properties may not have supported such an adjustment. Because the site plan included only 1 of the 11 apartment buildings with a direct river view, based on added premiums for river view units, the income for Alafia would have only increased by $28,800 per year. It is doubtful a prudent investor would pay considerably more for a water front site versus a non-water front site due to a return on investment of only $28,800 per year. Without additional sales and analysis, there was no support for a significant increase in site value based on the river influence.

Also, Prudential's appraiser failed to make appropriate adjustments based on the market reactions or other acceptable methods to adjust for notable differences, which was a violation of the Uniform Standards of Professional

Appraisal Practice.[6] The appraisal did not disclose that the Preserve at Alafia did not have adequate entrance and exit access, utilities were not provided to the site and that the site contained wetlands and potential species that were required to be removed by the County. The appraisal also stated the site would have road frontage, which was not consistent to site plans, as discussed below. By excluding these relevant characteristics of the subject site that would have required additional adjustments, the appraiser violated the Uniform Standards of Professional Appraisal Practice Standard Rule 1-2[7]. This data was readily available to Prudential's appraiser via public records, site plans, and other documentation.

Inaccurate site information

Prudential's appraiser failed to properly identify the location of the vacant land site which is a violation of Uniform Standards of Professional Appraisal Practice[8] and did not correctly describe it as required by MAP Guide.[9] The appraisal included an aerial photograph of the acreage being appraised which indicated that Preserve at Alafia would have frontage along Gibsonton Road and the Alafia River (see Photo 1), which was not consistent with the site plans (see Photo 2). According to the site plans and our April 2014 site visit, Alafia did not have frontage along Gibsonton Road. This space was reserved for the commercial development. The appraiser should have had data to sufficiently identify the site, as required by Uniform Standards of Professional Appraisal Practice.[10]

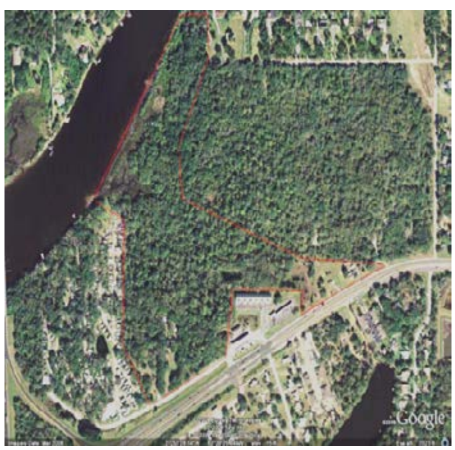

Photo 1- Aerial shot included in Prudential's appraisal.

Photo 2 - Aerial shot based on site plans and actual construction.

[6] Uniform Standards of Professional Appraisal Practice, Edition 2008-2009 Standard Rule 1-2(e) and (i) and HUD Handbook 4465.1 Section 2-3
[7] Uniform Standards of Professional Appraisal Practice, Edition 2008-2009 Standard Rule 1-2e
[8] Uniform Standards of Professional Appraisal Practice, Edition 2008-2009 Standard Rule 1-2(e) and (i), and 2-2(iii)
[9] MAP Guide, Revised 2002, Section 7-4
[10] USPAP, Edition 2008-2009, Standard Rule 1-2e, comment line 518

HUD instructed Prudential to obtain a default review from a third party source to determine what caused the default. The report documented that Prudential's underwriter failed to comment in the underwriting narrative that the appraisal noted that the current market rents may not allow for a cost feasible development at the time, which was critical to the mortgagor's ability to sustain the project and a violation of MAP Guide.[11] In addition, the report documented that the land was overstated and that inappropriate comparable land sales were used by the appraiser. The reviewer used the price per unit methodology to determine financial feasibility and recalculated the land value at $6.6 million. The reviewer also stated that the significantly higher land sale was an outlier[12] based on multiple characteristics and should not have been included.

Prudential Did Not Perform an Adequate Review of the Market

Prudential did not ensure that the market study analysis included updated information to reflect the economic conditions and did not use the data available to make an adequate analysis of the overall demand and feasibility for the Preserve at Alafia, as required by HUD Handbook 4465.1.[13] The study included outdated statistics, such as unemployment rates, census data, and trend analysis for employment, and building permits, that were dated from January 2000 to May 2007, about 15 months prior to the effective date of the July 2008 report. The market study disregarded available data indicating market decline, such as unemployment rates, as listed by the U.S. Bureau of Labor Statistics that showed that unemployment rates were consistently rising and nearly doubling by June 2008, which was one month prior to the effective date of the report.

In addition, the market study included comparable properties in which the average rent per square foot ranged from $1.09 to $1.14, but the market study proposed an average of $1.49 for Preserve at Alafia (see Appendix D). The comparable properties had larger floor plans and significantly lower rents in comparison to Alafia, and the market study showed no indication that the market could achieve similar rents to those proposed for the Preserve at Alafia. However, the market study stated the projects unique amenities and location justified the rents.

Furthermore, the market study did not identify properties with occupancy levels above 90 percent with rents similar to Preserve at Alafia (see Table 2). The market included renters with the capacity to pay rents significantly lower than the rents for Alafia. Without an analysis of the market Alafia was targeting, the study was not useful and appeared to be misleading.

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[11] MAP Guide, Revised 2002, Section 7-1a

[12] An outlier is something that lies outside of a reasonable range of numbers (values) and varies significantly with the other data provided.

[13] HUD Handbook 4465.1 Section 1-8

Table 2 - Occupancy rates

	Hillsborough County		Submarket: Brandon			
	Quarter 1 2008 occupancy rates percentage	Quarter 1 2008 average rental rates	Quarter 1 2008 occupancy rates percentage	Quarter 1 2008 average rental rates	Market study proposed rents for Alafia (average)	Lender revised rents for Alafia (July 2009)
All units	93.89	$ 870	94.37	$ 874	$ 1,484	$ 1,364
1 Bed/1 Bath	94.74	$ 724	96.27	$ 747	$ 1,263	$ 1,145
2 Bed/2 Bath	93.83	$ 942	95.02	$ 909	$ 1,492	$ 1,353
3 Bed/2 Bath	90.97	$ 1,124	89.53	$ 1,055	$ 1,698	$ 1,595

Prudential's risk officer conducted an analysis of the market prior to underwriting, and indicated that the subject market area was listed as "red" which indicated market concerns. This would indicate that Prudential was aware of the state of the market and should have mitigated the risks accordingly.

Prudential's default report stated that the market study failed to include developments in the planning phase that were stalled due to a poor economic and credit environment, as required by MAP Guide.[14] The market study justified the Preserve at Alafia's development by stating its unique location, off the Alafia River, and the superior amenities. However, the default report stated that the market's willingness to pay rent premiums based on amenity packages and the location of property was not recession proof. The market study failed to adequately describe specific housing market conditions and characteristics of projects under construction, as required.[15]

Prudential Overstated Project Revenue

Prudential overstated the project revenue estimated for Preserve at Alafia because it failed to use available up-to-date market data and relied on optimistic indicators which was a violation of requirements.[16] The market study showed that the pricing strategy would offer a superior product, at a slightly higher than gross rent price. Prudential used this methodology and overstated the rents for Alafia, thus overstating the revenue that the property could achieve, which affected the project's ability to meet its obligations.

Prudential priced the units at the top of the market based on optimistic indicators, such as being a mixed use development and having a riverfront location. The mixed use factor was unsupported because it was not certain that the commercial development would be completed. Also, Prudential did not obtain market

[14] MAP Guide, Revised 2002, Section 7-5
[15] MAP Guide, Revised 2002, Section 7-5
[16] MAP Guide, Revised 2002, Section 7-6

support to show a demand for riverfront properties in this area or the market's willingness to pay higher rents in the subject area. Therefore, Prudential should have estimated rents according to the general market demand, as required[17].

We recalculated the rents based on the comparable rental property with the highest rent per square foot, which ranged from $1.08 to $1.20, which was similar to rates actually being achieved (see Appendix E). We recalculated the rental income to $4.4 million per year compared to the proposed $5.3 million listed on the loan application dated July 2009, which was nearly $1 million less.

During our appraisal review, we determined that the rent premiums of $570,960 per year were overstated. Specifically, the rent premiums, or additional revenue charged, for the river view and floor location were not consistent with site plans and market data. The site plans identified that only 1 building would have river views yet the appraiser calculated additional revenue from river views for multiple buildings. The market did not support the additional revenue for floor location with the exception of the top floor yet the appraiser calculated additional revenue for floors in addition to the top floor. We recalculated the premiums which ranged from $235,000 to $250,000, which is less than half of what was initially projected. During discussions with the current property management, we were able to verify that only one side of one building was charged a premium for river view and only top floor units were charged premiums.

We identified significant concessions during the Preserve at Alafia's lease up phase, including a $338 discount for a 2 bedroom unit, which reduced the rental income to $959 per month. Significant concessions reduced income that affected Alafia's ability to pay its liabilities, such as the mortgage payments. As of April 2014, the project was receiving significantly lower rents than proposed by Prudential (see Table 3).

Table 3 - Proposed rents compared to current rents

	Rents proposed by Prudential July 2009		**Current rents as of April 2014**	
1 bed/1 bath	708 sq. ft.[18]	$1,100	757 sq. ft.	$855-$905
1 bed/ 1 bath	731 sq. ft.	$1,190	784 sq. ft.	$885-$995
2 bed/ 2 bath	917 sq. ft.	$1,350	980 sq. ft.	$955-$1,065
2 bed/ 2 bath	935 sq. ft.	$1,275	997 sq. ft.	$980-$1,030
2 bed/ 2 bath	1,066 sq. ft.	$1,435	1,134 sq. ft.	$1,155-$1,265
3 bed/ 2 bath	1,198 sq. ft.	$1,595	1,282 sq. ft.	$1,409

[17] MAP Guide, Revised 2002, Section 7-6b
[18] The difference in size was due to Prudential's use of net rentable square foot.

Prudential Failed to Disclose All Debts Related to the Project

Prudential did not disclose more than $300,000 in liens against the subject property at the time the firm application was submitted to HUD, as required.[19] HUD staff conducted a lien search and identified the liens approximately 1 month prior to loan closing. On November 3, 2009, HUD corresponded with Prudential regarding the liens that were filed between May 2008 and March 2009, prior to the April 2009 firm commitment, and the liens filed afterwards between May and August 2009. On November 10, 2009, Prudential provided HUD additional information stating that they obtained a clear title and that funds were escrowed for payment of the liens. The credit reports provided by Prudential during the firm application did not include any debt associated with the property.

In addition, we identified that the broker had additional roles in relation to the subject property. The broker also acted as a trustee for a $1 million loan to the mortgagors. The firm application submitted by Prudential did not include the additional $1 million debt on the land. In a November 5, 2009 letter, Prudential stated that the $1 million debt was erroneously left off the application but was included in the pre application underwriting narrative. However, the narrative did not disclose that the additional debt was associated with the broker. An invoice, later obtained, revealed that the broker acted as trustee for the $1 million predevelopment loan provided to the mortgagors. Prudential allowed the broker to have multiple roles which was a violation of the MAP Guide.[20]

Prudential Failed To Adequately Analyze the Eligibility of the Participants

Prudential failed to adequately assess the eligibility of the mortgagor and general contractor, as required.[21] According to the underwriting narrative included with the pre-application submission, the mortgagors and general contractor lacked prior HUD experience with multifamily insured projects. Two of the three mortgagor principals had unrelated experience that dealt with dentistry and corporate finance. Prudential should have mitigated the risk associated with key principals not having prior HUD experience.

Based on the loan documents, Prudential did not analyze the financial capacity of the borrowers and mortgagors because the loan was fully funded and would be repaid through project revenue. Prudential should have practiced due diligence and conducted a review of the mortgagors' financial capacity. If project revenue

[19] MAP Guide, Revised 2002, Section 8-1, 12-1-4G, 8-14
[20] MAP Guide, Revised 2002, Section 2-3J
[21] MAP Guide, Revised 2002, Section 8-3J, 8-3A-4, 8-4A1-2, 8-3F, 8-16, 3-2K

was not achieved, which would affect the ability to make mortgage payments, the mortgagors would have been required to input additional capital in order to sustain the project during periods of limited cash flow. Therefore, Prudential should have assessed the financial capacity of the mortgagors. The additional risks involved, such as liens against property, size and amount of project, and lack of previous HUD experience should have also led Prudential to conduct such an assessment.

Prudential Did Not Determine Eligibility and Obtain Adequate Support for Prepaid Costs Related to the Project

Prudential allowed ineligible and unsupported prepaid costs to be included in the mortgage amount and disbursed to the mortgagors. The mortgagor intended to develop the property into a mixed use development, including commercial, retail, and apartments. However, only the costs related to the apartments should have been included as eligible prepaid costs. We identified several invoices that included unrelated cost to the development of the Preserve at Alafia that were incurred 2 to 3 years prior to initial endorsement. The unrelated charges included commercial development for a full service hotel, travel expenses for lodging and airfare to conventions, meals, and security devices for the owners' businesses not located at the subject site. We also determined that some of the invoices lacked proper support to show a direct relation to the residential project. As a result, Prudential allowed costs unrelated to the development of the project to be included, which was a violation of National Housing Act.[22]

Conclusion

Prudential certified that the MAP application for the FHA-insured multifamily loan for Preserve at Alafia was prepared and reviewed in accordance with HUD requirements although it had not properly analyzed the appraisal and market analysis, provided unsupported revenue projections, did not properly analyze the experience and financial capacity of the principals, and did not accurately evaluate prepaid cost and debts associated with the property as required. The MAP approved Lender provided justifications that HUD relied on and failed to exercise prudent underwriting practices during the collapsing economy, and certified that the project was an acceptable risk.

HUD placed confidence in Prudential's integrity and competence, but Prudential failed to follow and implement the MAP Guide and other relevant guidance during the underwriting of and submission to HUD. As a result, HUD approved a

[22] National Housing Act (12 U.S.C. 17151(d)(4)) Section 221

loan with significant financial and business risk. The owner defaulted on the loan resulting in a loss to HUD of more than $20 million.

Recommendations

We recommend that the Director of HUD’s Jacksonville Multifamily Hub:

1A. Refer Prudential Huntoon Paige Associates, LTD to the Mortgagee Review Board for appropriate action for violations that caused a more than $20 million loss to HUD’s FHA insurance fund.

We also recommend that HUD’s Associate General Counsel for Program Enforcement:

1B. Take appropriate enforcement actions against the responsible parties and pursue civil remedies under the False Claims Act, if legally sufficient, against responsible parties for incorrectly certifying to the integrity of the data or that due diligence was exercised by the underwriting of the loan that resulted in a loss to HUD totaling $20,157,329.

We further recommend that the Director of HUD’s Departmental Enforcement Center:

1C. Pursue administrative actions, as appropriate, against the responsible party for the material underwriting deficiencies cited in this report.

SCOPE AND METHODOLOGY

We conducted the audit from January to August 2014 at Prudential's offices located in Atlanta, GA, HUD's Office of Multifamily Development in Jacksonville, FL, and our offices located in Atlanta, GA. The audit covered the period from August 2008 through March 2012, and was adjusted as necessary.

The review was conducted based on information contained in the Lenders project files with no reliance being placed on systems used and maintained by the Lender. The records to be obtained from the Lender and reviewed for audit evidence are not computer generated or based, therefore we did not conduct an assessment of data reliability.

To accomplish our objective, we reviewed

- Organizational charts effective from August 1, 2008 to December 31,2012;
- HUD's MAP Guidebook and other requirements;
- Prudential's policies and procedures that govern the MAP program related to preparing, processing, and submitting the subject application;
- List of current and past employees, including job function, date of hire, and date of termination, if applicable, who were directly or indirectly involved with the processing or approval of the loan;
- Prudential's and HUD's project files related to the Preserve at Alafia, including, but not limited to, correspondence files, emails, third party reports, processing and underwriting files, pre-application submissions, firm applications, servicing files, construction, and default activity; and
- General contractor files related to the Preserve at Alafia, including, but not limited to construction plans, contracts, correspondence, and draw requests.

We also conducted a site visit of the Preserve at Alafia in April of 2014.

We conducted interviews with Prudential's staff as well as HUD's staff to better understand the loan details. We conducted a review of the appraisal used in underwriting that identified several deficiencies identified with Prudential's appraisal which was used to support the findings included in this report.

We reviewed 47 percent, or $510,781, of the $1,075,656 in invoices related to prepaid costs submitted by the mortgagors to Prudential. The sample was selected after conducting a risk assessment of the total invoices and by selecting invoices based on the amount and type of services. The mortgagors provided the invoices to support costs prior to initial endorsement that were project related. The primary focus of the review of the invoices was to determine whether the costs were related to the project and included support that the costs were incurred and paid.

We determined the loss to the FHA fund to be more than $20 million (the amount of the claim paid $49,667,329 minus the amount of the note sale $29,510,000 = $20,157,329).

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 objectives.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Policies, procedures and other management controls implemented to ensure that Prudential administered the Preserve at Alafia in accordance with HUD's MAP requirements.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as whole. Accordingly, we do not express an opinion on the effectiveness of Prudential's internal control.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unreasonable or unnecessary 1/
1B	$20,157,329

1/ Unreasonable or unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business. We determined the unreasonable cost to be the loss to the FHA fund of $20,157,329. We determined the loss to the FHA fund to be more than $20 million (the amount of the claim paid $49,667,329 minus the amount of the note sale $29,510,000 = $20,157,329).

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

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September 24, 2014

Nikita N. Irons
Regional Inspector General for Audit
Office of Audit (Region IV)
75 Spring Street, SW, Room 330
Atlanta, GA 30303

Re: Response to HUD Office of Inspector General Draft Audit of the Preserve at Alafia

Dear Ms. Irons:

This letter is in response to the HUD Office of Inspector General's ("OIG") request that Prudential Huntoon Paige Associates, LLC ("PHP") comment on its September 12, 2014 draft audit report ("Draft Report").[1] The Draft Report relates to PHP's underwriting of the new construction multifamily housing project known as the Preserve at Alafia (the "Project" or "Alafia") that was financed by a mortgage loan (the "Loan") insured by HUD under Section 221(d)(4) of the National Housing Act. PHP made the Loan under the Multifamily Accelerated Processing ("MAP") Program.

I. INTRODUCTION AND GENERAL COMMENTS

Comment 1

The conclusions and recommendations in the Draft Report are deeply flawed in several respects. They are all premised on the OIG improperly substituting its own post hoc judgments for the requirements of the Multi-Family Accelerated Processing Guide (the "MAP Guide") and the on-the-ground, real-time judgments of HUD, PHP, and the qualified professionals retained to provide third-party reports and analyses. The OIG's Draft report fails to acknowledge HUD's significant role in the underwriting and approval of the Loan, including the fact that it approved

Comment 2

[1] The Draft Report was delivered to PHP on September 16, 2014 with a cover letter dated September 12. The OIG required that PHP comment on the Draft Report by 5:00 pm on September 24, 2014. We are informed that the OIG's decision to provide such an extremely limited period of time for PHP to review, discuss, and comment on the Draft Report is due to its desire to release a final report by September 30, 2014. This extraordinarily limited period of time is not appropriate given that the OIG took eighteen months to conduct its own investigation and that the proposed findings in the Draft Report raise very different issues than the draft findings initially provided to PHP in July. Nevertheless, PHP has endeavored to review and provide meaningful comments to the Draft Report by the OIG's deadline. PHP's comments are not and cannot be complete due to the limited amount of time that it had to respond to the Draft Report.

Comment 3

Comment 1

Comment 4

Comment 1

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Page 2

underwriting-related documentation and certified that the third-party reports (that the OIG now criticizes) complied with HUD requirements. Finally, the OIG does not even mention the significant events that caused the Project to fail which were not foreseen by either HUD or PHP and which were beyond their control. For these reasons, PHP requests that the OIG revise its report to correct these significant flaws or that it withdraw the Draft Report and close the audit altogether.

A. The OIG is improperly substituting its own judgment for that of HUD and PHP professionals

The principal flaw in the Draft Report is that the OIG, with the benefit of hindsight, improperly substitutes its judgment for the judgments that PHP and HUD professionals made during the underwriting process on the basis of reports of independent, HUD-approved appraisers and analysts.[2] [3] This significant problem permeates the Draft Report as is demonstrated below.

B. HUD certified the accuracy and appropriateness of the judgments that the OIG now cites as evidence that PHP did not properly underwrite the Loan

The OIG's analysis also fails to consider HUD's role in processing and underwriting mortgage insurance applications and certifying the third-party reports that it now criticizes. HUD found that the reports complied with both the Uniform Standards of Professional Appraisal Practice ("USPAP") and with applicable MAP Guide requirements. *See* sample certification, attached as Exhibit A. While an OIG investigator, acting with the benefit of hindsight, might disagree with the conclusions and decisions of the numerous people involved in the underwriting of the Loan, that disagreement does not mean that those conclusions and decisions were inconsistent with MAP Guide requirements.

[2] The appraisers and analysts were approved by HUD at the commencement of underwriting. Each third-party appraiser identified in this report has significant multi-family experience.

[3] PHP provided this third-party information to HUD pursuant to Chapter 8.1B of the MAP Guide. Pursuant to Chapter 8.2C of the MAP Guide, HUD analyzed that information and determined that it complied with HUD requirements and supported the proposed Loan. In fact, HUD, PHP, and the third-party information providers extensively discussed much of the information that the OIG now calls into question. HUD asked questions and PHP and the third parties responded to HUD's questions. HUD reviewed all the information and ultimately decided that the underwriting complied with the MAP Guide and supported the proposed Loan.

Comment 5

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C. The fact that unforeseen circumstances caused the Project to fail is not evidence of any underwriting errors

The underwriting, submission, and administration of a HUD-insured loan for the construction of a multi-family project is a complex process involving, among others, numerous third-party professionals and analysts, contractors, a lender, and HUD. All loans involve risk; this is especially true of complex loans such as this.

The OIG improperly cites these risks as evidence of underwriting misconduct. The mere fact that a loan defaults, however, is not evidence of underwriting errors. For ground-up construction projects like Alafia, circumstances can change during the development and construction process that cause delays or increase costs. Moreover, market conditions may change during the period between underwriting and occupancy. All of these changes can significantly impact the viability of a Project. If loans like this were risk-free, the HUD insurance program would not be necessary.

Another risk in projects of this kind is that actual rents and lease-up velocity will not correspond with forecasts. This was especially so with a relatively unique project such as Alafia, an upscale, mid-rise, elevator-equipped complex that enjoyed water and nature preserve views and other high-quality amenities.[4] These amenities created a reasonable expectation that Alafia would realize rents higher than other projects in the market. The risk that the rents would not materialize was identified by PHP, and disclosed to, discussed with, and analyzed by HUD. Both PHP and HUD concluded that the Project was feasible and likely to succeed even considering these risks.

In the end, several unforeseen events occurred in this Project that depressed both the rental rates and rent-up velocity of the Project. The Project did not perform as underwritten in large part due to the unprecedented depth and breadth of the national recession, a circumstance that neither PHP nor HUD foresaw.[5] The economic downturn severely depressed rents and occupancy rates

---

Comment 6

[4] Among other things, the Project offered an outdoor pool with sundeck, Jacuzzi, BBQ area, car wash area, yoga pavilion, pet bathing and grooming station, volleyball court, walking trails, fishing pier overlooking the Alafia River, clubhouse, fitness center, media center, cyber café, spa facility and Wi-Fi hotspots. *See* underwriting Narrative Summary dated April 10, 2009, a copy of which is attached as Exhibit B at 7-8.

Comment 7

[5] PHP submitted the mortgage insurance application to HUD in April 2009. HUD issued its firm commitment to insure the loan in July 2009. The loan was processed and underwritten in accordance with the standards and requirements set forth in the MAP Guide in effect at that time. In 2010, as weak economic conditions persisted, HUD recognized the need to make significant changes in the "core underwriting standards" applicable to loans insured under HUD's multifamily mortgage insurance programs and, on July 6, 2010, HUD issued Mortgagee Letter 2010-21 (commonly referred to as the "Risk Mitigation Notice"). A copy of the Risk Mitigation Notice is attached as Exhibit C. The Risk Mitigation Notice made several changes to underwriting standards due to the then recent changes in economic conditions. The Risk Mitigation Notice was not effective immediately, but applied only to

in the Tampa Bay area market and other markets throughout the country. Many such markets have yet to recover.

Comment 8

The Project was also significantly delayed because a dispute arose well after initial closing between the borrower and the local governmental authority over the construction of an emergency access road and the payment of certain impact fees. This significantly delayed the availability of units in the market for over seven months, impacting the rent-up velocity of the Project.

The unanticipated seven-month delay also caused operating losses far in excess of those projected in the underwriting because the sizing of the initial operating deficit was based on staged occupancy as units became available. The cost of constructing the emergency access road and the additional impact fees further depleted the working capital reserve and consumed funds that could have otherwise been available to fund operating losses.

Apparent borrower or contractor misconduct also contributed to the failure. The borrower, without PHP's knowledge, apparently diverted funds payable to the contractor for other purposes but, along with the contractor, certified that contract funds had been applied per the draw requests. It was not until the cost certification process that HUD and PHP became aware that the contractor claimed not to have been paid. These problems could not have been anticipated in the underwriting process and explained the Project's failure to perform as underwritten.

II. Specific Responses to Proposed OIG Findings

A. HUD incorrectly found that PHP failed to adequately review the Project appraisal report

1. HUD OIG Proposed Finding 1

Comment 9

The OIG contends that PHP did not perform an adequate review of the appraisal. If PHP had reviewed the appraisal, the OIG claims, it would have seen that the appraiser used inappropriate comparable sales, made inappropriate adjustments, and used inaccurate site information.

applications submitted more than 60 to 120 days (depending on the program and circumstances) after the date of the letter. The phasing in of the implementation and the late date of the Notice demonstrates that HUD did not believe the situation was dire enough in 2009 to immediately change any underwriting standards. In addition, on December 9, 2011, well over two years after Alafia was submitted, HUD issued Mortgagee Letter 2011-40 "Large Loan Risk Mitigation Policies," a copy of which is attached as Exhibit D. The Policies changed the underwriting standards for loans over $25 million due to the heightened risks of such loans underwritten under HUD's previous standards.

Comment 9

2. PHP's Response to HUD OIG Proposed Finding 1

Under Section 11.1C of the MAP Guide, PHP was required to (i) review the appraisal report, (ii) ensure the appraiser was well qualified, (iii) ensure that the forms were prepared as required by the MAP Guide, and (iv) ensure that the loan presented an appropriate risk to HUD.[6] PHP satisfied each of these obligations.

a. PHP appropriately reviewed the appraisal

There can be no doubt that PHP reviewed the appraisal report. The OIG concluded that PHP failed to conduct an adequate review of the appraisal, without even discussing PHP's review of the appraisal *at all* in its Draft Report.[7] In its underwriting narrative, PHP reviewed and considered each element of the appraisal and concluded that the appraisal was properly supported, thus fulfilling its obligations under the MAP Guide. *See* Underwriting Narrative, Exhibit B, 15-24. HUD also reviewed the appraisal as required by Chapter 11.2 of the MAP Guide and agreed that it was properly supported under the USPAP. In conducting its review,

[6] Section 11.1C required:

> Due diligence. With the Firm Commitment package the MAP Lender certified that:
>
> 1. The Lender has reviewed all in-house and third party forms/reports/review.
>
> 2. The preparer of the forms/reports/reviews in qualified as required by the guide, and has the insurance, if any required by this guide.
>
> 3. The forms/reports/reviews were prepared in the manner required by the guide and the forms/reports reviews are complete and accurate.
>
> 4. The proposed loan represents an acceptable risk to the Department (replacement cost programs) or is economically sound (value programs), based upon the Lender's review and analysis and the proposed loan and processing complies with all FHA statutory regulatory and administrative requirements.

Comment 9

[7] Instead, the OIG takes issue with the appraiser and the appraisal itself. The OIG refers to Novogradac and Company as "Prudential's appraiser" throughout the Draft Report. Such nomenclature is misleading. Novogradac is an independent firm that PHP engaged, with HUD's approval, to conduct an appraisal for the Project as *required* under the MAP Guide. PHP was not responsible for conducting the appraisal itself; the MAP Guide required PHP to retain an appraiser to do so. Section 1.2D of the MAP Guide provides that: "At the application for firm commitment, the Lender directs the preparation and review of the exhibits required, such as the appraisal . . . . HUD reviews the application and, if it passes review, issues the commitment." Accordingly, PHP engaged a highly-qualified appraisal firm which performed a HUD-compliant appraisal that was properly supported. The appraiser appropriately exercised his professional judgment and reached reasonable conclusions that were in accord with *two other* appraisals that were performed on the subject property.

HUD specifically certified that the "appraisal conforms to all requirements as listed in Section 7.4 of the MAP Guidebook." *See* Exhibit A. HUD also certified that its review of the appraisal was "prepared in conformity with [USPAP]." *Id.* In light of the foregoing, the OIG's position that the appraisal review was inadequate lacks merit.

Comment 9

b. PHP adequately ensured that appraiser was well-qualified

Novogradac and Company ("Novogradac") was the appraisal firm selected for the Project. Novogradac was and continues to be an appraisal firm that HUD suggests that lenders may use. It has significant experience appraising properties underwritten for FHA-insured loans. Blair Kincer was the lead appraiser for Novogradac on the Project. His resume, attached as Exhibit E, demonstrates his significant qualifications and experience.[8] For example, Mr. Kincer obtained his Member, Appraisal Institute ("MAI") certification in 1998. At the time of the Alafia appraisal, he had, among other things, performed numerous appraisals in 17 states of both new and existing construction under the HUD MAP Program. HUD approved the use of Novogradac during the "team" approval process. In addition, HUD specifically certified that the "appraiser meets all qualifications as listed in Section 7.3 of the MAP Guidebook." *See* Exhibit A. Because, the appraiser met the requirements outlined in HUD Handbook 4465.1 and Chapter 7 of the MAP Guide, PHP satisfied its obligations under Chapter 11.

c. PHP also properly certified that the appraisal was complete and accurate

Comment 10

i. PHP satisfied its obligations under Section 11.1 of the MAP Guide

Section 11.C.3 of the MAP Guide also required PHP to ensure that the appraisal was prepared "in the manner required by the Guide," referring to Section 7.4. That Section required appraisals to meet the following relevant requirements:[9]

1. "Be prepared for the Lender and paid for and initiated by the Lender."

3. "Adequately describe the geographic area, neighborhood, rental competition, sales comparables, site, and improvements."

---

[8] A copy of Mr. Kincer's resume was attached to the appraisal submitted to HUD.

[9] The Draft Report fails to acknowledge the requirements set forth in Section 7.4 of the MAP Guide or to demonstrate how PHP allegedly failed to satisfy those requirements.

5. "Have an effective date within 120 days before the date the Firm Commitment application or pre-application package is delivered by the Lender to HUD."

6. "Be prepared with the list of information supplied by the MAP Lender contained in Appendix 4."

7. "Include appraiser's certification. See certification format in Chapter 11 of MAP Guide."

9. "The primary appraiser designated by the Lender and approved by HUD must perform the property inspection AND sign the appraisal report and the supporting HUD forms."

10. "Photos of the subject, comparable sales and comparable rentals are required with all submissions."

Comment 10

As previously noted, HUD certified that the appraisal complied with the MAP Guide. *Id.* In addition, CohnResnick, in conducting a post-default review of the Project, "found that the appraisal generally satisfied the reporting requirements of the USPAP standards."

ii. The OIG's attempt to substitute its own post hoc judgment for that of PHP and HUD is inappropriate

Comment 11

Rather than focusing on PHP's role in reviewing the appraisal, the OIG seeks to substitute its own judgment, developed 5 years after the fact, with full knowledge of how the Project actually performed, for the 2009 opinion of the appraiser. The OIG then concludes that the appraisal and PHP's review of the appraisal were insufficient because the OIG disagrees with the appraiser's judgments. Specifically, the OIG alleges that the appraisal overvalued the land by considering inappropriate comparables, including improper adjustments, and relying on inaccurate site information.[10]

(a) The appraiser did not overvalue the Alafia land or consider improper comparables

Comment 11

In arguing that the appraisal overvalued the Alafia land, the OIG objects to the inclusion of one of the comparable properties identified by the appraiser, and argues that the inclusion of this comparable improperly inflates the value of the Alafia land by some $4 million. The OIG does not state how PHP's and HUD's decision not to object to the appraiser's decision to consider this

Comment 12

[10] The concerns regarding the land value expressed in the Draft Report are the same concerns that were raised by HUD during the processing and underwriting of the loan. Those questions were answered to HUD's satisfaction, yet the OIG seeks to reopen the same questions and substitute its judgment (with the benefit of hindsight) for that of two HUD-approved appraisers, PHP and HUD.

comparable violates USPAP Standard 3.[11] Nor does the OIG describe the basis for this conclusion or provide any information regarding the qualifications of the person making this determination.

Comment 13

In the Draft Report, the OIG cites two additional, comparable sales and asserts that "Prudential's appraiser disregarded various indicators of the market downturn and projected land value on the upper end of the scale," leading the OIG to "recalculate" the land value to $6.1 million. This "recalculation" is inappropriate for several reasons. First, PHP, HUD, and the two HUD-approved appraisers all considered the market downturn when valuing the land at $10.5 million, a price $4.4 million less than the purchase price paid for the land in an arms-length transaction that occurred less than one year earlier. Second, it was entirely reasonable for the appraisers to value the land at the "upper end of the scale" in light of its unique location, which included not only the views discussed above, but exceptionally good access to Interstate 75, the major highway in the area.[12] Third, there is no requirement to consider every possible comparable sale (particularly in this case, where 12 comparables were identified between the two appraisals). Thus, HUD's "recalculation" does not demonstrate that PHP incorrectly certified the appraisal's accuracy.

(b) HUD and PHP took great care to ensure that the appraisal was accurate

Comment 12

Moreover, the OIG also fails to consider the additional steps that HUD and PHP took to ensure that the appraisal was accurate in reviewing the comparables that the appraiser selected. As part of its review process, HUD raised questions about land valuation and submitted those questions to PHP. PHP, in turn, forwarded those questions to Novogradac and, after consideration, provided Novogradac's response to HUD. HUD ultimately determined that the information provided in response to its questions was acceptable and that the valuation provided by Novogradac was appropriate. A copy of Novogradac's response is attached as Exhibit F.

Comment 14

[11] While the OIG cites USPAP Standards in the Draft Report, it incorrectly cites to standards applicable to the appraiser, not the reviewer. *See, e.g.*, Draft Report, p. 8 (citing in footnotes 6-8 and throughout the Draft Report to USPAP Standards 1 and 2). The OIG failed to cite to USPAP Standard 3, which applies to the reviewer.

Comment 13

[12] Furthermore, PHP does not agree that the appraisers used the "upper end of the scale" as OIG alleges. The Integra appraisal indicated that comparable units ranged in price from $15,116.00 to $38,141.00, after adjusting for size, density, and other factors. Thus the $30,000.00 price used in certain calculations was some $8,000.00 *less* than the "upper end of the scale." While the OIG is correct that the $30,000.00 used is somewhat higher than the average price of the comparables, that decision was reasonable at the time it was made in light of the Project's unique and superior features.

Comment 15

Comment 8

As further support for the land value conclusion, PHP also provided HUD with a separate and independent appraisal, conducted by Integra,[13] that also valued the Alafia land, based on value per unit, at $10.5 million.[14] The Integra appraisal was dated as of January 2009 and was obtained by a broker who was seeking other (i.e., conventional) financing for the Alafia development. A copy of the Integra appraisal is attached as Exhibit H. Significantly, the land comparable in the Novogradac's appraisal that OIG found to be an objectionable comparable was not considered in the Integra appraisal and there is an overlap of only one comparable between the two appraisals. The two appraisals utilized a total of thirteen different land sales in analyzing the value of the Alafia land. Using those numerous different comparables, both appraisals reached the same conclusion – they both valued the Project land at $10.5 million for the subject's 26.6 acres.[15]

(c) The appraiser's adjustments were appropriate

The OIG also asserts that the appraiser's adjustments based on the Project's river location were inappropriate because they did not accurately reflect the market, again without disclosing the methodology it used in reaching this conclusion. The parcel on which the Project was constructed provides for river views and a view of the Alafia Preserve, an 80-acre nature preserve with hiking trails that abuts the property. The appraiser concluded that those views and location had value.[16] While the OIG's view may differ, the relevant question, again, is not whether the OIG would appraise the property differently. The question is whether PHP's review of the appraisal failed to comply with the requirements of the MAP Guide.

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[13] Integra also was and is a HUD-approved appraisal firm.

[14] An appraisal was also performed by another division of Integra during the Project's pre-application phase in 2008. A copy of the third appraisal is attached as Exhibit G. Although that third appraisal did not value the land, the proposed rents in that appraisal are higher than the proposed rents in the other two appraisals available to PHP and HUD during the underwriting of the Loan.

[15] It is not insignificant to note that even after the Project ran into trouble during final endorsement, that HUD demonstrated its view that, even at that late date, the property was worth more than the $10.5 million concluded in the Novogradac and Integra appraisals. Specifically, HUD asked PHP to process a $1.2 million mortgage increase, based at least in part, on the difference between the $10. Million appraised land value and the over $14 million paid for the land by the developer.

[16] The OIG further asserts that "only 1 of 11 apartment buildings" in the Project has a direct river view, resulting in only $28,800 per year in additional income. In fact, several of Alafia's buildings have views of the river. In addition, several have views of the Preserve. Thus, the entire site is scenic, creating extra value in the opinion of Novogradac.

Comment 10

Comment 16

(d) The appraiser did not consider inaccurate site information

It appears that the OIG's assertion that the appraiser considered inaccurate site information is based on the wrong survey. The October 2008 survey on which this assertion appears to be based did not reflect all of the parcels associated with the Project. An August 14, 2009 survey and a February 28, 2012 survey obtained in connection with the commitment and the final endorsement, respectively, both demonstrate that the appraiser considered the correct parcel in preparing the report. Thus PHP did not violate Section 11.1.C.3 in certifying the accuracy of the appraisal. Copies of those surveys are attached as Exhibit I.

The OIG asserts that the location of the site was not correctly identified. In support of this assertion, the OIG provides two aerial photographs and cites to its April 2014 site visit. PHP disagrees. The site was sufficiently identified such that the appraisers, PHP and HUD all knew that it did not include all of the land (and the portion of river) shown in Photo 1. Site plans and surveys available to the appraisers, PHP, and HUD showed the boundaries of the project site, as well as means of ingress and egress.[17] The appraisers, PHP, and HUD all knew that the Project was part of a larger development that was to include a hotel and retail space along Gibsonton Road.

(e) The OIG's miscellaneous findings are also unfounded

The OIG's assertions that the Project "did not have adequate entrance and exit access, utilities were not provided to the site and that the site contained wetlands and potential species that were required to be removed by the County," are inaccurate. The surveys attached as Exhibit(s) I and the Google Maps screen shots attached as Exhibit J show that the site has adequate entrance and exit access. The lack of an off-site escrow requirement, as well as the lack of any offsite construction costs, show that utilities were available at the site.[18] Further, the wetlands did not in any way interfere with the development of the site,[19] nor were there any material costs associated

[17] The Novogradac appraisal notes that access is excellent via Alafia Avenue which had yet to be constructed. The appraiser, therefore, clearly described and understood the land and proposed access points.

[18] Further, the engineer's report attached hereto attached as Exhibit K indicates that key utilities were available on site, including potable water, sanitary sewer, electricity, cable, and telephone.

[19] HUD required PHP to follow the eight-step process for evaluating and mitigating risks relating to the wetlands. As explained in the underwriting narrative attached as Exhibit B, the process was followed and the wetland-related risks were fully addressed.

Comment 16

with removal of species;[20] in fact the existence of wetlands and the presence of animals is consistent with, and part of the attractiveness of, a heavily-wooded riverfront location.

Comment 16

The Lender Quality and Monitoring Division ('LQMD") Default report obtained by PHP noted that the underwriting narrative did not address the statement in the appraisal that current market rents may not allow for a cost feasible development at the time. However, such statement in the appraisal was not, as the OIG asserts, "critical to the mortgagor's ability to sustain the project and a violation of the MAP Guide." The Section 221(d)(4) program is a replacement cost, not a value, program. Therefore, the appraised value of the completed project is not relevant to the loan amount. Moreover, HUD was aware of both the appraised value of the Project as completed and the appraiser's statement regarding cost feasible development since the Novogradac appraisal, which was reviewed by HUD, did include a discussion of the subject of "cost feasibility."

B. The OIG finding that PHP failed to adequately review the market is unsound

1. HUD OIG Proposed Finding 2

The OIG alleges that PHP did not perform an adequate review of the market for the Project.

2. PHP Response to HUD OIG Proposed Finding 2

Comment 17

PHP's market analysis was more than adequate. In accordance with Section 7.5 of the MAP Guide, as part of the pre-application submission package, PHP provided a market study prepared by TRIAD Research & Consulting, Inc. and dated July 2008 ("TRIAD Report" or "Market Study"), a copy of which is attached as Exhibit M. The Market Study was required to (i) "[a]dequately describe the geographic boundaries and general characteristics of the market area, specific housing market conditions, characteristics of projects under construction and in the planning stages, and contain a demand estimate and analysis and estimated absorption time," (ii) have an effective date within 120 days before the pre-application or Firm Commitment are delivered and (iii) include a market analyst's certification, among other things not pertinent here.[21]

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[20] The report attached as Exhibit L indicates that the cost to remove the six gopher tortoises found on the property was approximately $6,000.00, an immaterial sum in a project of this size.

[21] Section 7.5 of the MAP Guide provides:

Each market study must meet the following requirements:

Comment 17

In addition to the Market Study submitted to HUD as part of the pre-application package, the Novogradac appraisal obtained by PHP in connection with the mortgage insurance application included market data current to within a few months of the firm commitment application.

The OIG's proposed findings relating to the market analysis suffer from many of the same defects as its findings relating to the appraisal analysis. The OIG neither identifies nor considers PHP's role and duties under the MAP Guide, nor does it consider that HUD certified that the market analysis complied with the MAP Guide in its review process. Further, the OIG fails to acknowledge that the market analysis was conducted by a qualified market analyst using data from the same area as the Project. That analyst also certified that the market report was conducted in compliance with HUD requirements. A copy of the analyst's certification is attached as Exhibit N. Thus the OIG has not established how PHP's certification under Section 11.1.C.3 of the MAP Guide was inaccurate.

In the section on key objectives, the market analysis clearly explained that "[t]he primary objective of the market study is to determine/validate the general feasibility for the introduction of the subject property into the most competitively advantageous market position...." *See* Exhibit M, p. 1 (discussing market study's "Executive Summary, Key Findings and Objectives"). The study concluded that the project was generally feasible and offered strategies to position the

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A. Be prepared for the Lender and paid for and initiated by the Lender. A market study that has already been prepared for the borrower by a third party market analyst and meets all other market study elements as stated in the MAP Guide is acceptable.

B. Adequately describe the geographic boundaries and general characteristics of the market area, specific housing market conditions, characteristics of projects under construction and in the planning stages, and contain a demand estimate and analysis and estimated absorption time (absorption time is normally not applicable to refinance and purchase cases pursuant to Section 223(f)).

C. Have an effective date within 120 days before the date the pre-application is delivered by the Lender to HUD or within 120 days before the Firm Commitment application is delivered for a 232/223(f).

D. Be prepared with the list of information supplied by the MAP Lender described in Appendix 4.

E. Be prepared in conformance to the market study format found in Appendix 7 A.

F. Both the appraiser and market analyst may be the same person or entity. If the same person does prepare the market study, it must be submitted as an independent exhibit.

G. Include market analyst's certification. See certification format in Chapter II of MAP Guide.

Comment 17

Comment 18

Comment 18

property (as its sponsors intended) as a "superior product" at a "slightly" higher than gross rent price. More importantly, the study also concluded that:

The subject property (based on its expected delivery date) would not enter a Primary Market Demand Area that was oversupplied or overactive.

- The subject property, based on performance of the submarket, could project a positive performance standard of leasing velocity when it delivered its first Certificates of Occupancy in 1st Quarter of 2010.
- The five year history preceding this development indicated that well located and competitively positioned projects performed fully within acceptable industry performance standards in both rental revenue growth and leasing velocities.
- The firm's research and analysis concluded that the conditions extant at the time were positive and could support absorption of the additional multi-family units of the subject during the next 24-36 months

Id. at 62 (discussing "Summary of Development Pipeline").

The OIG also incorrectly asserts that the Market Study was supported by outdated information. The market analysis was prepared as of July 30, 2008, in conjunction with the pre-application submitted to HUD on August 14, 2008. While the OIG suggests that more recent data could have been used, it does not cite any provision of the MAP Guide, or any other authority, requiring a lender to provide any market data other than what was actually collected and utilized by the consultant.

In addition, the OIG fails to note that the Market Study discusses both market trends and projections. In the Draft Report, the OIG criticizes the consultant's use of "outdated statistics, from 2000 to May of 2007." However, in market studies of this nature, the use of statistics over a period of many years is not only typical, but necessary. Statistics are employed to evaluate past trends that may be indicators of future events. Despite the OIG's seeming contention to the contrary, the MAP Guide did not require that the market analysis be updated in 2009 in conjunction with the firm commitment application.

Moreover, the March 4, 2009 Novogradac appraisal prepared for the firm commitment application included a current analysis of the market even though the MAP Guide did not require a market study during that stage of processing. HUD nevertheless reviewed and approved the market data included in the Novogradac's appraisal, which had been updated one month before the submission of the firm commitment application, and included:

- Population trends from 2000 to 2008 and forecasted to 2013 were provided based on market data from ESRI (2008) and Novogradac's database (March 2009);

- New household formation trends from 2000 – 2008 and forecasted to 2013 were provided based on market data from ESRI (2008) and Novogradac's database (March 2009);

- Median household income trends from 2000 – and forecasted to 2013 were provided based on market data from ESRI (2008) and Novogradac's database (March 2009);

- Employment by Industry was provided by ESRI (2008) and Novogradac's database (March 2009);

- Major Employers from the Greater Tampa Chamber of Commerce for 2007 and a notation that 2008 and 2009 data was not available was provided. Data from Novogradac's database for March 2009 was also provided;

- Employment and Unemployment Trends from 1990 – 2008 from the U.S. Bureau of Labor Statistics and Real Estate Center were provided;

- Primary Market Area patterns for 2005 – 2008 and forecasted for 2013 were provided based on market data from ESRI and Novogradac's database (March 2009);

- Current multifamily pipeline data on four multifamily developments in the planning stage were provided;

- Absorption details on two multifamily projects in lease-up at the time of the appraisal were provided; and

- Current details on seven multifamily comparables were provided including location, age, project type, current occupancy, market rate or affordable, concessions (if any), unit types (# bedrooms/# baths), square footages, rental rates, amenities, absorption rates and presence of a wait list were provided.

Comment 19

The OIG also asserts that the market analyst used occupancy rates from properties with significantly lower rents to support its demand estimates. This assertion is true and must be so out of necessity. The project was designed to be a residentially based, mixed-use, waterfront product of a type not found in the primary/sub-market and was expected to be positioned at the top of the existing Class A market with significant amenities. The TRIAD report contains a separate case study (incorporated as a supplement to the general methodologies typically found in a market study). The purpose of the case study was to present a validation of the pricing differential that was appropriate to the subject (upscale residential lifestyle product), as contrasted with the institutional commercial Class A products existing in the submarket. Since at the time, few if any such properties existed, the rent comparables used must be analyzed and adjusted in comparison to the existing stock found in the submarket.

C. HUD OIG Proposed Finding 3

1. HUD OIG Proposed Finding 3

The OIG further alleges that PHP overstated Project revenue.

2. PHP Response to HUD OIG Proposed Finding 3[22]

Comment 19 In hindsight, it is clear that underwritten and approved revenue estimations for the Project did not materialize. But hindsight is not the measuring rod. There was nothing incorrect about the process that PHP followed to develop its estimates. PHP's underwriting of potential Project revenue was consistent with the MAP Guide and was appropriately based on both the rents approved by HUD in the invitation Letter and the Novogradac appraisal.[23]

The OIG's analysis ignores the fact that HUD, PHP, Integra, TRIAD, and Novogradac had all been reviewing and considering the appropriate level of rents throughout the underwriting and approval process. The table below demonstrates the rent levels considered at each step in the process.

Table 1: Rents

	1Bd/1Ba 708 sq ft	1Bd/1Ba 731 sq ft	2Bd/1.5 Ba 917 sq ft	2Bd/2Ba 935 sq ft	2Bd/2Ba 1,066 sq ft	3Bd/2Ba 1,198 sq ft
Market Study 7/2008	$1,119	$1,406	$1,470	$1,415	$1,568	$1,698
Integra Limited Appraisal Pre-Application 7/29/2008	$1,125	$1,400	$1,470	$1,415	$1,570	$1,700
PHP Pre-Application 8/14/2008	$1,125	$1,400	$1,470	$1,415	$1,570	$1,700
HUD suggested rents 10/10/2008	$1,025	$1,175	$1,375	$1,275	$1,425	$1,575
Novogradac NOI Analysis 10/27/2008 (provided to HUD)	$1,140	$1,235	$1,390	$1,260	$1,435	$1,575

[22] Much of PHP's response to Finding 2 also applies to Finding 3.

[23] In arguing that revenue was "overstated", the OIG repeats its allegations, discussed above, that projected occupancy rates and rents were too high. As previously explained, the market analyst appropriately considered information available in the marketplace and analyzed that information as required.

Table 1: Rents						
	1Bd/1Ba 708 sq ft	1Bd/1Ba 731 sq ft	2Bd/1.5 Ba 917 sq ft	2Bd/2Ba 935 sq ft	2Bd/2Ba 1,066 sq ft	3Bd/2Ba 1,198 sq ft
PHP 10/30/2008 Response to HUD	$1,140	$1,235	$1,390	$1,260	$1,435	$1,595
HUD Invitation Letter 12/12/2008	$1,076	$1,175	$1,325	$1,260	$1,435	$1,595
Novogradac Firm Application Appraisal 3/4/2009	$1,120	$1,220	$1,390	$1,275	$1,435	$1,595
PHP Firm Application 4/9/2009	$1,100 *	$1,190 *	$1,350 *	$1,275 *	$1,435 *	$1,595 *
HUD Firm Commitment 7/30/2009	$1,100 *-3.8%	$1,190 *-16.43%	$1,350 *-9.86%	$1,275 *-10.9%	$1,435 *-8.48%	$1,595 *-6.07%
* Represents the percentage reduction in rents from the Market Study to the Underwriting and Firm Commitment.						

Comment 19 This table indicates that the rent levels used to underwrite the Project were lower than the rent levels in the market study, lower than the rent levels in the Novogradac appraisal, and only 1% higher than those set forth in HUD's invitation letter. This demonstrates that the issue of the appropriate rent level was considered numerous times by a series of real estate professionals, including third-party analysts, PHP, and HUD. Each of these parties used the best information available at the time and professional judgment to reach the best estimates of the rents and revenues that would be generated by the Project.

Comment 19 As noted above, the Novogradac appraisal, which was dated approximately one month before the date on which the mortgage insurance application was submitted to HUD, included up-to-date market data. In fact, the appraisal and market data used in this transaction were significantly more current than what was required by the MAP Guide and is typically used in similar transactions. The indicators relied on by the third party analysts, PHP, and HUD were reasonable and appropriate and that such reliance was in accordance with the MAP Guide. While the Draft Report cites extensively to certain Sections of the MAP Guide, it makes no effort to specify how the OIG believes these provisions were violated.

Comment 19 Using its own (unstated) assumptions, apparently developed from data it obtained in 2014 (five years after the actual underwriting), the OIG seems to have performed its own underwriting, and determined in the Draft Report that the correct estimate of Project income should have been $4.4 million per year and the rent premiums should only have been $235,000 to $250,000 per year. The Draft Report does not provide the basis for the OIG's calculations, but we assume that such calculations are based on the current rents as of April 2014 reported in Table 3 of the Draft Report. An underwriting based on a stabilized project's actual in-place income will always produce a more accurate result than an underwriting of a proposed project before it even begins construction, particularly when the project is as unique as Alafia. Similarly, the concessions quoted in the Draft Report reflect the benefit of hindsight. PHP notes that concessions may have been far less, and the Project may have experienced better rent-up, had the units come on-line in stages as contemplated in the underwriting.

D. PHP disclosed all project-related liabilities to HUD during the underwriting process

1. HUD OIG Proposed Finding 4

The OIG claims that PHP failed to disclose all debts related to the Project. Specifically, the OIG asserts that PHP did not disclose more than $300,000.00 in liens filed against the Project, and a $1 million predevelopment loan.

2. PHP's Response to HUD OIG Proposed Finding 4

Comment 20

All debt related to the Project was fully disclosed to HUD before it issued the firm commitment. Even if all of the debt was not included in the original firm commitment submission package, it is clear that (i) HUD was fully aware of all of the debt, (ii) the existence of the debt did not violate any HUD requirements, (iii) the debts were fully paid at or before initial closing, and (iv) the debts had no relationship to the mortgage default.

Comment 21

Well after the submission of the mortgage insurance application, PHP became aware of the existence of several liens that had been filed against the Project. These liens were not reflected in the title evidence, credit reports or public records searches received or conducted by PHP prior to submission of the mortgage insurance application.[24] Thus, PHP did not any have information about the liens that it could have disclosed to HUD. Furthermore, as soon as PHP and HUD did become aware of the liens, they were promptly paid in full and released.

It is true that there was a $1 million pre-development loan made with respect to the Project and that a mortgage was recorded against the Project to secure it on April 8, 2009 the day before PHP sent the mortgage insurance application to HUD. Although PHP erroneously omitted this pre-development loan from the original mortgage insurance application, after discussions with HUD, the appropriate forms were updated and, on July 2, 2009, sent by email to HUD. An addendum to the underwriting narrative addressing the liens described above and the predevelopment loan was provided to HUD on December 2, 2009. A copy of the addendum is attached hereto as Exhibit O.

[24] Certain of the liens were of record before the mortgage insurance application was submitted but were not shown on the title evidence provided to PHP because the sponsors had deposited cash in escrow with the title company to cover the liens.

Comment 22

The OIG also made two inaccurate findings regarding PHP's loan broker. The Draft Report asserts that the broker, Benjamin Orlofsky Consulting Inc., "had additional roles in relation to the subject property." This assertion is incorrect. While it is true that Benjamin Orlofsky, the principal of the broker, did act as trustee with respect to the pre-development loan discussed above, the OIG's assumption that Mr. Orlofsky received some benefit from the $1 million loan is erroneous. The $1 million predevelopment loan was provided by Mr. Abdul Ayyad, an unrelated third party. Accordingly to Mr. Orlofsky, Mr. Ayyad was leaving the country and, as an accommodation, Mr. Orlofsky agreed to serve as trustee and nominee in order to execute any documents necessary in connection with the anticipated payoff of the loan. Mr. Orlofsky states that he had no financial interest whatsoever in the $1 million predevelopment loan. A copy of a trustee agreement recently provided to PHP's counsel by Mr. Orlofsky is attached hereto as Exhibit P.

Comment 23

The OIG also states, erroneously, that an "affiliate company owned by the broker also obtained a fee for providing builder's risk insurance for the Project at closing." According to Mr. Orlofsky, he does not own or hold (and has never owned or held) any interest in the Orlofsky Company, the agent for the builder's risk insurance. According to Mr. Orlofsky, that company is 100% owned by his brother, Aaron Orlofsky. Mr. Orlofsky received no benefit whatsoever from any payments received by the insurance agency owned by Aaron Orlofsky. According to Mr. Orlofsky, bids for the builder's risk insurance were solicited from several insurance agents and the Orlofsky Company was the low bidder. Attached as Exhibit Q is a certificate from the Maryland Corporation Commission identifying Aaron Orlofsky as the registered agent for the Orlofsky Company. It is unclear why the OIG chose not to reach out to Benjamin Orlofsky and/or Aaron Orlofsky to independently ascertain these facts.

E. PHP correctly found that the Project participants were eligible

1. HUD OIG Proposed Finding 5

The OIG further alleges that PHP failed to adequately analyze the eligibility of the participants.

2. PHP's Response to HUD OIG Proposed Finding 5

Comment 24

The OIG incorrectly indicates that PHP "failed to adequately assess the eligibility of the mortgagor and general contractor." PHP, in fact, followed the applicable provisions of the MAP Guide in underwriting the Loan, including in its analysis of the participants' eligibility. [25]

[25] The Draft Report includes only a general citation to "Section 8" of the MAP Guide in support of the assertion that PHP "failed to adequately assess the eligibility of the mortgagor and general contractor, as required." The OIG fails to identify any specific requirement of "Section 8" that was not satisfied. However, what is clear is that Section 8 of the MAP Guide contains no express requirement that a project's sponsors have prior HUD loan experience nor any

Comment 24

The OIG audit fails to note that each of the mortgagor principals had extensive real estate development and finance experience, as evidenced by the resumes submitted to HUD in the preliminary underwriting package. The fact that, as the OIG notes, one principal also had experience as a dentist and another had experience in corporate finance does not negate their extensive real estate experience. The principals of the managing member had over 75 years of collective experience in real estate development.

Thus, the underwriters reasonably determined, consistent with the Section 8.3J of the MAP Guide, in Section VII(C) of Tab 1 of the preliminary underwriting package, that the principals had experience developing, owning, and building similar multifamily properties. No HUD regulation or guidance required the participants to have previous experience specifically with HUD-insured multifamily projects.

Moreover, HUD reached the same conclusion as PHP in its review of the participants' qualifications pursuant to Section 8.1 of the MAP Guide, which required HUD to review "the Lender's mortgage credit report(s) regarding the acceptability of the sponsor, mortgagor and its key principals, and the contractor." Like the underwriters, HUD also found the mortgagor and general contractor to be eligible.

F. PHP adequately assed and supported the Project's prepaid costs

1. HUD OIG Proposed Finding 6

The OIG claims that PHP did not determine the eligibility of or obtain adequate support for certain prepaid costs related to the Project.

2. PHP Response to HUD OIG Proposed Finding 6

Comment 25

PHP, working closely with HUD, properly determined the eligibility of, and obtained adequate support for, prepaid costs related to the Project. Any incorrect payments were small in amount and would have had no bearing on the mortgage default.

The OIG asserts that "Prudential allowed ineligible costs to be included in the mortgage amount and disbursed the costs to the mortgagor without adequate support to show they were related to

requirement that the lender determine the financial capacity of the "mortgagors" to input additional capital, as the OIG states in the Draft Report. In any event, the Lender's narrative described the experience of the sponsors in both the real estate field and other endeavors. Specifically, the key principals, Ray Ortega and Armando Yanez, both had substantial real estate experience.

Comment 26

the project."[26] The OIG's analysis is flawed in at least three respects. First, the OIG considered the wrong invoices. Second, the OIG inappropriately and arbitrarily made a determination as to how certain costs should be allocated to the Project and ignored HUD's express directions with respect to the allocation of costs to the Project.[27] Third, the OIG ignores that HUD approved the prepaid expenses and the related draw request.

Attached as Exhibit R is a spreadsheet of the predevelopment costs the borrower stated it had incurred relating to the entire Alafia development. The overall development was originally contemplated to consist of apartments, commercial development, and a hotel so some costs were appropriately incurred for the benefit of the entire project, and not for a single component. HUD determined that these costs would be allocated based upon the development's total acreage. As a result, 7.5% of costs were allocated to the proposed hotel, 19% of the costs were allocated to the proposed commercial development and 73% of the costs were allocated to the apartments. No guidance exists in the MAP Guide or HUD regulations that requires a different approach or prohibits the approach taken by HUD and PHP. In fact, no HUD guidance provides any standards for separating "acceptable" and "unacceptable" costs. The attached chart allocates costs to those three components of the Project as contemplated.

In addition, the OIG seems to have assumed that certain costs which were not charged to the Project at all (and thus not part of any draw request associated with the Loan), were part of the costs included in the initial draw approved by HUD. The reality is that these costs were simply not part of the approved advance. A copy of the spreadsheet provided by the OIG is attached as Exhibit S. PHP has reviewed the OIG's spreadsheet and corrected these errors. A copy of PHP's analysis is attached as Exhibit T.

Finally, the OIG also fails to consider that the first draw request, which included the proposed costs, was specifically approved by HUD, as required by Section 1.4D of the MAP Guide. The borrower initially provided invoices to PHP to support its draw request. PHP rejected those invoices it deemed inappropriate and forwarded the remaining invoices to HUD for review and approval. HUD then made the final determination as to which invoices should be included as part of the first draw released to the borrower.

[26] Although not attached to the Draft Report, the OIG previously provided PHP with a spreadsheet of the allegedly inappropriate costs.

[27] The OIG also arbitrarily decided to change the allocation of costs to the apartments to 50% in its original July analysis. The OIG provided no rationale for making the change. Rather, it simply took the position that it disagrees with the cost allocation method agreed to by HUD and PHP at the time.

III. CONCLUSION

Comment 1

Every loan entails some risk of default. The purpose of the MAP Guide is to outline the level of risk that HUD is willing to assume and to provide guidance for a lender to gather, analyze and supply relevant information to HUD. As the OIG acknowledges in the second paragraph of the Draft Report, the lender "submits the firm commitment application, including a full underwriting package, to HUD to determine whether the loan is an acceptable risk. . . ." If HUD determines that the project meets program requirements, it issues a firm commitment to the lender for mortgage insurance. Unfortunately, after acknowledging those very important facts in the introduction to its Draft Report, the OIG's findings fail to acknowledge HUD's central role in evaluating and approving the underwriting and instead, improperly substitutes its own post hoc judgment for the real-time on-the-ground judgments of independent professionals, HUD, and PHP. HUD, in this case, reviewed all the information provided and concluded that the information complied with all program requirements. HUD also concluded that the risk acceptable and issued a firm commitment. Those judgments, exercised, at the time the Loan was underwritten, demonstrate that PHP complied with its obligations. Thus the OIG's findings should be revised or withdrawn.

Sincerely,

Constantinos G. Panagopoulos

OIG Evaluation of Auditee Comments

Comments 1 Prudential's comments state that the conclusion and recommendation in the draft report are deeply flawed in several respects and that they are all premised on the OIG improperly substituting its own post hoc judgments for the requirements of the MAP Guide and the on-the-ground, real-time judgments of HUD, PHP, and the qualified professionals retained to provide third-party reports and analyses. Prudential also states that the OIG's draft report also fails to acknowledge HUD's significant role in the underwriting and approval of the Loan, including the fact that it was approved by HUD.

However, Prudential's response failed to address their roles and responsibility in the underwriting process prior to HUD's subsequent approval of documents. Based on the MAP Guide, HUD placed confidence, thus relied, on the documents provided by Prudential. In addition, HUD has a process for lender's to obtain MAP approval and requires the lender to make certifications related to the review and acceptability of the risk for the project, which HUD also relied on. We reviewed the documents Prudential submitted to HUD for final approval and concluded that Prudential incorrectly certified that the loan was prepared and reviewed according to guidelines and HUD relied on the incorrect certifications. Prudential provided several exhibits in its response which will be provided to HUD to review as part of the management decision process.

Comment 2 Prudential's comments state that OIG took 18 months to conduct its review; however, our review initially began on February 27, 2013, and then was suspended on April 11, 2013. We restarted the audit in January 2014 and completed it in September 2014, which was approximately 9 months. In addition, Prudential stated the proposed findings in the draft report raised very different issues than the draft findings initially provided to Prudential in July 2014 and that they were provided limited time to submit their response. However, the draft findings provided in July 2014 were the same issues included in the draft report with more detail. After providing Prudential the draft findings, we informed them that they would be given an opportunity to respond in writing to the findings and their written response would be included in the final draft of the report. Prudential was continuously updated throughout the audit process regarding any changes and additions via email or phone conversations. The draft report was submitted to Prudential via email and FedEx on September 12, 2014 and we received their comments on September 24, 2014.

Comment 3 Prudential's comments state that the principal flaw in the draft report was that the OIG, with the benefit of hindsight, improperly substituted its judgment for the judgments that Prudential and HUD professionals made during the underwriting process on the basis of reports of independent, HUD-approved appraisers and analysts.

We reviewed the documents used at the time of underwriting, such as the market study, appraisal, proposed rents, market conditions, and prepaid cost submissions and determined that Prudential did not underwrite the loan for Alafia in accordance with guidelines as stated throughout our report. We only evaluated data available at the time of underwriting to reach the same conclusions. Additional data, such as the default report obtained by Prudential further substantiated our conclusions.

Comment 4 Prudential's comments state that the appraisers and analysts were approved by HUD at the commencement of underwriting and that each third-party appraiser identified in this report has significant multi-family experience. We acknowledge that HUD approved the appraiser and analysts; however, according to the MAP Guide Section 7-2, Prudential was responsible for third party contractors and according to Section 11-1 was responsible for reviewing third party reports to ensure the application and related documents met HUD guidelines.

Comment 5 Prudential's comments state that unforeseen circumstances caused the Project to fail is not evidence of any underwriting errors. However, Prudential was aware that the economy was experiencing market decline throughout the country during the underwriting of this project and due to the uncertainty of continuing market declines, should have taken precaution and practiced prudent underwriting during Alafia's submission. Prudential was also aware that the submarket for Alafia was achieving significantly lower rents at the time of underwriting. Yet, they allowed Alafia to be priced at the top of the market stating that the location and amenities would insulate them from any changes in market. These additional risks should have been mitigated by Prudential.

Prudential also states that for ground-up construction projects like Alafia, circumstances can change during the development and construction process that cause delays or increase costs. However, delays and additional cost may occur with any project which is why Prudential should have assessed the mortgagor's capacity as required by the MAP Guide. However, Prudential did not assess the mortgagor's financial capacity to sustain and add capital to the project if delays or additional cost were incurred.

Comment 6 Prudential's comments state among other things, the Project offered an outdoor pool with sundeck, Jacuzzi, BBQ area, car wash area, yoga pavilion, pet bathing and grooming station, volleyball court, walking trails, fishing pier overlooking the Alafia River, clubhouse, fitness center, media center, cyber café, spa facility and Wi-Fi hotspots.

However, the comparable properties included in the market study and appraisal used during underwriting also included similar amenities to Alafia. Specifically, Tranquility Lake Apartments offered volleyball courts, gas fire pit, children park, car care center (wash/detail), two dog parks, fully gated community, elevator access in select buildings, full size washer/dryer in units, microwaves, garden tubs, walk in closets, garages and carports, private patio/balcony, lake views, WIFI in clubhouse, fitness center, business center, game room, grilling areas and pool. This property is also located in Riverview, FL, next to a major interstate. Other comparable properties included in the market study and appraisal, located in Alafia's submarket, Brandon, FL, included similar properties that were located with direct access to the interstate and within walking distance to restaurants, hotels, and shopping that at the time of underwriting was already constructed. These comparables had larger bedroom sizes and lower rents compared to Alafia.

In addition, after a review of the site and construction plans dated September 2008 with final approval of May 2009, it was determined that the construction plans and site plans did not include plans for a car wash area, pet and grooming station, volleyball court, cyber café, spa facility other than a hot tub, or Wi-Fi hotspots located throughout the property as stated by Prudential and the appraisal. The current and past managers also confirmed that the only Wi-Fi on the property was around the clubhouse and pool area which is typical for all other apartment complexes in the area. The appraiser also made misleading and unsupported adjustments in the projected income based on unsupported facts between the comparable rentals and the subject property. The appraiser also projected rental premiums for water views, corner units and floors that were not supported by the site and construction plans.

Comment 7 Prudential's comments state that in 2010, as weak economic conditions persisted, HUD recognized the need to make significant changes in the "core underwriting standards" applicable to loans insured under HUD's multifamily mortgage insurance programs and, on July 6, 2010, HUD issued Mortgagee Letter 2010-21 (commonly referred to as the "Risk Mitigation Notice").

Prudential fails to recognize that the market began to show indications of decline during the underwriting process in 2009 and failed to mitigate the risks involved with the uncertainties related to market changes. The MAP Guide applicable at the time of underwriting addressed the Lenders and the market analyst requirements and responsibilities which were violated as stated within our report.

Prudential implies that HUD did not believe the situation was dire enough in 2009 to change the underwriting standards, however this conclusion should not be drawn considering the legal ramifications and cost associated with implementing changes in regulations on projects in process.

Comment 8 Prudential contends that the Project was also significantly delayed because a dispute arose well after initial closing between the borrower and the local governmental authority over the construction of an emergency access road and the payment of certain impact fees and that this significantly delayed the availability of units in the market for over seven months, impacting the rent-up velocity of the Project. Prudential states that the unanticipated seven-month delay also caused operating losses far in excess of those projected in the underwriting because the sizing of the initial operating deficit was based on staged occupancy as units became available. The cost of constructing the emergency access road and the additional impact fees further depleted the working capital reserve and consumed funds that could have otherwise been available to fund operating losses.

However, new constructions may be subject to unanticipated delays and additional cost which is why a financial capacity assessment is important. However, Prudential does not address that they did not assess the financial capacity of the mortgagors during underwriting. Therefore, Prudential was unable to identify the need for additional funds from the mortgagors in the event that a delay occurred. In addition, Prudential submitted a mortgage increase package to HUD for approval of a $1.2 million mortgage increase because of the additional costs that included more than $500,000 for cost related to impact fees and roadwork. HUD stated this mortgage increase was due to the increase in cost to develop and complete the project.

Comment 9 Prudential's comments state that the OIG concluded that Prudential failed to conduct an adequate review of the appraisal, without even discussing Prudential's review of the appraisal at all in its draft report. However, the appraisal was not prepared in accordance with HUD regulations. Specifically, the appraisal included misleading and unsupported information that HUD relied on. These issues were also addressed in the default report conducted by a third party reviewer hired by Prudential.

In addition, the appraisal contained significant flaws not addressed by Prudential. Prudential only stated that the appraisers had significant experience appraising properties underwritten for FHA-insured loans and did not address their responsibility over the third party contractors hired.

Comment 10 Prudential's comments state that the appraisal satisfied its obligations of the MAP Guide and that the draft report failed to acknowledge the requirements set forth in Section 7.4 of the MAP Guide or to demonstrate how Prudential allegedly failed to satisfy those requirements.

The reference for MAP 7-4 is footnote 9 of this report. The appraisal failed to adequately describe the site or include accurate photos of the site, as required by the MAP Guide. The aerial photo included land parcels for 39.96 acres with road frontage along Gibsonton Road, which were not the parcels for the apartments and only included 26.62 acres. The legal description and plat of the 26.62 acres clearly indicates that the phase two site consisting of 26.62 acres had no means of ingress and egress. This was also shown on a survey completed by Cumbey and Fair, Inc. dated October 31, 2008. Adequate access to the 26.62 acres was not obtained until April 8, 2009, when an easement for a private street located off of Gibsonton Road was conveyed to Alafia Apartments Complex, LLC. The surveys and site plans for the apartments, including the survey provided by Prudential with this response, never included these parcels. Prudential states "Prudential and HUD knew that it did not include all of the land" which we determined to be inconsistent with the photo in the appraisal that includes all of the land which is also misleading.

Prudential's comments also state that, in conducting a post-default review of the Project, it was found that the appraisal generally satisfied the reporting requirements of the USPAP standards; however, the default report addressed some of the same issues we identified.

Comment 11 Prudential's comments state that the OIG seeks to substitute its own judgment, developed 5 years after the fact, with full knowledge of how the Project actually performed, for the 2009 opinion of the appraiser and that the OIG then concludes that the appraisal and Prudential's review of the appraisal were insufficient because the OIG disagrees with the appraiser's judgments. Prudential further states that the OIG alleges that the appraisal overvalued the land by considering inappropriate comparables, including improper adjustments, and relying on inaccurate site information. Prudential also states that the OIG objects to the inclusion of one of the comparable properties identified by the appraiser, and argues that the inclusion of this comparable improperly inflates the value of the Alafia land by some $4 million.

We reviewed the appraisal used at the time of underwriting, which was the data available during underwriting and not 5 years later. We identified a significant outlier that allowed the land value to be overstated by more than $4 million. This outlier was included in the appraisal and was an outlier at the time of the appraisal.

Comment 12 Prudential's comments state that the concerns regarding the land value expressed in the draft report are the same concerns that were raised by HUD during the processing and underwriting of the loan. Prudential further states that those questions were answered to HUD's satisfaction, yet the OIG seeks to reopen the same questions and substitute its judgment (with the benefit of hindsight) for that of two HUD-approved appraisers, Prudential and HUD.

We reviewed the responses provided to HUD by both Prudential and the appraiser including the additional appraisal submitted after HUD questioned the same issues we questioned. These responses, which HUD relied on, were unsupported and misleading.

Comment 13 Prudential's comments state that the OIG cites two additional, comparable sales and asserts that "Prudential's appraiser disregarded various indicators of the market downturn and projected land value on the upper end of the scale," leading the OIG to "recalculate" the land value to $6.1 million and that this "recalculation" is inappropriate for several reasons. Prudential states first, Prudential, HUD, and the two HUD-approved appraisers all considered the market downturn when valuing the land at $10.5 million, a price $4.4 million less than the purchase price paid for the land in an arms-length transaction that occurred less than one year earlier.

However, the last arm's length transaction occurred between 2005 and 2006 with Alafia River Property Group, LLLP, which was more than 3 years earlier at a time when the real estate market was at its peak. The purchase price in 2005 and January 2006 had little if any relevance to the site value in March 2009. Alafia River Property Group, LLLP actually conveyed the 26.62 acres plus an additional .34 acre to Alafia Apartments Complex, LLC on May 22, 2008, with a public disclosed consideration of $8,273,469 which is less than the $10,500,000.

We also researched each comparable sale used by the appraiser and contacted realtors and other appraisers in the area for additional sales, as well as information related to the multifamily market prior to the effective date of the appraisal. Our review included comparable sales used by the appraiser, as well as additional sales in determining if the appraised value was supported by market reaction and whether or not the "AS IS" site value was credible based on facts and market conditions as of the effective date of the appraisal.

Prudential also states that it was entirely reasonable for the appraisers to value the land at the "upper end of the scale" in light of its unique location, which included not only the views, but exceptionally good access to Interstate 75, the major highway in the area.

However, the comparable properties included in the appraisal and market study, such as Tranquility Lake, The Addison, and Courtney Trace Apartments, had the same access to Interstate 75. These comparables had larger bedroom sizes and lower rents in comparison to Alafia. Also, based on facts related to the site, market conditions, comparable sales and other information obtained during the review of the "AS IS" site value of $10,500,000 as of March 4, 2009, were not supported.

Comment 14 Prudential's comments state that the OIG failed to cite USPAP Standard 3, which applies to the reviewer. Therefore, we included the reference for the Uniform Standards of Professional Appraisal Practice (USPAP) Standard 3 in footnote 1. This criterion was used in our review despite being omitted from the footnote; therefore, the conclusions drawn did not change.

Comment 15 Prudential's comments state that the OIG also asserts that the appraiser's adjustments based on the Project's river location were inappropriate because they did not accurately reflect the market, again without disclosing the methodology it used in reaching this conclusion. However, we determined that the appraiser's adjustments were not appropriate based on market conditions at the time of underwriting, and support was not included in the appraisal for these adjustments as disclosed in our report.

Comment 16 Prudential's comments state that the OIG's assertions that the Project did not have adequate entrance and exit access, utilities were not provided to the site and that the site contained wetlands and potential species that were required to be removed by the County, are inaccurate.

However, as stated in the report, the site did not have adequate entrance and exit access. The Master Water and Sewer Plan developed by Cumbey and Fair, Inc. dated August 2008 clearly indicates that utilities are located along Gibsonton Drive and that utilities were proposed to be run from Gibsonton Drive to the 26.62 acre site. The legal description and plat of the 26.62 acres clearly indicates that the Phase Two site consisting of 26.62 acres and had no means of ingress and egress. This was also shown on a survey completed by Cumbey and Fair, Inc. dated October 31, 2008. In addition, the lack of road frontage along a major road such as Gibsonton Road would have affected the land value. The comparable land sales used by the appraiser included such road frontage.

Prudential also states in its comments that the wetlands did not in any way interfere with the development of the site, nor were there any material costs associated with removal of the species; in fact the existence of wetlands and the presence of animals is consistent with, and part of the attractiveness of, a heavily-wooded riverfront location. However, the removal of species from the property was required by the County, which also incurred additional cost.

Prudential further states that the Lender Quality and Monitoring Division Default report obtained by Prudential noted that the underwriting narrative did not address the statement in the appraisal that current market rents may not allow for a cost feasible development at the time and that such statement in the appraisal was not, as the OIG asserts, critical to the mortgagor ability to sustain the project and a violation of the MAP Guide. Contrary to Prudential's comments, the statement in the default report conducted by the third party reviewer hired by Prudential is critical and indicates that the project may not receive the projected revenue, thus making the entire project not feasible, especially, if the mortgagor's does not have additional capital to put towards the project in the event the project revenue is not sufficient to make the mortgage payments.

Comment 17 Prudential's comments state that its market analysis was more than adequate. However, the market study was not adequate and supported as stated in our report. We identified various instances where the market study did not follow guidelines, such as failing to describe the characteristics of the market at the time of underwriting and the indicators of the market decline as well as not including statements regarding stalled projects due to the market conditions at the time.

Prudential also states that the OIG fails to acknowledge that the market analysis was conducted by a qualified market analyst using data from the same area as the Project. However, Prudential failed to recognize that they certified that all documents submitted to HUD was adequate and reviewed according to guidelines, which HUD relied on when making its certification. Prudential failed to address their responsibility for the third party market analyst. The market analyst also made a certification that the study was completed according to guidelines which was not correct.

Comment 18 Prudential's comments state that the OIG incorrectly asserts that the Market Study was supported by outdated information and that the OIG fails to note that the Market Study discusses both market trends and projections. However, we acknowledge that the market study included trend analysis of projected future outcomes; but, the market study failed to use statistics available to show current market decline, such as unemployment rates and building permits.

Prudential states that despite OIG's seeming contention to the contrary, the MAP Guide did not require that the market analysis be updated in 2009 in conjunction with the firm commitment application. However, we cited various requirements from the MAP Guide which states the study must adequately describe the market area and market conditions. The market study failed to assess and make projections and trends to include the uncertainty of continuing market decline. The default report conducted by the third party reviewer hired by Prudential also addressed the market conditions stating that Alafia's location and amenities was not recession proof. In addition, the appraisal dated March 2009 did not include statistics to show the greater decline in the market. By February 2009, the unemployment rates more than doubled in the subject area and the market decline was more evident at the time of this appraisal but did not include data to give a clear picture of the present state of the economy.

Comment 19 Prudential's comments state that there was nothing incorrect about the process that Prudential followed to develop its estimates and that their underwriting of potential Project revenue was consistent with the MAP Guide and was appropriately based on both the rents approved by HUD in the invitation Letter and the Novogradac appraisal.

We do not agree with Prudential's comment. Despite the declining market, Prudential and the market analyst rationalize that the project would sustain throughout these market conditions at higher rents. However, Prudential and the third party contractors failed to include in its assessment the declining market conditions and still priced this project at the top of the market. Prudential also failed to address its responsibility for the third party contractors used during the underwriting process. It further failed to price the project at conservative levels. This was also confirmed during the lease up phase when significant concessions were provided and rents were decreased.

Prudential comments state that using its own (unstated) assumptions, apparently developed from data it obtained in 2014 (five years after the actual underwriting), the OIG seems to have performed its own underwriting, and determined in the draft report that the correct estimate of Project income should have been $4.4

million per year and the rent premiums should only have been $235,000 to $250,000 per year. Prudential further states that the draft report does not provide the basis for the OIG's calculations and assumed that such calculations are based on the current rents as of April 2014 reported in Table 3 of the draft report.

However, we did not use data from 2014 to recalculate the rents including rent premiums. Instead we used the same files, reports, and data; such as site plans, appraisals, market study that was used and available at the time of underwriting. In addition, our report documents how the project rents were recalculated. We also included an additional table, Appendix E, to the report to further address Prudential's comment.

Comment 20 Prudential's comments state that all debt related to the Project was fully disclosed to HUD before it issued the firm commitment. However, we determined that Prudential did not disclose all debts related to the project.

The default occurred because the mortgage payments were not made due to lack of adequate project revenue. The liens, as discussed in comment 21, also identified additional debt owed by the mortgagors that would require additional funds for payoff in order for the loan to proceed to initial endorsement. Any additional funds owed by the mortgagors, including those used to pay off liens and additional loans could have been used to support the project. The mortgagors were unable to put additional capital into the project during the periods of inadequate revenue and Prudential failed to assess the mortgagor's financial capacity during the underwriting process despite the declining market and additional debt owed by the mortgagors.

Comment 21 Prudential's comments state well after the submission of the mortgage insurance application, Prudential became aware of the existence of several liens that had been filed against the Project. Prudential also state these liens were not reflected in the title evidence, credit reports or public records searches received or conducted by Prudential prior to submission of the mortgage insurance application and did not any have information about the liens that it could have disclosed to HUD. However HUD identified the same liens during a public records search and therefore Prudential should have been aware of the liens prior to submission of its mortgage insurance application and the initial endorsement.

Comment 22 Prudential's comments state that they did not agree with our assertion that the broker had additional roles in relation to the subject property. Yet following this statement, Prudential states that it is true that the principal of the broker did act as trustee with respect to the pre-development loan. According to this comment made by Prudential, they agreed that the broker had an additional role.

Prudential further states that the OIG made an erroneous assumption that the broker received some benefit from the $1 million loan. However, we did not state that the broker received some benefit from this loan as stated by Prudential, only that the broker acted as the trustee, which allowed additional roles for the broker. According to the MAP Guide, these additional roles are not allowed.

Comment 23 Prudential's comments state that the OIG concluded, erroneously, that an affiliate company owned by the broker also obtained a fee for providing builder's risk insurance for the Project at closing. Based on additional documents provided by Prudential, we deleted the statement regarding the builders risk insurance from the report.

Comment 24 Prudential's comments state that the OIG incorrectly indicates that it failed to adequately assess the eligibility of the mortgagor and general contractor. However, Prudential failed to recognize that they did not assess the mortgagor's financial capacity, as required by MAP Guide Section 8-3A4. In addition the MAP Guide, Section 8-4 addresses the purpose of the financial capacity assessment including details of the review.

In addition, the MAP Guide requires that all principals in the proposed transaction must submit detailed information regarding previous participation in governmental housing transactions in order to be approved by HUD for participation in any program of mortgage insurance. The underwriting narrative included with the pre-application did not document prior HUD experience. Also, we contacted one of the mortgagors who stated that not understanding or knowing the HUD guidelines made this process more difficult, which was something that should have been mitigated by Prudential.

Comment 25 Prudential's comments state that working closely with HUD, it properly determined the eligibility of, and obtained adequate support for, prepaid costs related to the Project. Prudential also states that any incorrect payments were small in amount and would have had no bearing on the mortgage default. However, Prudential did not obtain adequate support and inappropriately determined the eligibility of prepaid cost. The line item for organizational cost included more than $1 million in prepaid cost. The unrelated and unsupported prepaid costs diverted funds away from the project and allowed costs to be inappropriately reimbursed by mortgage proceeds. Based on the National Housing Act all cost must be related to the development of the project. Some invoices clearly stated that the services were for the commercial and hotel development, while others do not include adequate information to show a direct relation to the project, yet Prudential did not to address these costs.

Comment 26 Prudential's comments state that the OIG considered the wrong invoices. We compared Prudential's spreadsheet provided with its response to the spreadsheet we used for our assessment of questioned costs. We identified that only 7 of the 70 invoices included within our sample were subsequently removed by Prudential. The seven invoices did not include costs charged to the project and represented a small amount. We selected a sample of invoices from the two binders Prudential submitted to HUD that included Prudential's cost allocation of prepaid costs. In addition, these cost were included in the initial draw request as supported by the initial draw submission line item for organization fees.

Prudential also states that HUD determined the percentage allocation and that OIG inappropriately made a determination of how cost should be allocated. However, we contacted the vendors listed on the invoices to determine how the costs associated with the entire project should be allocated, which we presented to Prudential when the costs were questioned. HUD did not determine the cost allocation of 73 percent; this was determined by Prudential and submitted to HUD for approval. HUD relied on Prudential's allocation and justifications which was unsupported.

Prudential further states that the OIG ignores that HUD approved the prepaid expenses and the related draw request. However, HUD informed us that Prudential provided two different submissions. HUD rejected some invoices within the first submission and Prudential provided a second submission that HUD also disallowed cost. It was stated that Prudential should have included only approved invoices and HUD directly informed them that only invoices directly related to the project and those referencing the apartments on the invoice would be approved.

Appendix C

ADDITIONAL LAND SALES

Location	Date of sale	Sale price/ square. foot	Sale price/unit	Use of land	Distance from subject property
4409 Tuscany Glen Court, Brandon , FL	3/11/2008	$ 7.64	$ 20,131	Multifamily	6 miles
11106 Lakewood Point Drive, Seffner, FL	7/3/2008	$ 2.74	$ 13,794	Multifamily	10 miles

Appendix D

AVERAGE RENT PER SQUARE FOOT

Properties	Year built	Average square foot	Average rent	Average rent per square foot
THE PRESERVE AT ALAFIA	2009	984	$ 1,446.00	$ 1.49
THE ENCLAVE @ TRANQUILITY LAKE	2008	975	$ 1,092.00	$ 1.13
THE ADDISON	2007	1,176	$ 1,338.00	$ 1.14
COURTNEY TRACE	2006	1,019	$ 1,106.00	$ 1.09
ESTATES AT TUSCANY RIDGE (Currently Camden Visconti)	2006	1,204	$ 1,309.00	$ 1.09

Appendix E

Recalculated Rents

Square foot of Alafia units	Rent per square foot	Adjusted rents	Number of units	Rental revenue
757	$ 1.15	$ 870.55	56	$ 48,750.80
784	$ 1.20	$ 940.80	96	$ 90,316.80
952	$ 1.08	$1,028.16	103	$ 105,900.48
997	$ 1.10	$1,096.70	16	$ 17,547.20
1134	$ 1.10	$1,247.40	72	$ 89,812.80
1282	$ 1.10	$1,410.20	8	$ 11,281.60
Monthly projected rental revenue				$ 363,609.68
Recalculated annual rental revenue				$ 4,363,316.16
Prudential's estimate per July 2009 application				$ (5,338,140.00)
Difference between recalculation and Prudential estimates (excluding other revenue)				**$ 974,823.84**