Multifamily housing is in our communities, not our financial centers.
The Office of Multifamily Housing should remain focused on communities, not centers of power.

HUD's proposed reorganization of the Office of Multifamily Housing is irresponsible. The plan:

- Completely and irrevocably dismantles a business model that, without any staffing increases, has successfully accommodated a two fold increase in initial endorsements since fiscal year 2009, returning $1.2 billion dollars to the Treasury in fiscal year 2012, while decreasing overall risk to the FHA multifamily insurance funds[1];
- Strips direct and skilled customer service out of 51 offices;
- Organizes employee resources into a "command and control" model more suited to the 19th century than the 21st century;
- Is designed to encourage more than 24% of Multifamily Housing employees to resign, at the same time GAO is reporting that the agency remains incapable of determining its staffing needs[2];
- Through staff reductions, saves an estimated $47 million annually, representing less than a tenth of a percent (.08%) of the outstanding principal balance of insured multifamily mortgages, and less than four tenths of a percent (.36%) of new multifamily endorsements in FY 12.[3] Three mid-sized defaults per year would wipe out all projected savings. Three projects represents less than .03% of the Multifamily FHA portfolio.

The Office of Multifamily Housing can be made more effective and efficient. But alternative proposals are faster, cheaper, and smarter:

- Finish implementing Breaking Ground, Sustaining Our Investments (SOI), and the Worksharing pilot, rather than delay as set forth in the current reorganization proposal;
- Use HUD's established Regional structure to consolidate Hubs and tame unwieldy spans of control, assuring access to HUD's core programs (Multifamily Housing, Public Housing, CPD and FHEO) in offices across the country;
- Where workload or geography support it, designate field offices as satellites;
- Where workload or geography do not support the designation of a satellite, outstation existing Multifamily employees and, if workload permits, assign location neutral work.

HUD should remain focused on Main Street, not Wall Street.

For more information, contact Carolyn Federoff, Executive Vice President, AFGE Council 222, at 617/312-4278.

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[1] HUD staffing numbers for 2009 found in HUD Congressional Justification FY 2009 Housing Personnel Compensation and Benefits at D-11, (http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_11907.pdf); for 2012, found in HUD Notice at 78 F.R. 25294; 2009 multifamily initial endorsements found in FHA Annual Management Report Fiscal Year 2009, at page 12; 2012 multifamily initial endorsements, funds returned to Treasury and risk to insurance funds found in FHA Annual Management Report Fiscal Year 2012, at pages 27, 56, 84, respectively.
[2] Estimated reasons for loss of staff in HUD Notice at 78 F.R. 25294; GAO, "HUD—Strategic Human Capital and Workforce Planning Should be an Ongoing Priority," March 2013, at pp 19-20 http://www.gao.gov/assets/660/653069.pdf
[3] Estimated cost savings in HUD Notice at 78 F.R. 25294; FHA Annual Management Report Fiscal Year 2012: outstanding principal balance at page 30; new multifamily endorsements at page i.

HUD's proposed reorganization of the Office of Multifamily Housing does not present the most effective and efficient means to meet its stated objectives, and violates HUD's Strategic Plan.

Analysis: Proposed Solution and Cost

Our analysis focuses on the Administration's stated problems that the proposed reorganization is intended to solve. Although there are several proposals for change, only one necessitated publication in the Federal Register: the elimination and consolidation of Multifamily Housing in the field.

Proposed solution: Physically consolidate into 10 locations, employees and work currently located in 61 offices nationwide.

Cost:

- Minimum loss of 25% of skilled and experienced employees;
- unknown costs for rehiring employees with necessary skills to replace employees choosing not to relocate;
- unknown costs for training new employees;
- $20 million for office space alteration;
- $6 million in office closure costs;
- $16.8-$33.6 million in personnel relocation costs;
- unassessed cost of relocation of work files presently located in 61 offices;
- $13.9-$20.8 million in buyout and terminal leave costs;
- unassessed cost of severance pay for employees choosing not to relocate or take a buyout;
- $500,000 in training for remaining employees for new roles;
- unknown cost to national and local economies due to lost productivity during relocation chaos,
- unknown cost to FHA insurance funds due to increased risk resulting from relocation chaos,
- unknown long term cost to FHA insurance funds due to reduced staffing and oversight.

Analysis: Problems identified, Misconceptions, and Alternatives

HUD's Notice in the Federal Register sets forth the problems that the reorganization is intended to resolve. A close look at the problems identified reveals misconceptions about how the proposed solution relates to the problem. Alternative and less costly solutions are available.

Problem: "fragmented and unwieldy organizational structure"[4]
Multifamily needs "better spans of control and [to] establish clear reporting lines in the field."[5]

[4] HUD Notice at 78 F.R. 25293, third column, first partial paragraph.
[5] Id. at 25294, first column, first full paragraph.

An organizational structure is not the same as an office structure. Organization charts are not written in bricks and mortar. Similarly, spans of control and lines of authority are not resolved by the configuration of office space. Physically consolidating staff will not instantly eliminate fragmentation or an unwieldy organizational structure. Physically consolidating Multifamily employees will not eliminate multiple layers of review or bottlenecks through which all decisions must flow.

More Effective and Efficient means: Changing the organizational reporting relationships and lines of authority can help resolve fragmentation and create a more “wieldy” or controllable organizational structure. It can be used to create better spans of control. If articulated well, it can establish clear reporting lines in the field and Headquarters. To be effective, it would necessitate training and implementation. The cost, however, would be far less than the minimum $56 million projected cost of physical relocation.

Problem: “antiquated systems and processes”[6]

Misconception: Antiquated systems and processes are location neutral. Physically consolidating Mutlifamily employees does nothing to update systems or processes.

More Effective and Efficient Means: The Breaking Ground and Sustaining Our Investments initiatives directly address the processes our Development and Asset Management divisions use daily. The cost of their initial implementation has already been expended. The cost of their continuous implementation and improvement is far less than the minimum $56 million projected cost of physical relocation.

Problem: “role specification which allows for little flexibility in allowing employees to perform various roles while responding to spikes and ebbs in workload”[7]

Misconception: Role specification is unrelated to where the role is performed. Physically consolidating Mutlifamily employees does nothing to update position descriptions and job titles.

Moreover, the Administration is in error when it implies that there is no role specification to distinguish the management of troubled versus non-troubled Multifamily Housing assets. Since 1994, the Office of Multifamily Housing has recognized Project Managers and Senior Project Managers, with the key

[6] HUD Notice at 78 F.R. 25293, third column, first partial paragraph.
[7] HUD Notice at 78 F.R. 25293, third column, first partial paragraph.

difference for those in Asset Management being the level of expertise and number of troubled projects in the employee's portfolio.

A similar role specification exists for Project Managers in Development; Senior Project Managers are to be assigned more complex and time-consuming applications.

More Effective and Efficient Means:	Redesigning position descriptions and specifying roles can be accomplished without resort to physical consolidation. The proposal to shift the review of underwriting applications "from a team approach to a single reviewer (underwriter) who will pull in technical expertise only as needed"[8] can also be accomplished without physical consolidation. Consideration should be given, however, to previous direction by Congress requiring that HUD's appraisers be licensed; the requirement for licensure indicates that Congress intended qualified and independent appraisers be involved in the underwriting process.
Problem:	Need to "increase the consistency of MFH processing across the country."[9]
Misconception:	"Reducing the field footprint"[10] does not automatically result in more consistent customer service. It takes better systems and processes, and trained employees and managers to achieve consistent customer service. Moreover, some differences in processing should be encouraged; construction in Arizona is different than construction in Minnesota; commercial activity in an urbanized area is different than in a more suburban area. The first rule of real estate remains "location, location, location." A cookie-cutter approach to development (and asset management) may be less expensive, but it does not guarantee better, or even comparable, results.
More Effective and Efficient Means:	In 2009 and 2010, the Administration introduced Loan Committees that review applications for FHA mortgage insurance before the issuance of a firm commitment. This has increased the consistency of Multifamily development processing. The Administration has offered no evidence that further consistency is necessary or desirable.
Problem:	Need for "more active workload balancing."[11]

[8] Id. at 25294, second column, second full paragraph.
[9] Id. at 25294, first column, second full paragraph.
[10] Id. at 25294, first column, second full paragraph.
[11] Id. at 25294, first column, first full paragraph.

Misconception:	Physically consolidating Mutlifamily employees in and of itself does not actively balance workloads. This takes active management.
More Effective and Efficient Means:	The Administration has recently started a workload sharing pilot program that is location neutral. The pilot should be fully implemented. To be effective, however, it will take active and engaged management. The cost, however, is far less than the minimum $56 million projected cost of physical relocation.

Analysis: Problems Created by Consolidation

Aside from failing to solve the problems identified, the proposed reorganization will create additional problems. Some of the problems created will be irreversible. Many will increase risk to the FHA insurance fund.

- The agency anticipates losing 395-592 Multifamily Housing employees in the field, currently estimated at 1247:

  - This would be a loss of 32%-47% of Multifamily Housing employees engaged in direct customer service.

  - The overwhelming majority of these losses will likely be employees with 20 or more years of experience and training.[12]

  - The agency is unlikely to be able to replace lost skills in a timely fashion, except at great cost; in almost every instance, the location of the proposed Hub or Satellite is an area with below-average unemployment rates, collocated with financial centers competing for the same talent pool.

- The proposed reorganization would permanently reduce by 30% Multifamily Housing employees in the field, despite the fact that:

  - Reductions in staff are made before any process improvements are implemented or assessed for efficiency or effectiveness.

  - GAO reported in March that HUD lacks a credible method of determining its staffing needs.[13]

[12] In briefings, Administration officials consistently state that 65% of affected employees are "retirement eligible." Under the current retirement system, FERS, this likely means employees with more than 20 years of service. The more accurate description for these employees is "pension eligible." FERS is a traditional pension that relies in retirement upon a combination of Social Security benefits, retirement savings and a FERS pension of approximately 1% per year of service. Simply being able to start drawing very modest pension benefits does not mean that an employee can also draw Social Security or access retirement savings without penalty. It takes all three to be even remotely considered "retirement eligible."

[13] GAO, "HUD—Strategic Human Capital and Workforce Planning Should be an Ongoing Priority," March 2013, at pp 19-20 http://www.gao.gov/assets/660/653069.pdf

- The proposed reorganization completely and irrevocably dismantles the Multifamily Housing field structure, despite its remarkable success. Between 2009 and 2012, without any staffing increases, Multifamily Housing:

  - Increased its customer base from 48 lenders to 89 lenders.[14]

  - More than doubled the value of initial endorsements, from $5.1 billion in 2009 to $13.1 billion in 2012, and nearly doubled the number of loans processed, from 661 to 1286.[15]

- The Administration estimates that the proposed reorganization will save approximately $47 million annually. But:

  - It makes no estimates of the cost to the national and local economies due to lost productivity during implementation.

  - It makes no estimates of the cost to FHA insurance funds due to increased risk during implementation.

  - It makes no estimates of the long term cost to FHA insurance funds due to reduced staffing and oversight.

- The estimated savings of $47 million:

  - Is equivalent to less than a tenth of a percent (.08%) of the outstanding principal balance of insured multifamily mortgages, currently $57.2 billion.[16]

  - Is equivalent to less than four tenths of a percent (.36%) of new multifamily endorsements in FY 12.[17]

  - Would be lost if even three mid-sized defaults were to occur annually as a result of reorganization, staffing reductions, and/or work process changes. Three projects represents less than .03% of the Multifamily FHA portfolio.[18]

<u>Conclusion:</u>

The proposed reorganization and consolidation is irresponsible and should not be implemented. The proposal does not address the problems identified. Alternatives exist to address the identified problems. These alternatives are far less costly and less risky.

For further information, please contact Carolyn Federoff, Executive Vice President, AFGE Council of HUD Locals, at 617/312-4278.

[14] 2009 lender numbers found in FHA Annual Management Report Fiscal Year 2009, at page 12; 2012 lender numbers found in FHA Annual Management Report Fiscal Year 2012, at page 27.
[15] Id.
[16] FHA Annual Management Report Fiscal Year 2012, at page 30.
[17] Id., at page i.
[18] Id., at page 30.