## American Property Management

**From:** John Ward [johnwardtbsi@earthlink.net]
**Sent:** Tuesday, December 16, 2003 6:59 AM
**To:** johnwardtbsi@earthlink.net
**Subject:** FW: September 9, 2003 meeting notes.

Ladies and Gentlemen,

Attached please find the NAMFS notes from the September 9,2003 meeting with HUD.

Thanks and be well.....John Ward

-----Original Message-----
**From:** John Ward [mailto:johnwardtbsi@earthlink.net]
**Sent:** Friday, September 26, 2003 11:46 AM
**To:** 'John Ward'
**Subject:** FW: September 9, 2003 meeting notes.

Ladies and Gentlemen,

The following are the NAMFS notes from the September 9, 2003 meeting with HUD. It was my understanding that the participants were going to provide NAMFS with their notes, however to date we have not received any submissions from the other participants. As not to delay the release of this information to our membership we are submitting the NAMFS meeting recap. These notes reflect those of Kevin Cooke and myself and are not intended to represent any of the other meeting participants. Please be kind enough to review these notes for accuracy as we would like to distribute these notes to our membership with your authorization. Please be kind enough to provide us with any corrections or amplifications that you feel are required at your earliest convenience. If possible we would like to distribute these notes at our upcoming meeting on October 3,2003.

Attendees: Richard Dunne, Leslie Bromer, Gail Bradshaw, Jenny Ruth Nix, Ray Washington, Richard Law, John Cahill, Dan Buczek, Kevin Cook, John Ward.

Joe McCl oskey( need his title) opened the meeting by acknowledging the need for open discussions and thanking us for taking the initiative. HUD has several ongoing programs that will involve the property preservation and property disposition world and our input was appreciated. HUD encouraged the continuation of this kind of productive interchange.

Richard Dunne welcomed everyone to the meeting and graciously acknowledged that it was the trade association NAMFS that took the iniative to open the lines of communication that ultimately lead to this meeting.

*It is our belief that the most important information to have come out of this meeting is the following. All of the preceding information, any information that may follow this as a result*

*of amendments to this document or subsequent exchanges of information are that and only that. (HUD officials cannot change specs by use of an email or telephone conversation. Unless the directive is issued by HUD as a mortgagee letter the specs stand as written and will be audited as written.)*

**Agenda items are as follows:**

**Initial vacancy inspection and interior condition report.**

**The purpose of the interior inspection on first time vacancies is to establish a "baseline" for the condition of the property against which future deterioration can be measured and compared.**

**The reimbursable is based on the interior inspection and the delivery of the condition information required to establish the "baseline" inspection. The first time vacancy inspection is not reimbursable at a higher rate merely because the property was found vacant. This increased reimbursable was designed to compensate for the time and effort required to obtain and provide the condition information required by the initial "baseline" vacancy inspection.**

**HUD doesn't care who completes the on site "baseline" inspection. As long as the informational requirements of their client handbook are met and they have the "baseline" inspection completed the fee should be reimbursable to the mortgagee. HUD is paying for the work product without regard to which on site service provider completes it. The service provided defines the reimbursable whether it is provided by inspectors or preservation contractors. (John Cahill of SIRS disclosed that contractors and inspectors were in some cases not being paid a fee for providing the "baseline" inspection information to the primary national contractor who was in turn charging the mortgagee the reimbursable for that information.) He also disclosed that some primary contractors are denying payment for this and other services by saying that their client, the mortgage servicer was not paying them. John Cahill asked HUD to "force" the primary contractor to make payment to the site provider. After some discussion it was generally agreed that HUD's primary relationship was with the mortgagee or mortgage servicer. The agreements between the mortgage servicer and their primary national contractor as well as the agreements between the primary national contractor and the down stream site providers is not regulated by HUD and is a trading partner issue. HUD cannot force payment to anyone. HUD makes their reimbursable payments to the mortgagee based upon many factors and the mortgage servicer meeting the conditions defined in their contractual obligation. HUD has acted properly in accordance with their contract with the mortgage servicer and to the extent they are permitted to within the transaction. Whether or not a contractor gets paid is not an issue for HUD to intercede in or resolve. What a contractor provides, for how much, and the receipt or non receipt of compensation for delivering those services is a private sector trading partner issue.**

**HUD is of the opinion that inspectors should have the ability and authority to gain access to properties they are reporting vacant be it first time vacancy or subsequent inspections. We believe that a credible argument was made that inspectors generally do not have the ability or authority to enter properties that are suspected of being vacant. HUD agreed to consider the information and stated flatly that the time frame requirements of the mortgagee are not going to change. If inspectors can't get into a property it is the responsibility of the mortgagee and their contractor to arrange access so that the**

"baseline" inspection can be properly completed.

All subsequent inspections of vacant properties should include an interior inspection. HUD was clear that is and has been the requirement for vacant properties.

On subsequent inspections the inspectors should have the data obtained during the previous inspection for comparative purposes. NAMFS brought up the fact that an inspectors lack of the previously obtained information requiring them to report anew was in many cases used as a quality control tool. HUD is steadfast in their belief that that inspector should have the previously obtained inspection information in order to properly make the comparison.

HUD believes that subsequent inspection should not have the same reimbursable value as the initial vacancy inspection inasmuch as the inspector already has the information and is merely verifying what was already reported.NAMFS made the argument that subsequent inspections required as much time and effort to complete as the initial and should be reimbursable at the same rate.

HUD stated that the data requirements of the interior inspection are contained within their "client handbook".

Supporting photos and documentation

HUD does believe that photos have a positive impact on the quality of the work product and the quality of the supporting documentation.

HUD does have reimbursable for photos and does reimburse the mortgage servicer for photos included in the claim and included in the file according to the guidelines appropriate to the property.

HUD recognizes the cost of providing digital photos is substantially less than that of Polaroid or 35mm. HUD has not changed the reimbursable for photos in some time but is considering changing the reimbursable.

John Cahill of SIRS stated that on site providers are in many cases being required to provide photos to the primary national contractor and are not being paid for those photos. Again HUD identified that as a trading partner issue. HUD is reimbursing the mortgage servicer according to their agreement. If the mortgage servicer is not reimbursing the primary national contractor or the primary national contractor is not paying the site provider, that is outside of HUD's purview.

Debris removal:

HUD has established that the current system of debris removal provides economies. It does not appear that HUD will be returning to the "broom clean" policy anytime soon.

Second Bids:

The purpose of requiring second estimates is to provide HUD with an accurate and comparative analysis of the services required . This should be an independent and competitive presentation of the best cost to HUD to enable HUD to provide fair and

accurate reimbursement for the services provided.

NAMFS asked specifically if the contractor providing a bid is being approved and must provide the service or if the amount of the bid to provide the service is being approved. Both Leslie Bromer and Richard Dunne confirmed that the amount to provide the service was being approved. Once the amount is approved the mortgage servicer is free to assign the job to whomever they wish. At this point NAMFS raised the potential for an approved estimate to be "shopped" around by a national contractor. Once the amount is approved to the national contractor they can then go out and have the site provider re-bid the job thus expanding their margins on the approved amount beyond industry standard discounts. Richard Dunne expressed that he does not believe that that is taking place given the time restraints on completion. Mr. Dunne indicated that if that could be done , then it would be considered good business by HUD and no violation or impropriety. The amount was approved and HUD considers that to be the acceptable cost to them. If the job can be produced for less, that is efficiency. At this point Richard Law indicated that his procurement background with the government leads him to believe that it is clearly inappropriate as costs were not being fully or properly disclosed to HUD, the ultimate purchaser.

NAMFS inquired as to the enforcement of this existing specifications on obtaining second estimates. HUD responded that at present they were looking at how and when to enforce these specifications beyond the oversight that the M&M's are currently providing.

NAMFS inquired as to the viability of wholly owned subsidiaries and joint ventures between mortgage servicers and field service providers in view of HUD's requirement for a completely and independent second bid. HUD responded that they would be reviewing the issue and would provide guidance at a later date.

NAMFS inquired as to HUD's view of a second estimate provided by a single primary national contractor given the fact that the cost of the second estimate is not reimbursable. A view exists that if HUD is not reimbursing for the second estimate that the mortgagee should be able to hire anyone they want to obtain it. HUD was clear that the second estimate must be independently provided and there can be no involvement, even tangentially, with the provider of the second estimate by the national or the provider of the first estimate.

Dan Buczek, representing SIRS, indicated that he thought that primary national contractors were billing for services and not paying the on site providers based on their contention that the national contractor claimed they "were not being paid by their client", the mortgage servicer. Dan Buczek wants HUD to intercede and make certain that the site providers are paid. A full audit of the national contractors books and records was suggested. HUD indicated that they were not empowered to undertake any such audit and that it appeared that the issue was between trading partners and again not within HUD's purview.

Dump Receipts:

HUD's primary goal is to make certain that all debris is properly disposed of and that their responsibility to public interest in maintained.

HUD will accept and a dump receipt created by the contractor doing the debris removal

with photographic documentation. The information and documentation required for a receipt to qualify is documented in the HUD specifications.

A paper audit trail must exist to document the proper disposal of the debris.

NAMFS inquired as to area's where local landfills are unmanned or there is no charge for local debris and therefore don't issue receipts. HUD responded that a document that complies with their requirements should be submitted that describes where the debris was disposed of and why a receipt issued by the receiver is not contained in the file.

NAMFS inquired as to the removal of hazards and the ability to charge "cubic yards" for such debris. HUD responded that hazards and their cost of disposal must be identified and can be removed .

NAMFS inquired as to the photo and documentation requirements of the M&M's. The theory being that if contractors and M&M were working from the same support requirements a consistency world evolve that should provide some efficiency for the M&M's during the review process as well as save time and expense for contractors who currently provide various documentation and photo support according to the trading partner agreements they have with each of their national contractors. HUD stated that the type and quantity of supporting documentation required and provided by each M&M is individual to their specific contract to provide service. Basically there is no consistency in the requirement on the contractor side or that of the M&M.

Consistency of Specifications:

This conversation really turned into a discussion about costs and reimbursable s . Richard Law sated that reimbursable rates were inappropriately low and should be reevaluated. Richard Dunne advised that HUD had an independent contractor collecting rates and other data from industry participants who they chose at random from various industry directories and listings. This project should conclude in December and adjustments may be forthcoming after that. There was no promise of upward adjustments or any adjustments at all. The fees are being reviewed.

Richard Law stated that national contractors did not make any money doing inspections and their income was primarily based on the preservation business. He further indicated that the basic services provided were so similar that the only way a national could differentiate themselves was the retail cost of the inspection. NAMFS respectfully disagreed. From experience and conversations with members we know that money can be made doing property inspections. My personal opinion is that price is probably the last issue that differentiates a national or regional contractor from their competition. Service, quality and technology are what differentiate a contractor from their competition. The market has already set the pricing. Contractors need to deliver more for the money or convince a potential customer that what they are delivering is worth more than what can be obtained for a lesser fee.

Industry Conferences:

HUD was very clear that they would be eager to participate and have participated in industry conferences. The NAMFS conference happens to be at the end of th eir fiscal year and unfortunately HUD must deal with their own budget restraints substantially

limiting their ability to fund attendance. So that our members are clear it should be noted that HUD can not accept travel or expense reimbursement and must fund their own from their own budget.

NAMFS proposed an alternative which was received very well. The alternative is to organize and promote a HUD meeting in Washington, D.C., thus eliminating any expense on the part of HUD. If HUD can't come to the contractors, we can bring the contractors to HUD. Kevin and I both think this a tremendous opportunity afforded us that we should not allow to pass without taking advantage of it.

Several questions presented by NAMFS members were brought up such as the omission of NJ in the year round winterizing specs and the identification of specific key codes in some western states not specifically identified. These discussions reverted back to the fact that the only change in a specification that will stand the test of audit is one that runs the process and is issued by HUD in a mortgagee letter. Any specification change that a member wishes to have addressed would need to be submitted in written form and run through the appropriate review and recommendation process prior to publication. Minimum turnaround would be six months. Potentially the issues might never be addressed at all.

Last but not least there was an agreement that we would form a "Conference Call Committee" which will include Richard Dunne, Leslie Broemer, John Cahill, Richard Law, Kevin Cooke and John Ward. NAMFS was given the responsibility of coordinating these calls. These calls hopefully will allow HUD a direct conduit to pass information to the contracting community and allow the industry to address issues or request clarifications minimizing the energy and expense to everyone.

All in all your NAMFS representatives believe this was a very productive first step.

## Thanks and be well.....John Ward

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