

Federal Housing Administration
Library

A HANDBOOK
for
FHA MULTIFAMILY
PROJECTS



U. S. FEDERAL HOUSING ADMINISTRATION
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INTRODUCTION

Conceiving and developing a multifamily project can be complicated and costly. However, there is an orderly and economical approach which depends to a great extent on the knowledge and understanding of the needs and requirements of each participant in the transaction.

Lenders, sponsors, contractors and others participating in FHA multifamily programs share with FHA a common responsibility to assist in the efficient processing of sound projects.

FHA has compiled this handbook to provide as much guidance and assistance as possible to the persons participating in these programs. It has been written in sufficient detail to be a continuously useful tool for the expert. However, we have attempted to present it in a simplified format so that it serves the need for educational information and guidance to the novice.

The handbook is not intended to supplant FHA regular instructions to its insuring offices and in the event of any difference between an item in this handbook and FHA formal instructions in the form of regulations, official manuals and letters, the formal instructions will govern.

You are advised to work closely with the local FHA insuring office on any question concerning a specific project. All FHA mortgage insurance programs are administered by the local insuring offices, therefore they have the responsibility to determine any necessary specific requirements.

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PART A.
PREAPPLICATION STAGE

A. PREAPPLICATION STAGE

Preapplication procedures are designed to accomplish the following:

Standardization of the preapplication process and its product.

Expeditious analysis of the proposal in its early formative stage.

Prompt service to potential sponsors measured both as to time and understanding of FHA's decision.

Early elimination of unsound proposals.

Savings to sponsors of fees and other expense in connection with unacceptable proposals.

1. Conferences

At initial contact and throughout the preapplication stage, conferences between the potential sponsor and his representatives and administrative and technical personnel of FHA are necessary for a complete understanding of the proposal and FHA procedures and requirements by all parties concerned. The purpose and scope of the preapplication analysis is made clear to the sponsor. It is emphasized that a favorable finding and an invitation to file a formal application with fee are in no way assurance that a commitment to insure will be issued. Instead, the acceptance by FHA of an application means only that the detailed proposal will receive thorough analysis. The issuance of a commitment is contingent upon the proposal being consistent with the preapplication presentation and being found acceptable, based on the processing of the application.

A. PREAPPLICATION STAGE

The conferences serve as a valuable vehicle for full explanation of FHA's requirements particularly those peculiar to the Section of the National Housing Act applicable to the proposal. They are also used to guide the sponsor in the development of information required for preapplication analysis. In addition, proposals that are obviously unacceptable may be eliminated at the early conference stage.

2. Request for Preapplication Analysis

As a request for analysis, the sponsor must submit:

- (a) A Request for Preapplication Analysis of Multifamily Housing Proposal, setting forth basic information concerning the site and project.
- (b) A location map or sketch positively identifying the site.
- (c) A sketch plot plan indicating dimensions of the site. (This exhibit may serve also as a location sketch if street intersections, distances, and compass points are shown.)
- (d) Evidence of title to the land, option to purchase, or owner's authorization to inspect the site for the purpose requested.
- (e) An Equal Employment Opportunity Certification.
- (f) Any additional exhibits that may be required for special programs.

(NOTE: Unlike the formal application, which must be submitted through an FHA approved mortgagee, the request for preapplication analysis is

A. PREAPPLICATION STAGE

made by the potential sponsor directly to the FHA insuring office having jurisdiction.)

3. Preapplication Analysis

Thorough study of the proposal as presented in the request form and exhibits is conducted by FHA administrative and technical underwriting personnel. The study is supplemented by required inspections of the proposed site. The analysis is limited to a determination as to whether or not, in the opinion of FHA, a market exists at the specific location for the proposed number of units of the stated room composition at the specific rents proposed. A determination is also made as to the suitability of the proposed site.

The scope of the analysis is strictly limited to the above, namely the determination of market and suitability of location. Any further analysis, appraisal, determination of feasibility, etc., will be accomplished only as a part of the processing of a formal application. The expense of plans and specifications by the sponsor during the preapplication stage should be avoided. Even though submitted, there shall be no detailed analysis of the same by FHA prior to receipt of a formal application.

4. Notice of Determination to Sponsor

(a) Disapproval: The sponsor is advised of an unfavorable determination by means of Standard Letter A. Full explanation of the reason it is inadvisable to pursue the proposed project are stated in the letter.

(b) Approval: The sponsor is advised of a favorable finding through the use of Standard Letter B. The letter sets forth the land

A. PREAPPLICATION STAGE

use intensity rating, required modifications in the proposal, if any, and invites the filing of a formal application with fee within three months. It emphasizes that the acceptance of an application is in no way assurance of the issuance of a commitment and furnishes information relative to filing the application and to subsequent submissions.

PART B.
APPLICATION STAGE

B. APPLICATION STAGE

Submissions by the sponsor through the mortgagee to FHA and the subsequent processing of such submissions by FHA are accomplished by a series of chronological steps. These steps are interspersed by a number of conferences between FHA and the sponsor and his architect to arrive at an understanding of FHA requirements and agreement as to various features of the proposed project.

1. Submission of Application

Formal application for project mortgage insurance is made by the sponsor and mortgagee on an application for project mortgage insurance accompanied by required supporting documents and exhibits, as well as the application fee.

The application may be for insurance of advances or for insurance on completion. Differences between the two types are listed below:

	<u>Insurance of Advances</u>	<u>Insurance on Completion</u>
Construction loan and interim advances for interest, etc. insured by FHA	Yes	No
Working Capital Deposit Required by FHA	Yes	No
Form and Amount of Bond or Other Assurance of Completion prescribed by FHA.	Yes	No
Financial Capacity of Mortgagor Required to be Demonstrated to FHA	Yes	Yes

B. APPLICATION STAGE

Trade Payment Breakdown

Required by FHA

Yes

No

FHA inspections and compliance with labor standards are required in both types of insurance.

The application, completed in accordance with instructions, furnishes FHA with data required to determine the feasibility of the project, such as an estimate of income, estimate of annual operating expense, projected annual operating statement, estimated development costs, and total estimated requirements. The architectural exhibits required with the application are the following in duplicate:

- a. Sketches showing typical floor plans and building elevations, type and design of construction, and the number and composition of the living units.
- b. Indication of major items of construction materials and equipment.
- c. A sketch plot plan, showing the general development of the site such as location of proposed structures, streets, parking areas and drives, service areas, play areas and site drainage.
- d. A tentative outline specification.
- e. A statement setting forth the manner in which sanitary sewer and water facilities are to be provided. If public or publicly controlled facilities are not contemplated, appropriate detail relative to the facilities shall be submitted.

2. Review and Assignment for Processing

Upon receipt of the application and exhibits, they are reviewed by technical underwriting personnel to

B. APPLICATION STAGE

2. (continued)

determine if they are complete and acceptable for processing. If the submission is incomplete or unacceptable for some other reason, the mortgagee is advised of the deficiencies in writing. If after a reasonable time the submission is not corrected, the application is rejected and the application fee refunded.

If the review shows that the submission, as initially made or as corrected, is complete and acceptable for processing, the application is assigned for processing. At this step, the application fee is considered earned by FHA and may not be refunded.

3. Tentative Processing

The objective of this phase of FHA processing is to arrive at a determination as to the feasibility of the project as presented in the application and supporting exhibits. Analysis of the proposal is made by valuation, architectural and mortgage credit personnel. Tentative conclusions are made as to acceptability and value of the site, appropriate type and distribution of units, obtainable rents, projected operating expense, estimated replacement cost of improvements and other development costs, cash requirements and the sponsor's financial capacity to meet such requirements. When agreement as to these tentative findings has been reached, an overall determination of feasibility is made.

4. Issuance of Feasibility Letter

The sponsor and mortgagee are advised by FHA of the tentative conclusions by means of Standard Letter C. The letter sets forth the estimated market price of the site, tentative estimate of replacement cost of proposed improvements, and the tentative maximum mortgage amount. The sponsor is advised that these

B. APPLICATION STAGE

4. (continued)

are tentative findings only and that the issuance and the exact amount of the commitment must be on the basis of detailed processing.

As a requirement for continued processing, the sponsor is notified that preliminary working drawings, a completed outline specification and a detailed topographic survey must be submitted promptly and in no event later than six months from the date of the letter of feasibility. He is warned that the application will be cancelled and after cancellation a new request for preapplication analysis will be required. The new request will be considered an entirely new proposal and if not received within a ninety day reconsideration period after cancellation, a new application fee will be required.

5. Preliminary Working Drawings, Specifications, and Topographic Survey

These exhibits are required to be submitted in the detail and in accordance with the instructions contained in C-2, C-3 and C-4 of Appendix A of the FHA Minimum Property Standards for Multifamily Housing Projects. When received, these exhibits are reviewed by FHA for completeness and acceptability. If sufficient, the sponsor is notified to proceed promptly with the preparation of a quantity survey and cost estimate.

6. Quantity Survey and Cost Estimate

The survey and estimate are required to conform to format and instructions provided by the FHA insuring office having jurisdiction. Upon their receipt, processing is resumed. They should not be submitted prior to FHA determination that the plans and specifications are acceptable.

B. APPLICATION STAGE

7. Final Processing

Using the drawings, specifications and the data supplied on the application, quantity survey and cost estimate, FHA valuation, architectural, and mortgage credit personnel proceed with final analyses of the proposed project, including completion of cost estimate, analysis of project income, appraisal of the project, determination of the maximum insurable mortgage, estimate of requirements for completion of the project, and breakdown of reserve for replacements. These analyses lead to the final determination to reject or approve the project for mortgage insurance, and if approved, furnish the basis for the commitment and its requirements.

8. Final Working Drawings and Specifications in Insurance Upon Completion

Prior to the issuance of a commitment by FHA pursuant to an application for insurance upon completion, the sponsor is required to submit two sets of final working drawings and specifications suitable for all contract purposes and providing for the acceptable completion of the project. These exhibits must be prepared and submitted in accordance with instructions contained in D-1 through D-6 of Appendix A of the FHA Minimum Property Standards for Multifamily Housing Projects.

PART C.
COMMITMENT STAGE

C. COMMITMENT STAGE

This stage covers the period from the issuance of the commitment to insure by FHA to initial closing in the insurance of advances process or to beginning of construction in the insurance upon completion process. During this period the sponsor must make final arrangements to proceed if such steps have not already been taken. The mortgagor entity must be organized; final arrangements for financing made; arrangements completed for purchase of the site, if not already owned; contracts let for the construction of the improvements; and other steps taken to comply with the requirements of the FHA commitment.

1. Commitment to Insure

Upon completion of final processing, FHA issues a formal commitment to insure a mortgage on the project. The commitment, along with the applicable FHA Regulations, forms the FHA contract to insure and imposes conditions which must be complied with by both the mortgagor and the mortgagee if the mortgage is to be endorsed for insurance and the contract of insurance is to remain in effect.

a. Commitment for Insurance of Advances,

The more important provisions of this form are:

- (1) The mortgage amount.
- (2) Amortization requirements.
- (3) Requirement for submission of certification re labor standards and prevailing wage requirements; and agreement and certification re cost certification.
- (4) Requirement for delivery of the mortgage; note; building loan agreement; construction contract; final working drawings and specifications; title evidence; survey; assurance of completion; guarantee against latent defects; mortgagee's certificate re collection of or provision

(4)Cont.

for working capital deposit, funds over and above mortgage proceeds, and escrow deposit for off-site improvements; certificate of mortgagor re priority of mortgage and other matters; and regulatory agreement executed by the mortgagor permitting FHA regulation of rents, charges and methods of operations and provision for reserve fund for replacements.

- (5) Provision for FHA insurance of advances.
- (6) Authority for FHA inspection of construction and provision for collection of an inspection fee.
- (7) Requirements re variations from commitment and changes in drawings and specifications.
- (8) Expiration date of the commitment sufficient to permit initial closing and provision for collection of a commitment fee.

b. Commitment to Insure Upon Completion,

The provisions of this form are similar to the commitment for insurance of advances except for variations required because of the differences in the two processes. Major variations are:

- (1) No provision for FHA insurance of advances.
- (2) A single closing, i.e., endorsement of the mortgage for insurance after completion of the project.
- (3) No requirement for collection of working capital deposit, funds over and above mortgage proceeds, or escrow deposit for off-site improvements, but mortgagor must show that he has the financial capacity to complete the project and meet contingencies.
- (4) No requirement for assurance of completion but provision for a guarantee against latent defects.

C. COMMITMENT STAGE

- (5) Term of the commitment sufficient to include the required construction period.
- (6) Requirement that construction must commence within a stated period.

2. Release of Commitment and Other Documents

Upon execution of the commitment, the original and duplicate copy are released to the mortgagee. In addition, two copies each of the forms listed below are forwarded for the information and guidance of the mortgagee and sponsor. These forms, completed by FHA underwriting technicians during the processing of the application, are furnished to provide an understanding of the FHA analyses and conclusions, and the provisions of the commitment, as well as to guide the mortgagor in the construction and subsequent operation of the project.

a. Project Income Analysis and Appraisal,

This form supplies FHA's estimate of income, estimate of annual operating expense, estimate of taxes, estimate of value by capitalization, listing of equipment and services included in rent, estimate of replacement cost of property, estimate of fair market value of property by comparison, appraisal summary, and certification of value.

b. Supplement to Project Income Analysis and Appraisal,

This form sets forth FHA's determination of the maximum insurable mortgage; lists the estimated requirements for completion of the project; and provides an analytical summary of the loan. It is important to note that all limiting criteria are listed on this form and that a change in the governing (lowest) criterion may result in a negligible increase because of other criteria.

c. Breakdown of Reserve for Replacements,

This form provides a detailed breakdown of the required reserve for replacements as well as data concerning insurance, redecorating, and heating, and an estimate of the construction period.

3. Extension of Commitment

Normally, the terms set forth in the commitment, i.e., the period in insurance of advances allowed in which to initially close the loan and in insurance upon completion the periods granted for the start of construction and the closing of the loan after completion of construction, are sufficient in length to permit compliance by the mortgagor and mortgagee. However, in some cases extenuating circumstances may require request for extension of these periods by FHA. Extensions must be requested in writing by the mortgagee prior to the expiration of the original term and, if granted, are limited to periods of 30 days. Extensions will be allowed only if justified.

4. Expiration and Reopening of Commitment

After expiration, a commitment may be reopened if the request for reopening accompanied by the required reopening fee is submitted to FHA within 90 days of the date of expiration. Reopening will be accomplished by reissuance of the commitment and the FHA Regulations in effect on the date of reissue will govern.

5. Change of Commitment

An outstanding commitment may be changed by amendment or by reissue. Under an amended commitment, the rights and obligations under the FHA Regulations in effect at the time the commitment was originally issued remain in effect unless specifically excepted

5. Cont.

as a provision of the amended commitment. Under a reissued commitment, the rights and obligations under the FHA Regulations in effect at the time of reissuance govern and must be accepted by the mortgagee and mortgagor. A change in location of the project, an increase in the amount of the commitment, or the reopening of an expired or cancelled commitment may be accomplished only by reissuance of the commitment.

6. Assignment of Commitment

An outstanding commitment may be assigned from one FHA approved mortgagee to another. To complete the assignment, four certified copies of the assignment by the assignor and the acceptance by the assignee must be submitted to FHA.

7. Preconstruction Conference

At some appropriate time after issuance of the commitment, but in any case prior to commencement of construction (and in the case of insurance of advances prior to initial closing,) a conference is called by FHA for the purpose of discussing with all interested parties the procedures related to statutory labor standards and prevailing wage requirements. It is emphasized at this conference that, in the case of insurance of advances, construction must not commence before initial closing and recording of the insured mortgage, and requirements concerning nondiscrimination in employment.

PART D.
INITIAL CLOSING

D. INITIAL CLOSING

Arrangements for Closing: The following general rules will govern:

- a. Generally, it is the mortgagee's responsibility to request the date for initial closing. When the Director is satisfied that all parties are ready to close, he will set the date and place, giving consideration to the convenience of all parties involved. Once a closing date is set, postponement is permitted only when absolutely necessary. Closing dates are set to allow sufficient time for the preparation of all required papers.
- b. The Director will notify the mortgagor and mortgagee to submit closing papers sufficiently in advance of closing to permit adequate review and preparation.
- c. Closings are normally held in the city where the insuring office is located or in some other city within the jurisdiction of the insuring office.

Submission and Review of Closing Documents: The Director and the FHA Closing Attorney will need to review and approve certain documents, hereinafter discussed, prior to closing date. The mortgagee and mortgagor should contact the Director and the FHA Closing Attorney regarding the documents needed for closing as well as to satisfying the other Commitment requirements for closing. At the closing, the documents must be in approved form so that the Closing Attorney will be able to certify to the Director that initial endorsement of the original credit instrument is in order. Only upon receipt of such certification, and payment of the first year's mortgage insurance premium and the required inspection fee will the credit instrument be endorsed by the Director or other authorized agent.

Commencement of Construction: Construction must not commence before formal closing and recordation of the insured mortgage, and the preconstruction conference,

D. INITIAL CLOSING

except with the prior approval of the Director after concurrence by Headquarters. It is only under exceptional circumstances that the Director will entertain a request for permission to commence construction prior to formal closing.

Required Documents for Closing: In this part, there are numerous references to FHA forms which are specifically prescribed for use without change. However, it is recognized that certain additions and deletions to approved forms may be necessary to comply with the requirements of local law or procedures, and with "customs of the trade" having the force and effect of law in a particular area. Such changes may be approved by the Director, after clearance by the Closing Attorney, provided citation of the reason and authority for the variance is given and further provided that the changes are not of substantive nature. Generally, the documents listed below will be required to be submitted within the time limits prescribed below. The actual submission dates, the number of copies needed, etc., will be set by the Director and Closing Attorney.

I. Documents to be Submitted for Review at Least 30 Days Before Closing:

Agreement and Certification Form: This form, which must be executed by the mortgagor and mortgagee, is the mortgagor's formal agreement to certify the actual cost of construction. It specifies certain conditions to be met including, among other things, the type of contract between the mortgagor and the general contractor, and conditions to be inserted in those contracts, and agreements between the mortgagor, subcontractors and others. This agreement provides for the maintenance of books and records and for their availability for inspection. Additionally, the form provides for certain special funds which may be required under unusual conditions. The form

D. INITIAL CLOSING

also requires the mortgagor to certify the relationship, if any, between the mortgagor and the general contractor; the mortgagor and any known subcontractor and between the mortgagor and the architects.

To be acceptable:

1. A statement as to the relationship between the mortgagor and the general contractor, subcontractor, and the architect shall be specific. If there is no identity of interest with any of these, a specific statement to that effect must be made.
2. Whether or not any identity of interest is acknowledged, the portions of the form setting forth maximum amounts to be allowed for builder's fee, general overhead, and architect's fee must be completed. The dollar amounts to be inserted should be taken from the latest signed Project Income Analysis and Appraisal form. It is particularly important to make sure that the general overhead is not included in the builder's fee figure.
3. If there is, or if there comes into being an identity of interest between the mortgagor and the architect, either direct or indirect, the maximum architect's fee allowable shall not exceed the amount shown on the Project Income Analysis and Appraisal form.

(NOTE: Special provisions applicable to nonprofit sponsor and mortgagor eligibility requirements are set forth in another portion of this handbook. The procedures and requirements set forth in this section regarding identity of interest situations are applicable to the private profit-motivated sponsors and mortgagors.)

D. INITIAL CLOSING

Identity of interest between the mortgagor and general contractor will be construed as existing under any of the following conditions:

When there is any financial interest of the mortgagor in the general contractor; when one or more of the officers, directors or stockholders of the mortgagor is also an officer, director or stockholder of the general contractor; when any officer, director or stockholder of the mortgagor has any financial interest whatsoever in the general contractor; when the general contractor advances any funds to the mortgagor; when the general contractor provides and pays on behalf of the mortgagor the cost of any architectural services or engineering services other than those of a surveyor, general superintendent, or engineer employed by a general contractor in connection with his or its obligations under the construction contract; when the general contractor takes stock or any interest in the mortgagor corporation as part of the consideration to be paid them; when there exist or come into being any side deals, agreements, contracts, or undertakings entered into or contemplated, thereby altering, amending, or cancelling any of the required closing documents except as approved by the Commissioner.

If any identity of interest between the mortgagor and the general contractor is indicated, the construction contract for the proposed project shall be a "cost-plus" contract with a guaranteed upset price. If no identity of interest is indicated, the contract may be either a "lump sum" or a "cost-plus" form. The Director shall, accordingly, inform the mortgagee and mortgagor that a "cost-plus" contract is required or that either a "cost-plus" or a "lump sum" contract may be used.

D. INITIAL CLOSING

When the Director determines that there exists an identity of interest between the mortgagor and any subcontractor, material supplier or equipment lessor, FHA will require a certification of actual cost by said subcontractor, supplier or lessor.

When an identity of interest exists between the mortgagor and the general contractor, the mortgagor will be deemed to have an identity of interest with each subcontractor, material supplier or equipment lessor having an identity of interest with the general contractor.

An identity of interest shall be considered to exist between the mortgagor and a subcontractor, material supplier, or equipment lessor if there exists or if there comes into being any relationship between the parties such as that set forth above as constituting an identity of interest between the mortgagor and the general contractor. If any such identity of interest situation exists or comes into being, the subcontractor, material supplier, or equipment lessor may be required to supply a certification as to his actual costs.

Clearly also, if there is an identity of interest between the mortgagor and the general contractor and between the architect and the general contractor, an identity of interest would be considered to exist between the mortgagor and the architect.

One copy of the executed Agreement and Certification form and a copy of each executed Contractors, Subcontractors and Mortgagor's Certification form, if any, will be given to the mortgagor and mortgagee.

D. INITIAL CLOSING

Contractor's Certification of Labor Standards of Prevailing Wage Requirement form: This form is self-explanatory.

General Contractor's and Subcontractor's Statement form: This form is self-explanatory.

Construction Contract form: When there is no identity of interest between the sponsors and contractor (except in nonprofit cases, which are covered in another section of this handbook), the Construction Contract-Lump Sum form or the Construction Contract-Cost Plus form may be used. When there is an identity of interest between the sponsor and contractor, the Construction Contract-Cost Plus form must be used. At closing a copy of the Trade Payment Breakdown form must be attached to the contract, as an exhibit.

When a mortgagor proposes to act as his own builder, there can be no construction contract. In that event, the requirements under the "Note" in the section of this handbook that discusses "Assurance of Completion" will apply.

Owner-Architect Agreement forms: There are three printed FHA forms covering architect's services:

1. Owner-Architect Agreement for Services Prior to and in the Construction Period form: This form is used when the architect is to perform complete services, including supervision, and he is an acceptable independent architect having no identity of interest with the mortgagor or contractor. The total fee shall be the amount of cash agreed to by the owner and architect, payable 75 per centum at the completion of the working drawings and specifications, the balance monthly as the work progresses, such payments to be at a rate equal

D. INITIAL CLOSING

to the percentage of completion, with any balance remaining to be paid upon completion. All payments are subject to the prior approval of the Director.

2. Owner-Architect Agreement for Services Prior to the Beginning of Construction form: This form provides for architectural services exclusive of supervision and must be used when there is identity of interest between the sponsor and architect. The total fee shall be the amount of cash agreed to by the owner and architect, payable upon completion and acceptance of the working drawings and specifications, except that for cost certification purposes, the fee may not exceed that portion of the fee shown on the Project Income Analysis and Appraisal form that FHA estimated as allocable to design. All payments are subject to the prior approval of the Director.

This form must also be used in non-identity of interest cases where the architect is to perform architectural services exclusive of supervision, in which cases the total fee shall be the amount of cash agreed to by the owner and architect.

NOTE: In the event that prior to or at initial closing, the sponsor submits a receipt from an architect to the effect that he has completed his services and been paid in full, no contract therefor (Owner-Architect Agreement for Services Prior to the Beginning of Construction form) need be furnished FHA.

3. Owner-Architect Agreement for Services in the Construction and Guarantee Period form: This form is to be used in conjunction with the Owner-Architect Agreement for Services Prior to the Beginning of Construction form, when

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supervisory services are to be performed and the initial architect cannot perform such services because of identity of interest, or does not perform such services for other reasons. The total fee shall be the amount of cash agreed to by the owner and architect, payable monthly as work progresses, the payments to be based on the percentage of completion, with any balance remaining to be paid upon completion. All payments are subject to the prior approval of the Director.

Whenever the Owner-Architect Agreement for Services Prior to Beginning of Construction form is in force, and there is no agreement requiring supervision by an architect, the Architect's Certification on the Application for Insurance of Advances of Mortgage Proceeds form need not be completed as a prerequisite to insurance of advances. In lieu thereof the mortgagor shall be required to insert to the left of his signature on this form that "It is also certified that all prior work and the work, labor, and materials to be paid for under this request are satisfactory and are in accordance with the contract drawings." This insertion shall be initialled on all copies by the person signing the Application for the mortgagor.

In the event the first request for advance (Application for Insurance of Advance of Mortgage Proceeds form) includes an amount for mortgagor's payment (s) to the Architect, the Mortgagor's and Architect's Certificate form, must be submitted, fully completed and signed by both mortgagor and architect, at or prior to initial endorsement. The amount of architect's fee that the Director will approve for inclusion in the advance will not exceed the amounts inserted in the appropriate spaces on the Mortgagor's and Architect's Certificate form. If there has been a series of payments to the architect prior to submission of the form, appropriate changes

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should be made in the form to reflect the facts. For example, "first payment" may be changed to "payments to date", and the total amount shown as paid in the body of the form may refer to schedule of payments and dates to be inserted in the blank space on the lower left side of the form.

If no advance for the architect is included in the first draw, the Mortgagor's and Architect's Certificate form may not be required at initial closing. If not, it is mandatory that it accompany the first request for advance of an amount for architect's fee.

If, because of the type of project involved, the Director requires supervision by an architect during the construction and guarantee period, a specific condition will be inserted in the Commitment to this effect. The fee will be allowed in the FHA's estimate of replacement cost.

While the owner has the primary responsibility for performance by the architect, this is also of concern to FHA. Unacceptable performance, undue delay, misrepresentation or failure to act on the part of the architect or his associates and employees could be reason for the termination of the architect's services on the project and may adversely affect his acceptability on future projects.

Assurance of Completion: Assurance of completion may be by bond or escrow deposit. Acceptable bonds are the Contract Bond-Dual Obligee form, or the standard American Institute of Architects construction bond form. These are not completion bonds; they are payment and performance bonds and guarantee performance of the construction contract as written only to the extent of damages not in

D. INITIAL CLOSING

excess of the penal sum stated in the bonds. The bonds carry a direct liability not only to the obligees named, but also to subcontractors and materialmen subject to the priority of the named obligees.

1. Contract Bond-Dual Obligee form: This bond must be for a penal sum equal to not less than 10% of the FHA estimate of the cost of the on-site improvements, or the amount of the construction contract, whichever is the greater. The obligees will be the mortgagor and mortgagee. The surety must be on the current U. S. Treasury list of approved sureties (Treasury Circular No. 570) subject to the underwriting limits on that list. The Director will determine the amount of the bond if it is to be in excess of the above mentioned 10%.

To determine the cost of the on-site improvements as estimated by FHA, deduct the architect's fee from the sum shown as "Total For All Improvements" on the FHA Project Income Analysis and Appraisal. Where the builder's profit is included in the Builders' and Sponsors' Profit and Risk Allowance, the minimum penal sum of the bond will be 11% rather than 10%. This additional 1% is attributable to the Profit and Risk Allowance which is shown apart from the FHA estimate of "Total For All Improvements".

2. American Institute of Architects Bond: The amount of the bond is determined as set forth in 1. above.

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3. Completion Assurance Agreement form: The amount of the deposit is determined as set forth in 1. above. The escrow deposit must consist of (a) cash; (b) securities of, or fully guaranteed as to principal and interest by, the United States; or (c) an unconditional irrevocable letter of credit issued to the mortgagee by a banking institution. This Agreement must be executed by the mortgagor, mortgagee and contractor. The Agreement requires that the funds be deposited with the mortgagee or be under the control of the mortgagee with a depository satisfactory to the mortgagee, and that there be retained in the escrow account, for a period of at least one year subsequent to completion of the project, an amount equal to not less than 2½% of the amount of the construction contract as a guarantee against latent defects and faulty workmanship and material.

NOTE: Where a mortgagor proposes to act as his own builder, the Director must make a positive determination that he is highly qualified as to building experience and competence; managerial ability; and financial capacity. In this type of case there can be no construction contract and the Building Loan Agreement form will be the basis for the issuance of the Surety Bond. In addition to the bond, the owners will not be permitted to limit in any way personal liability under the Building Loan Agreement.

Leaseholds: To be acceptable, the lease must conform to the wording of the Lease Addendum form. Leaseholds are more fully discussed in another section of this handbook.

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Off-Site Facilities: Assurance of completion of off-site facilities may be in the form of a cash escrow deposit bond, or evidence that facilities will be completed by public authority or a public utility company. If by bond, the Off-Site Bond form, which is self-explanatory, will be used. If by escrow, it will be by the Escrow Agreement for Off-Site Facilities form, which requires an escrow in an amount equal to the FHA estimate of the cost of the off-site facilities. The funds must be placed in an escrow account with the mortgagee or under the control of the mortgagee in a depository satisfactory to the Director and the mortgagee. The bond will be in an amount not less than 100% of the "Total for all Improvements" shown on the Project Income Analysis and Appraisal Form, less the amount estimated for architect's fees.

Regardless of the form of assurance, to be acceptable the Director must determine that it requires installation and completion of off-site facilities in accordance with satisfactory drawings and specifications, and without cost to, or assessment against, the mortgagor. It must also provide for completion and installation of off-site facilities simultaneously with completion of improvements on the project site, or within a

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reasonable time thereafter.

Organization of the Mortgagor: The mortgagor may be an individual, a group of individuals, a partnership, a trust, or a corporation. Regardless of the type of mortgagor entity, the preferred type of FHA control of the mortgagor is by the Regulatory Agreement Form.

1. Individuals or Group of Individuals: The Regulatory Agreement form must be used.

In special circumstances, FHA will permit the use of a corporate charter which subjects the corporation to FHA control through the issuance of preferred stock to FHA. When this type of control is approved, FHA will issue the mortgagor special instructions as to the form of charter and by-laws.

This change is recommended since use of the corporate charter - preferred stock control procedure is now such a rarity and FHA policy is to encourage use of a Regulatory Agreement. We would therefore reduce the amount of material devoted to preferred stock control and let the Director and Closing Attorney handle those few cases with such controls on a case-by-case basis.

- II. Documents to be Submitted for Review at Least 15 Days Before Closing:

Building Loan Agreement form: This document is an agreement between the mortgagor and mortgagee and governs the advances of mortgage proceeds.

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Credit Instrument form: The credit instrument (Mortgage Note, Deed of Trust Note) will be on an FHA printed form, the number of which varies with the jurisdiction.

Mortgage form (Deed of Trust form): The mortgage will be on an FHA printed form, the number of which varies with the jurisdiction. The printed form of mortgage must not be altered except that the mortgagee, if it desires, may include a provision for such reasonable additional charges in the event of prepayments in excess of 15% of the original face amount of the mortgage in any one calendar year as may be agreed upon by the mortgagor and mortgagee; but the right to prepay the mortgage in full on any interest payment date upon 30 days' written notice must be preserved.

The mortgage form provides a right to pay 15% of the original face amount of the mortgage in any one calendar year without additional charge. This is to apply as a prepayment, without additional charge, its surplus earnings at its election.

A "late charge" not to exceed two cents for each dollar of each payment more than fifteen days in arrears is permitted by FHA Regulations to cover the extra expense involved in handling delinquent payments. Where a "late charge" is to be included, add a rider to the existing forms or, if space permits, type the added provision on the form.

Survey Instructions and Certificate form: These require that the survey plat be dated "no more than 90 days before closing" and the Certificate (Form 2457) be dated no more than 30 days before closing.

Title Evidence: The FHA Regulations provide that in order for the mortgaged property to be eligible

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for mortgage insurance, the FHA must determine that marketable title is vested in the mortgagor as of the date the mortgage is filed for record and, further, that the mortgagee must furnish a policy of title insurance in L.I.C. or A.T.A. standard mortgagee form, as approved by the Director. If the mortgagee is unable to furnish such a policy, and provides satisfactory reasons therefor, the Director, with the prior approval of Headquarters, may accept other evidence of title. Such evidence may be in the form of (1) abstract of title and legal opinion from an attorney experienced in the examination of titles; (2) a Torrens certificate; or (3) evidence of title conforming to the standards of a supervising branch of the Federal Government or any State or Territory.

Mortgagor's Oath form: This form contains the mortgagor's certification that there shall be no discrimination against any family by reason of the fact that there are children in the family and also provides that no part of the building will be rented for a period of less than 30 days, or operated in such a manner as to offer any hotel services to any tenant.

Mortgagor's Certificate form: This certificate is an acknowledgment by the mortgagor of its obligation under the contract instruments and FHA Regulations, and also an acknowledgment of the contents of the Mortgagee's Certificate form, and an agreement to be bound thereunder. The certificate is self-explanatory.

Mortgagee's Certificate form: This certificate constitutes an acknowledgment by the mortgagee of its obligations under the contract instruments and FHA Regulations and, among other things, provides for the following:

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1. Equity Requirements Deposit: The mortgagor must deposit with the mortgagee any funds required, over and above the mortgage proceeds, to complete the project, as determined by the Director. The funds so deposited must be used before any mortgage proceeds are advanced and insured.
2. Working Capital Deposit: The mortgagor must deposit with the mortgagee an amount determined by the Director to be used for (1) equipping and renting the project subsequent to completion, and (2) during the course of construction, for allocation to accruals for taxes and assessments, ground rents, mortgage insurance premiums and property insurance premiums as required by the terms of the mortgage.

A letter of credit may be supplied in lieu of a cash deposit. The letter must be irrevocable, unconditional, and issued to the mortgagee by a banking institution so that the disbursement or the allocation of the funds obtained by such a letter can be made with the same facility as if cash had been deposited. These funds must remain available until final endorsement. Therefore, the mortgagor should, in arranging the expiration date of the letter of credit, allow for possible delays in construction or other delays in reaching final endorsement. Otherwise the mortgagee will draw against the letter if the expiration date occurs prior to final endorsement. In the event of a default under the Building Loan Agreement, all funds available under the letter of credit can be drawn immediately by the mortgagee.

3. Off-Site Facilities Deposit (or Bond): Previously discussed in this section of the handbook.

The FHA Regulations require the prior approval of the Commissioner for any discount or other financing charge required in excess of the 1½% "Financing Expense" allowed in the project income

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Analysis and Appraisal attached to the Commitment. The Mortgagee's Certificate must show all amounts collected for financing expense, initial service charges, discount, warehousing fees, commitment fees, etc. in connection with the mortgage transaction. Two purposes are served by requiring such disclosure. The first is to assure FHA that payment of such charges, in excess of the $1\frac{1}{2}\%$ financing expense, is from funds other than mortgage proceeds. The second is to apprise the mortgagor and mortgagee at the outset of the amount of such charges which FHA will recognize for cost certification purposes. If the Director determines such charges to be reasonable in relation to money market conditions, initial endorsement of the note will be FHA approval of the charges for cost certification purposes. If the charges are determined to be unreasonable, the Director will advise the mortgagor and mortgagee by letter as to what portion of the charges will be recognized for cost certification purposes. The mortgagor and mortgagee will, prior to initial endorsement, be given such letter and be required to acknowledge its receipt.

Under certain circumstances, the Commissioner will approve deferred collection of financing charges. In such cases, which will be so indicated on the Mortgagee's Certificate, FHA will issue special instructions as to the manner in which the arrangements for deferred collection will be made.

INDIVIDUAL MORTGAGORS: In cases involving individual mortgagors, the procedure shall be as set forth for partnership mortgagors except that only the mortgagee's disclaimer should be executed, since a disclaimer by the mortgagor would purport to bind the individual not to assert a claim against himself, which is entirely unnecessary.

Under the above procedure, the project, and assets derived from or necessary to its operation are intended to be secured from attachment or against

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judgment arising from the deferment of payment of any discount.

The foregoing in no way affects the requirement that at final endorsement the mortgagor execute the certification as to outstanding obligations. Furthermore, if the mortgagor comes into funds which permit some payment on, or payment in full of, any note without creating new, or increasing other obligations, there will be no objection to such payments subsequent to completion of construction and compliance with all other contractual obligations.

5. Premiums: In any case where a premium is paid by the mortgagee in connection with the mortgage transaction, the discount section of the Mortgagee's Certificate will be amended as follows:

(a) Delete the phrase, "(Check (a)(b)(c) or (d), whichever is applicable.)", and insert in lieu thereof: "(Check and complete the applicable subparagraphs.)"

(b) Add between subparagraphs (a) and (b), a new subparagraph (a-1) reading as follows:

"~~7~~ It has paid or will pay a premium of \$ _____ in connection with the mortgage transaction."

Any premium paid will be applied as a recovery of cost for cost certification purposes.

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Sewer, Water, Gas and Electric Facilities:

Assurance must be presented that adequate sewer, water, gas and electric facilities will be fully installed prior to completion of the project and that necessary public streets, sidewalks and curbing outside the project site, if not yet constructed, will be fully completed within a reasonable time after completion of the project.

Collateral Agreements: Any collateral agreements which may be needed must be submitted.

Assurance of Funds to Meet Operating Deficits:

If during the FHA processing of a case, an operating deficit is anticipated during the first months of operation, the sponsors must deposit the amount of the anticipated deficit with the mortgagee, at initial closing, in cash or an irrevocable letter of credit. In lieu thereof, the sponsor may execute the Agreement of Sponsor to Furnish Additional Funds form which provides for the funds to be deposited at a later date. The form is self-explanatory and constitutes an obligation to furnish funds for a period of months to meet a projected deficit in operation of the project. The maximum amount and duration of the obligation will be determined by the Director.

The assurance of the sponsor's performance under the foregoing Agreement is established by execution of the Bond Guaranteeing Sponsors Performance

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form. The amount of the bond must equal the sum required to be deposited by the Agreement.

Comprehensive Attorney's Opinion: At closing, the mortgagor's attorney must submit his comprehensive opinion, addressed to the mortgagee and FHA, as to the legality of the entire transaction and the legality and adequacy of the contract documents.

III. Documents to be Submitted for Review at Least 10 Days Before Closing:

Drawings and Specifications: The drawings and specifications at closing must be complete in all respects. The master set, which is retained in the insuring office during the course of construction and one year thereafter, must be identified on the title sheet and initialed on the reverse side of each sheet by the proper representative of the mortgagee, mortgagor, contractor, architect, bonding company or indemnitors, if any, and the Commissioner. The FHA "Supplementary General Conditions" form, and the current edition of the American Institute of Architects "General Conditions of the Contract" must be included in the specifications.

There must be submitted with the drawings and specifications, a Trade Payment Breakdown form, which the general contractor will have prepared, based on his own estimate of costs. When apportionments are found to have been reasonably made, the form will be signed to indicate FHA acceptance.

Property Insurance Requirements form: The Director will notify the mortgagee of the types and amounts of property insurance to be maintained on the project by the mortgagor or, in the event of the failure by the mortgagor to do so, by the mortgagee. At initial closing, the original and a duplicate of the Property Insurance Requirements form,

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together with copies of the Property Insurance Schedule forms will be furnished the mortgagee.

Endorsement of Credit Instrument: When all requirements have been met, and the first mortgage insurance premium and the inspection fee have been paid, the Director will endorse the credit instrument.

Revision of Instruments: A case which has been closed, and in which the credit instrument has been endorsed, represents a contract to which the Commissioner is a party and which has fixed legal obligations. After endorsement, therefore, no revision of the terms or conditions of the insured mortgage may be made except with the prior approval of the Director, after receiving Headquarters concurrence. Generally, requests for an increase in the insurable mortgage amount after closing cannot be considered unless a consideration runs to the Commissioner in the form of substantial betterments made during the course of construction.

Mortgage Transfers, Pledges and Participations: An insured mortgage may be transferred or pledged prior to full disbursement of the mortgage loan, only with the prior written approval of FHA.

1. Transfer of Mortgages - Prior to Full Disbursement: When circumstances warrant, the Director may approve such assignments subject to the following:
 - (a) The Assignee (transferee) is an approved mortgagee.
 - (b) The assignment of any mortgage and endorsement of the note to the transferee.
 - (c) The assignment of the Building Loan Agreement with written consent thereto of mortgagor.

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- (d) The assignment of the assurance of completion, with written consent thereto of mortgagor, contractor, indemnitors or surety, as the case may be.
- (e) The assignment of assurance(s) of installation of off-site facilities together with any deposits thereunder.
- (f) The transfer to the transferee for deposit with it or under its control of the working capital, funds required for the completion of the project and all other escrow funds, if any, deposited in connection with the project.
- (g) The written assumption by the transferee of all obligations under the Contract of Mortgage Insurance and of all documents, funds and escrow deposits in connection therewith together with written opinion of the transferee's attorney as to the validity of the entire transaction and of all documents executed in connection therewith.
- (h) Executed Notice of Transfer by Transferor and Transferees form (in triplicate).

With respect to the transfer of title evidence accepted at closing, the matter should be handled in a manner acceptable to the insurer with its written consent.

Two conformed copies of the above items numbered (a) through (g) should be submitted.

2. Pledge of Mortgage - Prior to Full Disbursement:
An insured mortgage may be pledged prior to full disbursement and final endorsement in a situation where FHA determines that the pro-

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posed arrangements are practicable and the mortgagee of record expressly states, in writing, that it will remove the loan from the warehousing bank within 30 days after final endorsement of the mortgage for insurance.

3. Participations: When the mortgagee desires to maintain only a partial interest in the mortgage, participation by others to the limit of 90% of the loan up to the date of final endorsement, and to the limit of 95% of such loan thereafter, is permissible under a participation agreement without obtaining FHA approval, provided the applicable Regulations are satisfied. The "principal" mortgagee, as defined in the Regulations, must remain the mortgagee of record and its agreement or arrangement with other participants must provide that FHA is under no obligation to recognize any other party than the mortgagee of record under the contract of mortgage insurance. Participants may only be: (1) an approved mortgagee, (2) a pension or retirement fund or a profit-sharing plan, as defined in the FHA Regulations, or (3) a charitable or nonprofit organization. Notice of any sale or transfer of a participating or partial interest is not required unless the insured mortgage is transferred in its entirety to a new "principal" mortgagee on the public records.

PART E.
CONSTRUCTION STAGE

E. CONSTRUCTION STAGE

This portion of the handbook sets forth the basic steps that must be taken by sponsors, contractors, mortgagees, and FHA during the construction stage.

Consistent with the approved application request, an FHA commitment to insure will provide either for mortgage insurance upon completion of the project or the insurance of advances of mortgage proceeds during construction or rehabilitation of a project.

Part A of this section pertains to the basic requirements incident to a proposed new project in which advances of mortgage proceeds are insured during construction. Part B sets forth variations to those requirements applicable to a proposed new project where the mortgage is insured upon completion of the project. Part C covers the FHA inspection functions.

A. Insurance of Advances

Requests for approval and insurance of advances of mortgage proceeds are usually submitted on a monthly basis. The application for Insurance of Advance of Mortgage Proceeds is initiated by the mortgagor who executes the request for payment on the reverse side of the form. Entries are made separately to show amounts requested for architect's fees, various individual items of carrying charges and financing and the total payment requested to meet the net amount due according to the Contractor's Requisition. After completing the request for payment, the mortgagor obtains the Architect's Certificate except in cases where the payments requested cover only items of carrying charges and financing and architect's fees. The Contractor's Requisition containing the contractor's statement of the cost of the work completed for the various payment breakdown items involved in the construction of the project must accompany the request for payment. The Contractor's

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Prevailing Wage Certificate must accompany the Contractor's Requisition. Items listed in the Contractor's Requisition must be identical with the amounts for corresponding items on the payment breakdown. The mortgagee completes the application indicating the amount of payment requested by the mortgagor, the approximate date such payment is to be disbursed, the amount that will be advanced from mortgage money and the total amount that will have been disbursed after the payment is made.

The mortgagor may have been required at closing, by commitment provision, to deposit with the mortgagee funds necessary to defray the cost of on-site improvements in excess of mortgage proceeds. In the Mortgagee's Certificate, the mortgagee certifies that it will advance these funds to the mortgagor before advancing any of the mortgage proceeds. The Director requires full disbursement of such funds before approving any request for insurance of any advance of mortgage proceeds.

Except for the first advance of construction funds, the Contractor's Requisition must be supported by a statement which may be either on the bottom or reverse side of the form or on a separate sheet and shall read as follows:

"Date _____ 19 _____

I/We hereby certify that I/We have received payment, in cash, of \$ _____ up to the date hereof on the construction contract applicable to this project."

Contractor
(Authorized Signature)

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If the statement is supplied on a separate sheet, it must include the FHA project number and the name and location of the project.

The amount cited in the statement should agree in all cases with the amount on the contractor's certification on the line identified as "Less Previous Payments".

In any case where the amount in the certification described above is not in agreement with the amount shown on the requisition, a written report of the discrepancy, together with explanatory information, must be submitted and, unless the difference is minor in amount (ordinarily less than \$2,500) and can be reconciled by a written explanation from the mortgagee, no advance shall be approved until written permission is obtained from Headquarters.

The construction contract requires a survey showing the location of the improvements constructed on the site. The survey shall be prepared by a licensed surveyor and shall be attached to each application for insurance of an advance covering each unit or building not previously located on the survey. After all of the buildings to be constructed are located on the survey, the Director may dispense with further surveys up to but not including the final advance of mortgage proceeds.

If the application is not for a final advance, and if in the Director's opinion the advance is in order, he will execute the certificate of mortgage insurance and forward the original to the mortgagee.

INITIAL ADVANCE

Mortgage proceeds in excess of the amount required for on-site construction, architect's fee, carrying charges, financing, and legal and organization expense will be allocated to the acquisition cost

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of land. The amount so allocated and not in excess of the FHA estimate of fair market value of land (prior to the construction of the improvements built as a part of the project) or the actual purchase price thereof, whichever is the lower, plus the required deposit for off-site construction, if any, may be approved for advance and insurance immediately following the initial endorsement of the credit instrument. The amount allocated to legal and organization expense will equal the FHA estimate. The actual expense incurred by the mortgagor in connection therewith or the amount allocated thereto, whichever is the lower, may likewise be approved for advance and insurance immediately following the initial endorsement of the credit instrument.

Architect's Fees

Since the Contractor's Requisition covers only items of cost which are to be paid to the contractor, applications for payment on account of architect's cash fee are made as a separate item by the mortgagor in his Request for Payment on the reverse side of the form. A percentage of the amount declared at closing to be the actual architect's cash fee may be advanced at the time of closing. Subsequent requests for payment of installments on account of architect's cash fee shall be made only at the same time that a request for payment to cover the Contractor's Requisition is made. The amount of each such installment shall be computed by multiplying the amount of the original unpaid balance by the percentage of work complete and then deducting the total of installments previously paid, exclusive of the original payment. The percentage of work complete shall be the FHA estimate or the contractor's estimate, whichever is the lower. There is no "holdback" to be deducted from the amount determined to be payable on account of architect's cash fee.

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Carrying Charges and Financing Charges

The Building Loan Agreement provides for the advance of mortgage funds, if available, to the mortgagor for carrying charges, financing expense, etc. Such charges or costs must accord with the allocations for such items in the Building Loan Agreement between the mortgagor and the mortgagee, and should accord with the itemization thereof on the figures contained in the closing papers. Such of these items as are due and payable by the mortgagor prior to or at closing may be approved for advance immediately following the initial endorsement of the credit instrument. Interest will be approved for advance only when and as earned on previous advances. The Director will consent to the advance of the mortgage money for any single item in excess of the amount allocated for such item only if there is a corresponding reduction in the amount of another item.

When the mortgage transaction provides for the insurance of advances for the rehabilitation of a project, any of the mortgage proceeds available and allocated to the acquisition cost of the property or the refinancing of an indebtedness against the property may be approved for advance and insurance immediately following the initial endorsement of the credit instrument in the same manner as carrying charges, financing, and the percentage of the architect's fee.

When FHA determines that all or some portion of the requested advance is eligible for approval, a Certificate of Mortgage Insurance is issued in the approved amount. If it is for an amount less than requested, a transmittal letter is issued advising the mortgagee as to the amount of payment which has been approved and explaining the reasons for the difference between the FHA findings and the amount applied for.

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Working Capital: One of the requirements incident to insurance of advances for proposed new projects, other than those sponsored by nonprofit organizations, is that the mortgagor shall deposit with the mortgagee, or in a depository satisfactory to the mortgagee, an amount equivalent to not less than 2% of the original principal amount of the mortgage. An irrevocable letter of credit is acceptable in lieu of the cash deposit. However, in the event a demand under the letter of credit is not immediately met, the mortgagee shall forthwith provide cash equivalent to the undrawn balance of the letter. The working capital requirement is to assure that funds are available during the course of construction for allocation by the mortgagee to accruals for taxes, ground rents, mortgage insurance premiums, property insurance premiums, and assessments required by the terms of the mortgage and to meet the cost of equipping and renting the project subsequent to completion of construction.

For any Section 207 projects involving a leasehold estate where the lease provides for the payment of ground rent during the construction period, an amount sufficient to pay the ground rent must be included in the deposit. More specific information regarding leasehold requirements is set forth in this handbook in the portion dealing with leaseholds.

For rehabilitation projects, rather than the minimum 2%, the requirement is "an amount satisfactory to the Commissioner".

For projects sponsored by nonprofit organizations under Sections 221(d)(3), 231, or 232, there is no working capital deposit required. To provide funds, a 2% allowance for making the project operational is included in the mortgage as a cost incident to construction of the project.

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The working capital deposit, or provisions of the letter of credit in lieu thereof, is under the sole control of the mortgagee and the disbursement of any portion of it is a matter for the discretion of the mortgagee.

INTERIM ADVANCES

When FHA receives an Application for Insurance of Advance of Mortgage Proceeds, with the Contractor's Requisition and the Contractor's Prevailing Wage Certificate, the payments requested are checked to determine that all funds held in escrow to be disbursed prior to the advance of mortgage proceeds have been approved for advance. The mortgagee is required to state the cumulative total of all advances made to the mortgagor including the advance for which approval is being requested. Any discrepancies between the mortgagee's report and FHA records are reconciled before the requested advance is approved.

Payments for Off-Site Facilities: If an escrow deposit has been made to assure construction of off-site facilities under the provisions of Escrow Agreement for Off-Site Facilities, disbursements may be made from this escrow deposit as the construction of off-site facilities proceeds. These disbursements will be in proportion to the percentage of off-site work completed, less a holdback of 10%. The sponsor will submit to the depository his request for payment, in quadruplicate, on Request for Approval of Advance of Escrow Funds. The depository will complete its portion of the form and submit it in triplicate to the Director. If in order, the Director will execute the form and forward the original to the depository.

Delayed Construction:

(a) Extension of Time to Complete: Where it is

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apparent that construction cannot be completed within the time originally contemplated in the construction contract and building loan agreement, the Director will ascertain whether the mortgagor and mortgagee have consented to an extension of time within which to complete the project. If such consent is forthcoming, it should be supported by the written consent of the surety. When agreement is reached as to the additional time permitted for the completion of construction, the Director may approve the extension provided that, if due to the extension of the time within which to complete the project, there are insufficient funds in the mortgage proceeds to meet interest payments as they accrue, the sponsors will be required to provide funds from sources other than mortgage proceeds to cover overruns in interest payments.

(b) Deferment of Principal Payments: When a deserving mortgagor demonstrates hardship, and in recognition of it, the mortgagee joins in a request that the mortgage be modified for the purpose of deferring the commencement of amortization, such request will be considered favorably so long as there is a reasonable prospect that by diligent efforts on the part of a competent management, the income from the property can be brought to a sustaining level.

Construction Changes

The inherent complexity in the planning and construction of a multifamily project will frequently require changes in the plans and specifications after the start of construction. Requests for changes are initiated by the contractor and mortgagor and require the approval of the mortgagee and FHA. They do not however commit FHA to increase the mortgage amount.

The following considerations are applicable to mortgage credit analysis of construction changes pursuant to commitment to insure advances of mortgage proceeds:

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- (a) If the net effect of the acceptable changes is to decrease the FHA estimate of the total cost by less than $2\frac{1}{2}\%$, a reduction is not required in subsequent contractor's requisitions. However, the amount of the net decrease in cost, if any, will be deducted from the final request for approval of advances, and the amount of the insurable mortgage will be similarly reduced.
- (b) When the net effect of acceptable changes is to reduce the FHA estimate of the total cost of the project $2\frac{1}{2}\%$, or more, a reduction in subsequent contractor's requisitions in an amount equal to the net decrease in cost is required. Once decreases have reduced costs $2\frac{1}{2}\%$, and the procedure just described has been invoked, deductions from contractor's requisitions are thereafter made in all instances involving reductions in cost, regardless of whether or not they involve amounts equal to, or more than, $2\frac{1}{2}\%$ of cost.
- (c) When the net effect of the acceptable changes is to increase the cost less than $2\frac{1}{2}\%$, FHA has no requirement with respect to the deposit of additional funds to cover the increase. Mortgage funds may not be used to cover increased cost and it is the mortgagee's responsibility to see that the mortgagor has funds adequate to cover the increase.
- (d) If the net effect of the acceptable changes is to increase the cost of the project $2\frac{1}{2}\%$ or more, FHA requires the mortgagor to deposit with the mortgagee the sum needed to cover FHA's estimate of the increased cost. Once increases have equalled or exceeded $2\frac{1}{2}\%$ of the cost, additional deposits to cover increased costs will be required in all instances regardless of the amount involved.

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- (e) If approved changes increase costs 10% or more, the Director advises the mortgagee that consent of the surety must be obtained in writing, and a signed copy of the consent furnished FHA prior to effecting the changes.

Where the acceptance of previously processed changes was conditioned upon a cash deposit to cover the estimated net increase in cost resulting from construction changes, the mortgagee's statements for any additional construction change requests are to include the amount on deposit and the number of the request imposing the condition.

When approval of any proposed construction change will adversely affect the prospective net income from the project, the new maximum insurable mortgage will be determined.

Where the FHA estimate of the net effect on construction cost of all acceptable construction changes shows a net decrease in cost and differs substantially from the mortgagor's estimated net effect on cost, the Director issues a letter to accompany the report of FHA findings informing the mortgagee of the amount of the FHA estimate of such net decrease in cost and that the mortgage amount will be reduced at the time of final endorsement of the credit instrument.

Permission to Occupy: At closing, the mortgagor certifies in the Mortgagor's Certificate that it will not permit occupancy of any portion of the project without the consent of FHA. Since portions of the project may be ready for occupancy before completion of the entire project, it may be necessary that the mortgagor submit more than one request for approval of occupancy. Each request must be submitted on Permission to Occupy -- Project Mortgages, an original and four copies being executed by the mortgagor, the contractor, and the

E. CONSTRUCTION STAGE

mortgagee. It must be accompanied by the Rental Schedule and Information on Rental Project form in triplicate, (unless previously submitted).

Rental Schedule: Proposed rental schedules must be approved by the Director before the time of first occupancy. The Director, therefore, at a time sufficiently in advance of first occupancy to permit possible necessary negotiation and adjustment, requires the mortgagor to submit the proposed rental schedule in triplicate, on the Rental Schedule and Information on Rental Project form.

The Director may approve rents higher than those set in underwriting processing, but in no event may he approve a rental schedule which would result in a net return exceeding the rate established in the Supplement to Project Income Analysis and Appraisal, Multifamily Housing, Rental Housing, plus $\frac{1}{2}$ of 1%.

If the project contains commercial space, the net return shall be calculated after eliminating from the estimated operating cost that portion of taxes and replacement reserve requirements attributable to the commercial portion of the project. This elimination will be pro rata on the basis of the ratio of the cost of the commercial portion of the project to the residential portion. Rents for commercial space are subject to FHA approval, but it is not necessary that a ceiling be established on them. The Director must determine, however, that the proposed rents are sufficiently in accord with those anticipated in processing to represent an economically sound rent for such space.

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Except for Section 220 rehabilitation projects involving mortgages of \$200,000 or less, and nursing homes insured under Section 232, FHA establishes maximum rental schedules for projects covered by FHA insured mortgages. If tenants desire services in addition to those contemplated in the establishment of the rental schedule they are expected to make arrangements for them independently and on their own behalf. Any charges for facilities not contemplated at the time of processing requires approval of the Director.

Property Insurance Requirements: The mortgagee is responsible for having the project covered by adequate property insurance. However, when construction on-site is 80% complete, and in any event prior to final endorsement of the credit instrument, the Director will execute the Hazard Insurance Schedule form showing the insurable value of the completed structure and the Insurance Requirements Upon Completion of Project form. An original and one copy of each form will be furnished the mortgagee.

NEXT TO FINAL ADVANCE

The application for Insurance of Advance of Mortgage Proceeds submitted when the construction of the project has been acceptably completed constitutes the next to the final advance even though there may be items of delayed completion.

If the net effect of all acceptable construction changes has resulted in a net decrease in cost at completion, the amount of net decrease in cost is deducted from the amount approved for advance. Also, if any construction changes accepted during construction have an unfavorable effect on net income, recalculation of the maximum insurable mortgage is required. If the redetermined mortgage amount is

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lower than the original mortgage amount, the amount deducted from the advance is the difference in mortgage amounts or the net decrease in costs resulting from acceptable construction changes, whichever is greater.

With respect to the 10% holdback required by the terms of the Building Loan Agreement, the following must be adhered to:

- (1) Prior to substantial completion of any multi-family project, no portion of the holdback is to be released without prior approval of the Director and the written consent of the surety.
- (2) When the project has been acceptably completed, FHA may, provided that the written consent of the surety is obtained, authorize release of up to 50% of the holdback.
- (3) Before the Director may act on any request for release of more than 50% of the holdback, he must obtain the prior approval of Headquarters.
- (4) Under no circumstances shall consent be given to the release of any portion of the holdback prior to final endorsement of the note for insurance without the prior written consent of the surety.

If release of a substantial portion of the 10% holdback has been made or is contemplated prior to final advance in accordance with outstanding instructions, at least a preliminary evaluation of cost certification should be made to insure that the total advanced does not exceed or approach too closely to the maximum mortgage which would be permitted by certified cost.

FINAL ADVANCE

The application for insurance of the final advance

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will include the retained 10% plus any remaining balance of mortgage proceeds. Approval of the application is subject to compliance with the following conditions:

- (a) thirty days or more have elapsed (unless, at an earlier date, the mortgagee is willing to advance such funds and the title insurer consents to such earlier date) since the date of 100% completion of the on-site construction, even though some items involve work which qualifies for delayed completion;
- (b) the final FHA inspection has disclosed that construction has been acceptably completed, subject to the escrowing of sufficient funds, to assure acceptable completion of items listed as items of delayed completion. All off-site sewer, water, electrical and gas facilities are completely installed and connected, and safe, adequate all-weather facilities for ingress and egress are provided, and
- (c) all other required off-site construction, if any, is 100% complete or completion has been assured by a cash deposit in an amount equal to the FHA estimate of cost of such off-site construction.
- (d) Mortgagor's cost certification has been approved and the maximum insurable mortgage amount redetermined.
- (e) Mortgagor's profit and loss statement covering income and expenses from partial occupancy, if any, during the construction period has been submitted and the amount, if any, of advance amortization has been established.

The sum to be approved for advance of insurance is the balance of the mortgage proceeds based on the

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maximum insurable mortgage as redetermined (Form 2580) in connection with the mortgagor's cost of certification, less the required amount of advance amortization, if any.

In some instances where the amount of the loan will be decreased by virtue of a net decrease in cost resulting solely from construction changes, a reduction in the mortgage amount may result in a definite hardship to the mortgagor. In these cases, after completion of the project and prior to final endorsement of the credit instrument, the mortgagee may submit to FHA a request that the mortgage loan not be reduced by reason of such decrease in cost occasioned by construction changes. The Director will consider such requests only if:

- (a) It is found that the original total estimated replacement cost and the "actual cost" of the property exceeded the estimate of value and a reduction in the replacement cost resulting from construction changes would not reduce the estimate of value, and
- (b) It is found that the mortgage amount does not exceed the original estimated cost of the physical improvements, carrying charges and financing, after deducting the net decrease in cost, and
- (c) It is established that the reduction in the mortgage amount would result in a definite hardship to the mortgagor.

Action on these requests require the prior approval of Headquarters.

B. Insurance Upon Completion

A Commitment to Insure Upon Completion is issued for a term sufficient to include the estimated period of construction. The mortgage is insured after completion of the project.

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The basic exceptions to the insurance of advances procedures are that there are no requirements for collection of working capital deposit, or funds required over and above mortgage proceeds. There is no requirement for assurance of completion, but there is provision for a guarantee against latent defects. The other basic procedures applicable to insurance of advances projects are applicable to insurance upon completion cases.

C. FHA Inspections of Construction

The construction inspection functions are the same for projects involving the insurance of advances and those to be insured upon completion, except for those variations specifically stated to be applicable to one or the other.

Inspections of multifamily housing projects are made to protect FHA interests and include:

- (a) Inspection to ascertain that the project is being constructed in accordance with the identified drawings and specifications and any approved Construction Changes.
- (b) Notification of the contractor and FHA of any deviation from the drawings and specifications, or of any work or action which is unacceptable.
- (c) Performance of duties and functions described herein.

An FHA staff member is assigned to the project as project inspector. Large projects may require the assignment of one or more full time inspectors, at least during certain phases of the work. Several small projects being constructed concurrently may be handled by one inspector. The FHA Supplementary General Conditions form included in the specifications requires the contractor to provide for the sole use of the project inspector separate enclosed working

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space and other facilities. These facilities should be adequate, but not elaborate. While inspections are of benefit to the mortgagee, the mortgagor and the contractor, they are made primarily in the interest of the FHA. The inspector is neither "superintendent" of construction for the contractor, nor "clerk of works" for the owner or architect, but rather he is the field representative of the FHA. While it is desirable that he achieve cordial and helpful relations with the contractor and his employees, these are not to interfere with or influence the inspector's performance of his duties. The FHA has at all time the right of access to the property and the right to inspect all work performed and materials furnished to complete the project. (See Form 2554, FHA Supplementary General Conditions.)

Compliance Criteria: The inspector examines materials and all project construction, both under construction and in place, for compliance with the approved drawings, specifications and construction changes, as well as any provisions of a related contract or Commitment to Insure Upon Completion.

The inspector notifies the contractor within 24 hours after noting that work varies from the drawings and/or specifications or when any other matter necessitates his notification by the use of Inspection Memorandum. Such memorandums are prepared whether or not the matters were discussed with the contractor or others.

Wage and Labor Standards: The inspector's function in wage and labor matters is to ascertain that conditions are in compliance with requirements and to report any noncompliance. He generally seeks to prevent any development of noncompliance by advising the contractor when questionable conditions appear.

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The inspector's field functions in this matter involve:

- (a) Verification of the posting of the Wage Rate Information bulletin and Prevailing Wage Determination.
- (b) Interviewing workers and preparing Form 2490 for each interview.
- (c) Checking stated duties with those performed, and the trade classification and rate of pay with Prevailing Wage Determination, and
- (d) Notifying contractor by memorandum (using Form 2559) of any discrepancy or inconsistency noted.

Unacceptable Work, Labor Or Materials: During the course of inspection, it is anticipated that many minor deficiencies will normally be encountered and discussed with the contractor or pointed out as requiring additional precaution. Such items need not be immediately reported as unacceptable, unless they continue or remain with no evidence of corrective action. Unacceptable conditions are described in an Inspection Memorandum to the contractor. Unless promptly corrected in projects involving advances, unacceptable conditions may cause a reduction of the dollar amount recommended as acceptably completed. The reduction made may need to be more extensive than correction of the particular matter would seem to require since it may include the cost of any work superimposed or related which may suffer damage during the period the unacceptable condition continues to exist or during the course of its correction.

When an unacceptable condition continues with no sincere or effectual effort being made toward a correction for a period of ten days following the initial notification, the contractor is further advised by a

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second Inspection Memorandum unless circumstances warrant a shorter or longer period. The contractor is advised in the second memorandum, that, unless acceptable corrective action is taken within five days, notice will be sent to the mortgagee, and other principals that the project will be considered unacceptable unless correction is made. If correction is not effected or substantially in progress within ten (10) days of the date of the letter, the project shall cease to be acceptable for mortgage insurance, and no further disbursements will be certified in the interim. This letter will also recite efforts made to obtain correction. The inspector continues his inspection functions until such time as the Director indicates that the project mortgage is not insurable.

Owner-Architect Agreement: When the owner-architect agreement executed for the project includes provisions for supervision, the architect is under contract with the owner and is not under the direction of the FHA. His inspection may at times parallel those of the FHA inspection but neither may serve for the other. The architect's independent observation may point out over-sights by the inspector as well as clarify the intent of details which are not obvious and, to this extent, will assist the FHA inspector. The architect's traditional role in non-FHA work is modified to the extent that he reports to the FHA as well as the mortgagor on omissions, substitutions, defects and deficiencies, noted in the work of the contractor. The FHA has the final determination in all matters.

Lan. Improvement Inspection (On-Site And Off-Site): The inspector is also responsible for inspection of utilities and landscape work involved in the project. Off-site construction is inspected for conformity with the pertinent requirements of the project with the same degree of thoroughness

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as the on-site work. While the off-site work is vital to the acceptability of the project, no mortgage funds may be expended for off-site work. Such work is assured by other means and may be assured by escrowed funds.

Completion Inspection: In all projects, when the construction, including land improvements, is nearing completion, an inspection of the entire project is made to discover and tabulate all items requiring further work for either completion or correction.

Final Inspection: The inspector prepares a final inspection report when inspection reveals:

- (a) All on-site items in the entire project are completed except those which qualify as Items of Delayed Completion as hereinafter described, and
- (b) All off-site utilities such as sewer, water, electrical and gas facilities are installed and connected, and the buildings are served by safe and adequate all-weather facilities, either permanent or temporary, for the ingress and egress of pedestrian and vehicular traffic, including fire apparatus, and all other provisions of the mortgage insurance contract have been acceptably accomplished or acceptably assured.

The inspector enters, on the reverse side of the report form, a list of Items of Delayed Completion with a complete description of each. A separate listing of incomplete off-site work is also shown.

If certain items of off-site construction remain to be completed following the final inspection, continuous or intermittent inspections will be made to ascertain compliance and to report the status of the work.

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Items Of Delayed Completion: When the final inspection report indicates minor items aggregating not more than 1% of the mortgage amount, which do not preclude approval for occupancy and which cannot be satisfactorily completed because of weather or other conditions beyond control, construction may be accepted provided funds are escrowed to cover the cost of completing the work. The amount to be escrowed shall not be less than twice the cost of completing the work as estimated by FHA. An exception is made for landscape work which cannot be completed because of the season. The minimum escrow requirement for such work is the cost of completion as estimated by FHA.

An exception to the 1% limitation is permitted for final interior finish painting.

PART F.
FINAL CLOSING

F. FINAL CLOSING - INSURANCE OF ADVANCES

INTRODUCTION: Thirty days after completion of construction, the next step is the final closing of the mortgage insurance transaction. The 30-day waiting period is stipulated in the Construction Contract form and the Building Loan Agreement form to allow time for clearance of liens. If, however, the mortgagee desires to close at an earlier date, and if the title company issues a title policy which is free of liens, then the Director may take the necessary steps to close before expiration of the 30 days. Completion, for the purpose of final closing, means that (1) the project has been completed in accordance with the drawings and specifications, except for approved items of delayed completion covered by an acceptable escrow agreement; and (2) the entire project has been accepted for occupancy by the local authorities having jurisdiction and by the lender and FHA.

Upon the determination that an advance of mortgage funds is, or will be, the last advance prior to disbursement of the holdback (or at the time of substantial completion, whichever is earlier) preparation for final closing and final endorsement of the mortgage instrument should begin.

Arrangements for Closing: The following general rules will govern:

- a. The Director will request the mortgagor to submit the required cost information as outlined in the section on cost certification in this handbook. This information is reviewed to determine the amount of the maximum insurable mortgage.
- b. After reviewing the cost certification, the Director will notify the mortgagor and mortgagee of the maximum insurable mortgage amount and

F. FINAL CLOSING - INSURANCE OF ADVANCES

also of any advance amortization required.

- c. When the requirements of Item b. have been met, the Director will advise all parties concerned that final closing is in order. Generally, it is the mortgagee's responsibility to request the date for closing. When the Director is satisfied that all parties are ready to close, he will set the date and place, giving consideration to the convenience of all parties involved.
- d. Prior to closing date, the Director and the Closing Attorney will need to review and approve certain documents. The mortgagor and mortgagee will be notified as to the documents needed, number of copies and submission dates.
- e. Closings are normally held in the city where the insuring office is located or in some other city within the jurisdiction of the insuring office.

Advance Amortization Requirements: If the period between cut off date for cost certification of interest, taxes, etc. (which is 30 days after the FHA Chief Underwriter signs the final Inspection Report), and scheduled date of first principal payment exceeds three months, the mortgagor must agree in writing to (a) furnish a signed statement of net operating profit covering the period starting on the day after the cut off date as defined above and ending three months before first scheduled payment date (for example ending on June 30 if first payment is scheduled on October 1) and (b) to apply such portion of net operating profit (before depreciation) as the Commissioner may require as a mandatory prepayment to the mortgage. All rents received (exclusive of security deposits) shall be included as income, and all expenses for operations, taxes, insurance, reasonable management fees (but not officers' salaries or depreciation), may be deducted from income in determining net

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profit for the purpose. If there is an excess of expense over income developed in the statement required when there is occupancy during construction such excess may be carried forward to the statement required by this paragraph as "unrecovered expense-prior period".

The prepayment to be required under this paragraph shall be subject to the following conditions:

- a. In no case shall the required prepayment exceed the amount which would have been due as principal payments if the first scheduled payment had been on the first of the month in which the period started.
- b. Prepayments shall be required only to the extent that the amount of the excess permits payment of one or more full monthly payments as scheduled.
- c. If the circumstances are such that this statement is received and the required computations made before final endorsement, the mortgagee and mortgagor may elect, if they so desire, to have the mortgage endorsed for less than the full amount by a sum equal to that which would have been required as a mandatory prepayment.

Occupancy During Construction Period: Discussed in the cost certification section of this handbook.

Determination of Maximum Insurable Mortgage: Discussed in the cost certification section of this handbook.

Incomplete On-Site Facilities: All on-site construction should be 100% complete before approval of a final advance of mortgage proceeds. If special circumstances warrant, a final advance may be approved

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before 100% completion of on-site construction.

Such approval will be given only in cases in which minor items of on-site construction are incomplete and will be coupled with a requirement that funds be placed in escrow to assure completion of such minor items. In addition, approval of a final advance of mortgage proceeds under such circumstances will be given only in those cases in which (a) all on-site items in the entire project are completed except those which qualify as items of delayed completion; (b) all off-site utilities such as sewer, water, electrical, and gas facilities are installed and connected, and the buildings are served by safe and adequate all-weather facilities, either permanent or temporary, for the ingress and egress of pedestrian and vehicular traffic, including fire apparatus, and all other provisions of the mortgage insurance contract have been acceptably accomplished or acceptably assured; (c) that funds be placed in escrow for the completion of minor items because immediate completion is inadvisable or impossible, due to weather or other conditions beyond control; and (d) when the aggregate estimated cost of completing such items does not exceed 1% of the principal amount of the mortgage.

NOTE: Tenant selection of color schemes is attaining more importance in obtaining initial occupancy. In order to enhance rentability and at the discretion of the Director, an escrow may be established to cover the cost of final finishing interior painting of apartments without regard to the usual 1% limitation on escrows provided above. This is conditioned upon the builder being bound to complete all work covered by the approved plans and specifications within a fixed period of time not in excess of one year from the date of final endorsement for mortgage insurance and without any additional charge either to the mortgagor corporation or to the incoming tenants.

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With respect to all such incomplete items, except landscaping or other exterior improvements which cannot be completed because of the season, the amount held in escrow for completion must be at least twice the estimated cost of completion. In the case of landscaping, the amount held in escrow must not be less than the FHA estimate of the cost of completion. The amount of any escrow shall be sufficient to assure an incentive to complete the work, taking into consideration a possible rise in cost. Such escrow will be held by the mortgagee, or under the control of the mortgagee, in accordance with the terms of the Escrow Deposit Agreement form, and the Director will ascertain that the items to be completed are properly identified by attachment to the Application for Insurance of Advance of Mortgage Proceeds form.

Incomplete Off-Site Facilities: When a request for approval of a final advance is received in a case in which off-site facilities are incomplete, a distinction is made between those cases in which the assurance of installation and completion is in the form of a cash escrow, and those cases in which such assurance is in other form. In approving or disapproving the final advance the Director is guided by the following:

Cash Escrow: When the completion and installation of off-site facilities is assured by a cash escrow, and all off-site sewer, water, electrical, and gas facilities are completely installed and connected, and other off-site facilities such as streets, walks, curbs, and gutters are incomplete but safe, and adequate facilities for ingress and egress are provided, approval of the final advance of mortgage proceeds may be given but the Director will require that the escrow agreement remain in force.

Other Forms of Assurance: In those cases in which the assurance of installation and completion of off-site facilities is in a form other than a cash

F. FINAL CLOSING - INSURANCE OF ADVANCES

escrow, the final advance of mortgage proceeds cannot be approved. Instead, the Director will invoke the provisions of the Building Loan Agreement form and Construction Contract form, wherein it is provided that the 10% holdback will be retained until 100% completion of off-site facilities.

If off-site utilities are completely installed and connected, and ingress and egress is provided, the request for final advance prior to final endorsement will be treated as an ordinary application for advance of mortgage proceeds and may be approved in an amount which, when added to previous advances of mortgage proceeds, will equal 90% of the total advances to which the mortgagor will be entitled at 100% completion.

Property Insurance Requirements: Immediately before execution of the Application for Insurance of Advance of Mortgage Proceeds form for a final advance, the Director will ascertain whether any changes in drawings and specifications, or any appreciable change in the cost of construction of the project, have occurred during the course of construction which require a revision of the Property Insurance Schedule form.

If a revision of the Property Insurance Schedule form is necessary, the Director will have prepared revised and corrected copies of the form, reflecting such changes, and, at the time of execution of the Application for Insurance of Advance of Mortgage Proceeds form, will forward duplicate revised copies to the mortgagee with an appropriate letter notifying the mortgagee to substitute the revised copies and identifying such revised form by date.

Chattel Mortgage or Mortgagee's Attorney's Opinion: Before final endorsement, the Director will ascertain

F. FINAL CLOSING - INSURANCE OF ADVANCES

that, in accordance with Commitment and Mortgagee's Certificate requirements, the chattels and personal property of the mortgagor required for the operation of the project are covered by the lien of the real estate mortgage or are covered by a chattel mortgage to the real estate mortgagee. The mortgagee must deliver a copy of the chattel mortgage to the Director or in lieu thereof deliver an opinion by the mortgagee's attorney that the chattels are covered by the lien of the real estate mortgage and that no chattel mortgage is necessary.

The Director will require the mortgagor to provide a list of such easily movable items such as ranges, refrigerators, hot water heaters, venetian blinds, furniture, air conditioners, etc. Identification of such items will be by brand name and model and, where used, serial numbers.

In nursing home projects, all equipment necessary to their operation must be covered by the real estate mortgage or by a separate chattel mortgage. However, nursing home equipment may be so mortgaged subject to a first mortgage to the equipment seller, conditional sales contract or lease. All such arrangements must be reviewed by the Director and his approval obtained. The Regulatory Agreement provisions for nursing home projects will cover the obligations of the mortgagor so far as such equipment is concerned.

Start of Amortization: Amortization will start on the date specified in the mortgage unless a deferment shall have been recommended by the mortgagee

F. FINAL CLOSING - INSURANCE OF ADVANCES

and approved in advance by Headquarters. See the Construction section of this handbook for more details.

Application for Insurance of Advance of Mortgage Proceeds: When the final advance is in order, the mortgagee, the mortgagor, the contractor, and the architect will execute the completed form, and the form, in triplicate, will be submitted to the Director by the mortgagee. The form shall be accompanied by (a) a completed Contractor's Requisition form, (b) Contractor's Prevailing Wage Certificate form, and (c) a final survey.

The survey accompanying this request must show the exact location of all buildings, water, sewer, gas, and electric mains, and all easements for such utilities then existing. It must be prepared by a licensed surveyor who must certify that the project is installed and erected entirely on the land covered by the insured mortgage and within the building restriction lines, if any, on said land, and does not overhand or encroach upon any easement or right-of-way of others.

On ascertaining that the advance will be a final advance of mortgage proceeds, the Director will determine whether (a) any items of onsite construction are incomplete; (b) any off-site facilities are incomplete; (c) any revisions are required in connection

F. FINAL CLOSING - INSURANCE OF ADVANCES

with hazard insurance; and (d) the necessary chattel mortgage or certificate of mortgagee's attorney has been submitted.

Following execution of the form, the Director will forward the executed original to the mortgagee, with necessary attachments listing incomplete items, if any.

It is then the responsibility of the mortgagee to submit, in accordance with the certificate of mortgage insurance, a completed Request for Final Endorsement of Credit Instrument with the credit instrument and any necessary escrow agreement. However, the Director will call to the mortgagee's attention such additional submissions as are required.

Request for Final Endorsement of Credit Instrument

Form: After receipt by the mortgagee of approval of a final advance, this form, completed and executed by the mortgagee, mortgagor and general contractor must be submitted by the mortgagee, in duplicate, with the original credit instrument and, if required, duplicate executed copies of the Escrow Agreement form.

The date and amount of each advance must be correctly stated and the total shown on the form must equal the total of all advances. (The inclusion of amounts advanced by the mortgagee to the mortgagor from escrow funds required for completion of the project is a common source of error, and it is important that such amounts be excluded from the Request for Final Endorsement of Credit Instrument form.)

Particular attention is directed to the required certification by the mortgagor with respect to the obligations and the penalty provided by law for misstatements

F. FINAL CLOSING - INSURANCE OF ADVANCES

In cases where, during the construction of the project, strong evidence of slow payment or non-payment to subcontractors or materialmen is brought to the attention of the insuring office, it is within the discretion of the Director to require that sufficient funds from the final advance of mortgage proceeds be placed in escrow with an escrow agent satisfactory to the mortgagee and the Director to satisfy all unpaid obligations. Such funds are to be released from escrow only upon the escrow agent's being furnished with acknowledgment of payment by the appropriate subcontractor or materialmen. In all cases, the following is applicable:

- a. Mortgagors should be advised that all obligations "contracted in connection with the acquisition of land, purchase of property, construction of the project, or the mortgage transaction" shall without exception be reported.
- b. If the obligations exceed the amount of the final advance, the excess must be liquidated through the issuance of stock or surplus cash Promissory Note form. If the Promissory Note form is required, no change in substance of the prescribed form will be permitted.

NOTE: As discussed in the cost certification section of this handbook, except for land and the builder's fee in identity of interest cases, only those costs which have been paid in cash are cost certifiable. Therefore, if notes are issued for other than the two items listed, the amounts will not be allowed in cost certification.

- c. Two copies of all notes are required.

When this procedure is followed, no objection will be taken to obligations which have been approved by the Director "as to terms, form and amount."

F. FINAL CLOSING - INSURANCE OF ADVANCES

When these forms are satisfactorily completed, final endorsement is in order. The date of final endorsement will be the date the Director or his agent affixes his signature to the credit instrument.

Amount of Endorsement: The credit instrument will be finally endorsed in an amount equal to the full amount of all insured advances to the mortgagor regardless of whether the final endorsement occurs before or after the commencement of amortization of the insured mortgage.

Working Capital Deposit: On final endorsement of the mortgage, the mortgagee shall be entitled to release any balance of the working capital deposit to the mortgagor (but only to the mortgagor). The Director is not required to approve or disapprove such action; but it should be noted by the mortgagor and mortgagee that both should give careful consideration to the position of the mortgagor (Percentage of occupancy, rate of occupancy, etc.) and that any release of such funds while a mortgage default exists will be the sole responsibility of the mortgagee.

Assurance of Performance Under Guarantee: The general conditions of the Construction Contract form contain a guarantee against latent defects and faulty workmanship and material for one year from date of substantial completion. The date of substantial completion is the date FHA Chief Underwriter signs the final Project Inspection Report, which may be subject to approved items of delayed completion for which money is to be escrowed.

Cash Assurance: If a Completion Assurance Agreement form was used at initial closing, the Director may, after final endorsement of the credit instrument,

F. FINAL CLOSING - INSURANCE OF ADVANCES

release the escrow funds except for an amount equal to $2\frac{1}{2}\%$ of the total amount of the construction contract. The retained percentage shall be held in the escrow account during the one-year guarantee period. The escrow provided for here is separate and apart from any escrow that may have been provided to assure completion of any incomplete construction items.

Other Assurance: If either a Contract Bond-Dual Oblige form or an AIA Bond were used, no further action is required.

F.1 CLOSING - INSURANCE UPON COMPLETION

Introduction: Under a Commitment to Insure Upon Completion form, there is only one closing, which takes place after completion of construction. For the purpose of closing the mortgage transaction, completion means that (a) the project has been completed in accordance with the drawings and specifications, except for approved items of delayed completion covered by an acceptable escrow agreement; and (b) the entire project has been accepted for occupancy by local authorities having jurisdiction and by the lender and FHA.

Arrangements for Closing:

(See Final Closing)

Submission and Review of Closing Documents:

(See Final Closing)

Required Documents for Closing:

(See Final Closing)

F.1 CLOSING - INSURANCE UPON COMPLETION

Advance Amortization Requirements:

(See Final Closing)

Determination of Maximum Insurable Mortgage:

(See Final Closing)

Contractor's Prevailing Wage Certificate Form: This form is self-explanatory.

Assurance of Performance Under Guarantee: Before endorsement of the credit instrument the mortgagor must furnish satisfactory evidence that the work of the contractor is covered by a guarantee, running for a period of at least one year, against latent defects and faulty workmanship and materials. Performance under the guarantee will be assured by any of the following:

- a. A surety bond, which must be in a special form guaranteeing specifically against latent defects, faulty workmanship and material; and must be in an amount of 10% or more of the cost of construction as estimated by FHA. The bond must include the mortgagee as an obligee and must be assignable to the Commissioner. Any surety on the accredited list of the United States Treasury is acceptable.
- b. A cash escrow equal to 2½% of the principal amount of the mortgage, to be retained in escrow by the mortgagee for a period of one year to assure correction of latent defects, faulty workmanship and material. The Request for Endorsement of Credit Instrument - Certificate of Mortgagee and Mortgagor form, contains a representation from the mortgagee that it has retained this 2½% in such cases.

Leaseholds:

(See Initial Closing)

F.1 CLOSING - INSURANCE UPON COMPLETION

Off-Site Facilities:

(See Final Closing)

Incomplete On-Site Facilities:

(See Final Closing)

Title Evidence: The FHA Regulations provide that in order for the mortgaged property to be eligible for mortgage insurance, the FHA must determine that marketable title is vested in the mortgagor as of the date the mortgage is filed for record and, further, that the mortgagee must furnish a policy of title insurance in L.I.C. or A.T.A. standard mortgagee form, as approved by the Director. If the mortgagee is unable to furnish such a policy and provides satisfactory reasons therefor, the Director, with prior approval of Headquarters, may accept other evidence of title. Such evidence may be in the form of (a) abstract of title and legal opinion from an attorney experienced in the examination of titles; (b) a Torrens certificate; or (c) evidence of title conforming to the standards of a supervising branch of the Federal Government or any State or Territory.

Title evidence must be continued to the date of endorsement of the credit instrument or recordation of the mortgage, whichever is later.

Public Approvals: At closing, the mortgagor must submit written evidence, satisfactory to the Director, that the buildings, including wiring, plumbing, gas, and appliances therein, have been inspected and approved by all departments, boards, and agencies of the municipality, county, state, or other governmental bureaus or departments having jurisdiction; and by the Board of Fire Underwriters or any bureau or body performing similar functions.

Organization of Mortgagor:

(See Initial Closing)

F.I CLOSING - INSURANCE UPON COMPLETION

Credit Instrument:

(See Final Closing)

Mortgage Form:

(See Final Closing)

Survey Instructions and Certificate Form: This form is self-explanatory, must be a final survey, and must be accompanied by the certificate of a licensed surveyor.

Mortgagor's Oath Form:

(See Initial Closing)

Request for Endorsement of Credit Instrument -
Certificate of Mortgagee and Mortgagor:

(See Final Closing)

Collateral Agreements: Any collateral agreements which may be needed must be submitted.

Assurance of Funds to Meet Operating Deficits:

If during the FHA processing of a case, an operating deficit is anticipated during the first months of operation, the sponsors must deposit the amount of the anticipated deficit with the mortgagee, at or before closing, in cash or an irrevocable letter of credit. The maximum amount and duration of the obligation will be determined by the Director.

Property Insurance Requirements Form: The Director will notify the mortgagee of the types and amounts of property insurance to be maintained on the project by the mortgagor or, in the event of the failure by the mortgagor to do so, by the mortgagee. At closing, the original and duplicate of the Property Insurance Requirements form, together with

F.1 CLOSING - INSURANCE UPON COMPLETION

copies of the Property Insurance Schedule forms, will be furnished the mortgagee.

Chattel Mortgage or Attorney's Certificate:

(See Final Closing)

Comprehensive Attorney's Opinion: At closing, the mortgagor's attorney must submit his comprehensive opinion, addressed to the mortgagee and FHA, as to the legality of the entire transaction and the legality of the entire transaction and the legality and adequacy of the contract documents.

Start of Amortization: The mortgage must provide that amortization will start on the date specified in the Commitment to Insure Upon Completion form, except that the Director, in his discretion, and upon the request of the mortgagor concurred in by the mortgagee, may set a later date if more time than originally estimated is needed to obtain sustaining occupancy.

Endorsement of Credit Instrument: When all requirements have been met, and the first mortgage insurance premium has been paid, the Director will endorse the credit instrument.

Revision of Instruments: A case which has been closed, and in which the credit instrument has been initially/finally endorsed represents a contract to which the Commissioner is a party and which has fixed legal obligations. After endorsement, therefore, no revision of the terms or conditions of the insured mortgage may be made except with the prior approval of the Director, after receiving Headquarters' concurrence. The only type of mortgage increase request that can be considered after endorsement, is for a "two-year operating loss" as discussed in another section of this handbook.

PART G.
PROJECT MORTGAGE SERVICING

G. PROJECT MORTGAGE SERVICING

Effective servicing of insured project mortgages is of vital importance. Although the relationships between the FHA, the mortgagee, and the mortgagor are based on contractual obligations in which each party has specific rights and responsibilities, effective servicing can be accomplished only through mutual cooperation and assistance between the mortgagee and FHA.

The basic documents which govern the mortgagee's responsibility are the FHA Regulations, mortgage or deed of trust, and mortgagee's certificate. The documents which set forth the mortgagor's responsibilities and which provide for FHA control of the project operation are the regulatory agreement, certificate of incorporation, or corporate charter or trust agreement.

The regulatory agreement is the important document in setting forth the mortgagor's responsibilities and providing for FHA's control of the mortgagor, whether the mortgagor entity be an individual, partnership, corporation or trust. This is the agreement between the FHA and the mortgagor in which the mortgagor, in consideration of the insurance of a mortgage by FHA, consents to FHA regulation of rents, charges, rate of return, and methods of operation.

When a certificate of incorporation or corporate charter is utilized, FHA control is provided through the issuance of preferred stock to the FHA. Failure of the mortgagor to comply with the instruments applicable to the particular project or failure of the mortgagor to comply with any other agreement entered into with the FHA constitutes a default, and the remedy available to the FHA is set forth in the respective agreement.

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FHA Regulations: The regulations are concerned, in part, with the rights, duties, and obligations of the mortgagee after the insurance of the mortgage. The date of the regulations affecting the particular mortgage is shown in the endorsement panel of the mortgage note. Those regulations together with the documents accepted by FHA at closing (initial closing for insurance of advances) of the loan for insurance become, in effect, the mortgage insurance contract between the mortgagee and FHA. Briefly, the FHA regulations cover:

- (a) FHA requirements concerning mortgage insurance premiums, including adjusted premium charges for mortgage payments.
- (b) Definition of a default and reporting requirements.
- (c) Right of FHA to require acceleration of mortgage debt.
- (d) Requirements for extension of protection of mortgage insurance by FHA to the mortgagee.
- (e) Rights of mortgagee and requirements of FHA with respect to:
 - (1) Assignment of mortgage to FHA.
 - (2) Voluntary deed in lieu of foreclosure.
 - (3) Foreclosure and deed to FHA.
- (f) Insurance benefits and requirements for such benefits.
- (g) Obligations of mortgagee concerning protection of mortgage security through inspection, reporting to FHA, maintenance of property insurance, and project income in case of default.
- (h) Restrictions relative to assignment, transfer, and pledging of insured mortgages.

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Mortgagee's Certificate: The mortgagee's certificate is executed and submitted to FHA at the time of initial closing in the case of insurance of advances, or at the time of closing in the case of insurance upon completion.

In addition to provisions with respect to the insurance of the mortgage, the certificate contains agreement and certifications by the mortgagee concerning certain FHA requirements after insurance. Examples of the provisions affecting the servicing of a mortgage are:

- (a) Agreement to obtain a chattel mortgage or, if not required, to submit an attorney's opinion to that effect.
- (b) Agreement to (1) receive monthly deposits to the reserve fund for replacements, (2) hold the fund, and (3) notify FHA of failure by the mortgagor to make the required deposits. (Not applicable to (a) rehabilitation projects when the original principal amount of the mortgage is \$200,000 or less, or (b) mobile home courts.)
- (c) Agreement to abide by the FHA regulations and to furnish FHA with report of annual inspections of the mortgaged premises.
- (d) Agreement that a standard mortgagee clause will be attached to all insurance policies making losses payable to the mortgagee and FHA.

Mortgagor's Certificate: The mortgagor's certificate is executed by the mortgagor and submitted to FHA together with the mortgagee's certificate. Like the mortgagee's certificate, it contains, in addition to provisions with respect to the insurance of the mortgage, agreements and certifications by the mortgagor concerning requirements by FHA affecting the servicing of the mortgage. The certificate provides, in part, the following:

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- (a) Agreement that there are, or will be, no outstanding unpaid obligations contracted in connection with the purchase of the property, construction of the project, or the mortgage transaction except as may be approved by FHA as to terms, form, and amount.
- (b) Agreement to be bound by the applicable terms of the mortgagee's certificate.
- (c) Agreement that authorized representatives of FHA may have access to the premises for the purpose of inspection.
- (d) Agreement that the books and records of the mortgagor will be kept pursuant to FHA requirements and in such form as to permit speedy and effective audit.

Mortgages: The mortgage, or deed of trust, is the key document in the mortgage insurance transaction. It is the instrument given by the mortgagor to the mortgagee pledging the real estate as security for the loan covered by the note or bond endorsed by FHA for insurance. FHA has standard mortgage forms to meet the specific requirements of each state and territory. The standard forms have many common provisions. Set forth below are provisions, extracted from a standard form, that are important from a mortgage servicing standpoint:

- (a) Mortgagor reserves the privilege to prepay the mortgage debt and agrees to pay the adjusted premium charge referred to in applicable FHA regulations.
- (b) Mortgagor agrees to pay in advance to the mortgagee an amount sufficient to cover the annual mortgage insurance premium due FHA.

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- (c) Order of application of monthly payment by mortgagor to mortgagee, making the FHA mortgage insurance premium the first item.
- (d) Stipulation that all property insurance policies be endorsed with a standard mortgagee clause making a loss payable to the mortgagee and FHA.
- (e) Mortgagor agrees to keep the mortgage premises in good order and repair and not to suffer or commit waste.
- (f) Mortgagor agrees not to rent the dwelling accommodations (1) in excess of the rates permitted under its charter or regulatory agreement, as the case may be, or (2) for periods of less than one month or more than three years, nor rent the premises as an entirety. (NOTE: Maximum rental schedules are not established for (a) Section 220 rehabilitation projects where the original principal amount of the mortgage is \$200,000 or less, or (b) any Section 232 Nursing Home. Also, mortgagors of Section 232 Nursing Homes may, with the prior approval of FHA, rent the premises as an entirety.

Chattel Mortgage: The mortgagee will require a chattel mortgage, or similar instrument covering all personal property, under Section 232, or if under one of the other Sections, on any such property purchased with mortgage proceeds not clearly subject to the lien of the insured mortgage under the laws of the jurisdiction. Unless the laws of the state clearly permit the coverage of after-acquired property, the personal property clause set out in the mortgage must be supplemented by a chattel mortgage so that a valid prior lien on such property is created as additional security for the mortgage loan.

It is the sole responsibility of the mortgagee to see that a legally sufficient primary lien is obtained,

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and thereafter retained, on all project property, both real and personal.

Regulatory Agreement: The Regulatory Agreement is the main document in FHA's control of the mortgagor. Pursuant to the terms of the standard regulatory agreement, the mortgagor agrees:

- (a) To establish and maintain a reserve fund for replacements. (Not applicable to (a) rehabilitation projects when the original principal amount of the mortgage is \$200,000 or less, or (b) mobile home courts.)
- (b) That rents for dwelling units shall not exceed the schedule of rentals approved by FHA, nor shall dwelling units be rented for a period of less than one month nor in excess of three years. (Not applicable to Section 220 rehabilitation projects where the original principal amount of the mortgage is \$200,000 or less, or (b) for Section 232 Nursing Homes.
- (c) That it will not assign, dispose of or encumber any real or personal property; remodel, reconstruct, demolish, or subtract from the premises; go into voluntary bankruptcy; or fail to maintain the reserve fund for replacements; and that it will take certain steps in case of involuntary bankruptcy.
- (d) That the property shall be maintained in good, substantial repair and condition.
- (e) That the property, books, records, etc., shall be subject to examination and inspection by FHA.
- (f) That the books and accounts shall be kept in accordance with the requirements of the FHA, and that a complete annual financial report of the operations of the project will be furnished FHA.

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- (g) That specific answers to questions by FHA will be given concerning the income, assets, liabilities, contracts, operation, and condition of the project.
- (h) That it will not execute or file for record any instrument restricting the sale, leasing, or occupancy of the project on the basis of race, color, or creed.
- (i) That it will comply with the provisions of Executive Order No. 11063, Equal Opportunity in Housing, and the FHA Regulations issued pursuant thereto.
- (j) That it will not discriminate against any person or persons by reason of the fact there are children in the family.
- (k) That dividends or other distributions as set forth in the agreement are limited to those which may be made from "surplus cash" as defined in the agreement.

In addition to any other right or remedy it may have, FHA has the right to resort to court injunction to restrain a breach or threatened breach of the agreement.

In the event of a breach of any agreement contained in the regulatory agreement, or a default under the mortgage and the continuation thereof for 30 days, FHA has the right to enter into and take possession of the property with power to manage and operate it.

Corporation Charter (Certificate of Incorporation):

In any case where FHA control is not exercised through a regulatory agreement, the corporate charter is the most important document in FHA's control. It gives FHA, in most cases as a preferred stockholder, a voice in the operation of the mortgagor corporation. For any project not controlled by regulatory agreement, it

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is necessary to examine the charter of the particular mortgagor to determine the rights, duties and obligations of the FHA and those pertaining to the corporate director, stockholders, and officers.

For any project where FHA control will be by regulatory agreement, any certificate of incorporation is acceptable to FHA, provided it (a) meets the requirements of the jurisdiction where the corporation is incorporated, (b) gives the corporation power to execute a note and mortgage and to operate the project, (c) specifically authorizes the execution of a regulatory agreement, and (d) contains nothing inconsistent with the regulatory agreement.

Trust Agreement: Prior to the adoption of the regulatory agreement form, the trust agreement was used as an alternative to a corporate charter to obtain FHA control where the corporate charter method could not be used. Under a trust agreement, FHA held prior preferred certificates of beneficial interest in the trust (comparable to preferred corporate stock) in order to obtain control.

At present, the only requirements with respect to a trust are that it be a proper legal entity in the jurisdiction where it is formed, has the power to execute a note and mortgage and to operate the project, execute a regulatory agreement, and the trust agreement contains nothing inconsistent with the regulatory agreement.

Enforcement of Construction Guarantees: Construction guarantees cover defects, deviations from approved drawings and specifications, and faulty materials or workmanship or damage resulting therefrom.

Usually, the first guarantee inspection is completed by FHA during the ninth month of the guarantee period. If this inspection discloses deficiencies covered by the guarantee, FHA will immediately notify the mortgagor, mortgagee, contractor and surety of the nature

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and extent of defects determined by FHA to be sufficiently serious to require immediate correction. Items which are minor in nature will not be reported to the mortgagee, but they will be reported to the mortgagor and contractor.

The second guarantee inspection shall be completed by the twentieth day of the twelfth month of the guarantee period. FHA will issue notice of any major defects or damage resulting therefrom to the mortgagor, mortgagee, contractor, and surety. The acceptable correction of previously reported defects shall be acknowledged. Also, if any required corrections have not been completed, the report shall set forth in detail any major deficiencies or damage resulting therefrom to the property which has developed or had been observed in addition to those previously reported.

If definite assurance in writing that the cited deficiencies will be corrected within a reasonable time is not received by the insuring office Director within 30 days, he shall advise the mortgagee and mortgagor and request that they make formal demand on the surety. Legal action to enforce the guarantee must be brought not later than the end of the second year following substantial completion of the project.

Completion of On-Site and Off-Site Items and Disbursement of Funds in Escrow: The insuring office Director will follow through to see that any required on-site and off-site facilities are completed as assured by the escrow agreements and will notify the mortgagee upon satisfactory completion in order that funds may be released.

In the event, in the Director's opinion, satisfactory completion of the facilities is being unreasonably delayed, he will call on the mortgagee to apply the funds to reduce the principal amount of the insured mortgage.

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Annual Physical Inspections: Periodic inspection of a mortgaged property by the FHA and by the mortgagee is the usual means of keeping informed with respect to the physical condition of such property.

Under the terms of its certificate filed at the time of closing of the mortgage transaction and pursuant to the FHA Regulations, the mortgagee is bound, so long as the mortgage is insured, to ascertain the physical condition of the mortgaged property each calendar year and to furnish both the insuring office Director and the mortgagee a copy of its inspection report. The report must include recommendations for any necessary corrective actions.

Failure on the part of the mortgagor or its agent to act with due diligence in overcoming any serious maintenance deficiency must be regarded as a violation of the charter, or regulatory agreement, and the mortgage.

Reserve Fund for Replacements: FHA requires the establishment and maintenance of a reserve fund for replacements for most projects. When required, it is included as a provision in the charter or regulatory agreement and in the mortgagee's certificate. This fund is primarily for the purpose of defraying at least a portion of the cost of timely replacement of structural components and mechanical equipment.

The fund shall remain at all times under the control of the mortgagee whose position is that of an escrow agent. Disbursements may be made by the mortgagee only on the basis of written consent by the insuring office Director.

A mortgagor is permitted by the certificate of incorporation, or regulatory agreement and the mortgagee's certificate, to invest the fund in bonds issued, or guaranteed as to principal, by the United States Government. Such investments may be made without approval of FHA. Interest on the bonds may be paid

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to the mortgagor.

The mortgagee is not required to act as broker in the investment of the fund, or to assume any responsibility beyond investment of cash, acceptance of bonds deposited, or reimbursement for bonds sold. No charge that a mortgagee may make for servicing investments of the fund may be paid out of the fund.

Since the fund must at all times be under the control of the mortgagee, the issues chosen for investment must be either payable to the bearer, or registered and deposited in a manner to permit conversion to cash at any time by the mortgagee at its sole option.

In connection with the purchase of bonds by the mortgagee, or the acceptance for deposit of bonds from the mortgagor, FHA considers the transaction final as to the use of the funds so long as the market value of bonds at date of delivery is equal to the amount required to be paid into the fund.

The mortgagee is not required to collect from, or refund to, the mortgagor because of fluctuations in the market price of the bonds in the fund. The only exception to this rule occurs when the bonds are converted to cash and, as a result, the amount realized is more or less than that credited to the fund at date of delivery, thereby creating an excess or deficiency in the fund. When the mortgagee is required to sell bonds to meet an authorized withdrawal and the money received from the sale of the bonds is less than the amount for which they were credited to the fund, the difference shall be deducted from the amount to which the mortgagor is entitled as a result of the authorized withdrawal. If the money received is in excess of the amount for which the bonds were credited to the fund, the excess shall be paid to the mortgagor in addition to the authorized withdrawal.

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Alterations, Modifications, or Additions to Physical Structures: Insuring office Directors are responsible for approving or disapproving requests from mortgagors, concurred in by mortgagees, to alter, modify, or add to the physical structures.

Partial Release of Security: FHA will approve the release of a portion of the mortgaged property only when the interests of FHA will not be impaired.

To request FHA approval, the mortgagor must submit a written request accompanied by:

- (a) A written statement setting forth the intended use of that portion of the property to be released and the consideration, if any, to be received by the mortgagor.
- (b) A written statement from the mortgagee consenting to the transaction, subject to whatever conditions and restrictions the mortgagee may require. The mortgagee's statement should also set forth the current status of the insured mortgage and the current mortgage balance. If the mortgage is in default, the nature of such default must be stated.
- (c) In the event there are privately owned utility lines or mains located within the portion of the property to be released, a written statement setting forth the identity

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of those who will have responsibility for continued operation and maintenance of the utility lines and mains. The mortgagor must arrange for any easements which may be required in the future operation and maintenance of the utility lines or mains.

- (d) A plat showing the property to be released with metes and bounds shown and the relationship of the property to be released to the entire mortgaged property.
- (e) The proposed form of deed whereby the property is to be conveyed, a legal description thereof, and the proposed form of easement deed or easement reservation to be used, if any, in accordance with paragraph (c) above.
- (f) A letter from the title insurance company which issued the existing mortgagee's title policy to the effect that the release of a portion of the mortgage security will not adversely affect the policy of title insurance and the validity or priority of the lien of the insured mortgage on the remaining property.
- (g) The proposed form of letter agreement to be executed by the mortgagor and mortgagee whereby both parties agree that the payment, if any, to principal on the mortgage as required by the mortgagee or FHA because of the partial release of mortgaged property is not to be considered as an optional prepayment, as that term is used in the mortgage or note, and that failure to make the regular monthly payments will constitute a default under the mortgage.

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- (h) A written statement from the governmental unit having jurisdiction if the partial release of mortgaged property is for street dedication or other public purpose, setting forth the consideration to be paid, if any, whether or not assessments are involved, and the obligation being assumed as to continuing operation and maintenance, if appropriate, accompanied by the proposed form of conveyance to be used.
- (i) Any other documents to be executed by the mortgagor in connection with its interest in the mortgaged property.

In the event a portion of mortgaged property is to be taken by the institution of condemnation proceedings, it is the responsibility of the mortgagee to keep currently informed concerning such proceedings to assure that claim for adequate compensation is properly instituted, and when the condemnation proceedings have been concluded, certified copies of the award and all related documents, if possible, should be furnished the insuring office Director.

Easements: FHA will approve the granting of an easement provided that it does not adversely affect FHA's interest. Upon receipt of a mortgagor's request for granting of an easement, the insuring office Director will ask the mortgagee for comments and recommendations.

Lease of Mineral Rights: Under certain conditions, FHA will permit a mortgagor, with the concurrence of the mortgagee, to lease the mineral rights covered by an insured mortgage.

Property Insurance Loss Drafts: Loss settlement drafts or checks must name the mortgagor, the mortgagee, and the FHA Commissioner, as payees.

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Responsibility for restoration of property damage covered by property insurance rests on the mortgagee and mortgagor. The receipt of any loss draft settlement bearing the mortgagee's endorsement is considered sufficient evidence that the mortgagee is satisfied with the restoration, and the insuring office Director will endorse the loss settlement draft and return it to the mortgagee.

Termination of Contract of Mortgage Insurance: A contract of mortgage insurance may be terminated either by prepayment in full of the insured mortgage, or by acceptance of a joint request for termination made by the mortgagor and mortgagee.

For a termination by prepayment, the mortgagee shall prepare and forward to the FHA Assistant Commissioner-Comptroller, in quadruplicate, a Prepayment Report (Multifamily Housing Mortgage or Loan) together with the required adjusted premium charge and, if applicable, a remittance for redemption of preferred stock and dividends due and unpaid thereon, or a certification of a corporate officer that none is due.

In case of voluntary termination, a Request for Termination of Insurance (Multifamily Housing Mortgage or Loan) shall be prepared by the mortgagee, executed by the mortgagor and mortgagee, and forwarded, in quadruplicate, to the Assistant Commissioner-Comptroller, together with the original credit instrument endorsed for FHA insurance, the required termination charge, a remittance for redemption of preferred stock and dividends due and unpaid thereon, or a certification of a corporate officer that none is due.

The applicability and amount of adjusted premium and termination charge in connection with a termination of contract of mortgage insurance is determined by the FHA Regulations applying to the particular project.

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Change in Ownership: The sale and conveyance of title to a property covered by an insured mortgage necessitates a substitution of mortgagors. The prior approval of FHA is required in every case where FHA exercises control over the mortgagor as a preferred stockholder (controlled corporation), by regulatory agreement, or by certificate of beneficial interest.

Conveyance of title under a mortgage on an FHA controlled project, without the prior approval of FHA, is a default under the charter or regulatory agreement.

Subsequent approval will be granted by FHA only on a showing by the interested parties that such action was required by extreme necessity and that it was beneficial to the FHA's interest. FHA refusal to approve the substitution of mortgagors requires reconveyance to the seller.

Because of the wide variety of circumstances that may affect the substitution of mortgagors, authority for approval of such transactions and direction of the actions required to make the substitution acceptable has been retained in FHA headquarters. Insuring office Directors are responsible for (a) supplying information to the mortgagor and mortgagee regarding FHA requirements; (b) reviewing the proposals and recommending approval; (c) disapproving proposals found not to be acceptable; and (d) executing actions as directed by the FHA headquarters.

The information and forms, which must be supplied and the requirements which must be met depend to some extent upon the circumstances of a particular case. For example, should the prospective seller be a nonprofit entity, FHA will require that the purchaser also be a qualified nonprofit entity.

To obtain FHA consideration of a proposed sale of a project controlled by preferred stock, regulatory agreement, or certificate of beneficial interest, the

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mortgagor must submit to the insuring office Director an Application for Transfer of Physical Assets, the required supporting documents, and an transfer fee amounting to .50¢ per thousand dollars on the original face amount of the mortgage. (When the seller is a Section 608 individual mortgagor controlled by regulatory agreement and the original amount of the mortgage was \$200,000 or less, the Application for Substitution of Mortgagor form is to be filed in lieu of the Application for Transfer of Physical Assets form.) The application must be signed by both the mortgagor and the mortgagee.

If the seller is an uncontrolled 608 mortgagor and the seller is not to be released from liability, FHA approval of the sale is not required. However, the name and address of the purchaser should be furnished the insuring office Director. When the seller is an uncontrolled corporation and the purchaser refuses to assume the mortgage, the mortgagee should not consent to the dissolution of the selling corporation until the purchaser has assumed the mortgage.

If the seller is to be released from liability, the purchaser shall assume the mortgage; the Application for Substitution of Mortgagor must be filed. However, there is no requirement for a regulatory agreement, modification agreement, rental schedule and information on rental project. Also no application fee is required.

The provisions of Executive Order No. 11063, Equal Opportunity in Housing, and the FHA Regulations issued pursuant thereto apply in connection with all transfers of physical assets by controlled mortgagors. Agreement with respect to compliance with the Executive Order and FHA Regulations is incorporated in the regulatory agreement.

Mortgagors who, at the time of transfer do not execute the regulatory agreement, must adopt the Model Form of

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Certificate of Incorporation which subject the corporation to FHA control through the medium of a special class of stock. In such case, the Model Form must be amended by the insertion of the following rider in place of Article III(b):

"(b) to enable the financing of such rental housing with the assistance of mortgage insurance under the National Housing Act, as amended, in accordance with the provisions of any state or local laws prohibiting discrimination in housing on the basis of race, color, creed, or national origin, and with the Regulations of the Federal Housing Administration providing for nondiscrimination and equal opportunity in housing, on the understanding that failure or refusal to comply with any such provisions shall be a proper basis for the Commissioner to take any corrective action he may deem necessary including, but not limited to, the rejection of future applications for FHA mortgage insurance and the refusal to enter into future contracts of any kind with which the corporation, corporate officers, directors, trustees, managers, or principal stockholders are identified."

If circumstances warrant, a transfer of physical assets may be accomplished during the construction period between initial and final endorsement. However, the requirements are more complicated. The regular requirements must be met; the consent of the sale of the property must be obtained from the surety and the mortgage; and the seller must specifically assign to the buyer the working capital deposit and all other funds deposited in escrow. The seller must assign and the buyer must assume and accept all of the obligations, rights, title and interests of the seller to the Construction Contract, Building Loan Agreement, Architect's Agreement, Escrow Agreements, Assurance of Completion, and any letter of credit or bond which may support the completion assurance agree-

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ments. The buyer must thereafter execute a new Mortgagor's Certificate, Mortgagor's Oath, and a new Agreement and Certification.

Mergers: The prior written consent of the insuring office Director is required for any proposed merger. A merger will be approved only if the position of FHA as insurer of the mortgage is not jeopardized.

A merger request must be accompanied by a statement detailing the necessity therefor and by the mortgagee's approval.

Transfer of Stock: Until the 1956 revision of the model form of corporate charter, the corporate charters did not include the specific requirement that FHA be advised of changes in officers, directors, or stockholders. Such information is now, however, required in all cases.

FHA must be given notice, within ten days, of any change in officers, directors, stockholders, or address of the principal office of the corporation; except that notice of change of stockholders is not required until at least twenty-five percent of the stock has been transferred.

When control of a corporate mortgagor has changed through transfer of stock, a Rental Schedule and Information on Rental Project, completely executed by the new owners, must be submitted, in triplicate, to the insuring office Director.

Use of Existing Multifamily Housing Projects as Fallout Shelters: Upon request of a mortgagor, subject to the approval of the mortgagee, an insuring office Director may grant permission to use a multifamily project as a fallout shelter. Should any changes or alterations be necessary, the construction must meet the standards of the Office of Civil Defense, Department of Defense, as well as FHA standards.

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Accounting, Reporting, and Financial Analysis: With certain exceptions, as indicated below, mortgagors are required to keep their books and accounts in accordance with the Uniform System of Accounts for Multifamily and Group Housing Projects. Changes in charters and changes in the uniform system of accounts during the years since the initiation of the various multifamily programs have resulted in variations in accounting requirements. Accordingly, it is necessary to refer to the original charter or regulatory agreement to determine the accounting requirements applicable to a specific project.

There was no prescribed accounting system for Section 608 mortgagors under commitments issued before December 19, 1947, if the original principal amount of the mortgage was \$200,000 or less. Also, there was no accounting system requirements for Code 6, Section 608 mortgagors, regardless of the amount of the mortgage. However, each mortgagor was required to keep complete, orderly and accurate books of account, and to maintain in file supporting documents to justify accounting entries.

At present, there is no prescribed accounting system for Section 232. Also, mortgagors of projects being rehabilitated under Section 220 with mortgage amounts of \$200,000 or less, are not required to keep their books in accordance with a prescribed accounting system.

Prevention and Cure of Defaults: "Prevention of defaults" concerns actions that can be taken by FHA, the mortgagee, and the mortgagor to avert defaults that may occur if adverse policies, practices or conditions remain uncorrected. "Cure of defaults" concerns actions that can be taken to reinstate the mortgage following actual default, and thereby avoid assignment of the mortgage or tender of the property to the FHA Commissioner. The action that can be taken depends not only on the time at which it is initiated, but also on the type of default, and the rights and responsibilities of the mortgagee, the mortgagor, and FHA under the

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basic documents, contracts, or agreements.

It is recognized that not all defaults can be cured and that definite procedures cannot be prescribed to cover all situations. However, in the majority of cases effective mortgage servicing can be accomplished if the mortgagee and FHA are alert to the development of adverse conditions and collaborate in the development of possible cures.

Defaults under the terms of the insured mortgage and under the terms of the corporate charter or regulatory agreement fall in three categories:

- (a) Fiscal default - A fiscal default is the failure of the mortgagor to make any payment due under, or provided to be paid by, the terms of the insured mortgage.
- (b) Covenant default - A covenant default is the failure of the mortgagor to perform any covenant, other than that described in (a) above, required under the terms of the insured mortgage.
- (c) Charter default - A charter default is any act or omission by the mortgagor which breaches the terms and conditions of the charter or regulatory agreement.

In the event of a fiscal default continuing for 30 days, the mortgagee is entitled to the benefits of insurance. If the default is not cured within the 30 day grace period, the mortgagee is required, within 30 days thereafter, to notify FHA in writing of such default. For example, if the date on which the payment became due was March 1, the grace period would extend to April 1, and if the default remained uncorrected, the mortgagee would be required to report the default to the insuring office Director before April 30. This requirement also applies to covenant defaults. All

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such defaults are to be reported to the insuring office Director on Notice of Default Status on Multi-family Housing Projects.

The mortgagee is to report by letter to the insuring office Director any known violations of the terms and conditions of the charter or regulatory agreement.

If a mortgagor encounters financial difficulties because of inability to maintain sustaining income due to factors in the general economy or other reasons beyond his control, FHA will consider requests for waiver of deposits to the replacement reserve and/or deferment of principal payments. Also, for Section 220 projects and 213 projects in urban renewal areas, consideration will be given to deferment of interest payments. When a deserving mortgagor demonstrates hardship, the requests for waiver or deferment will be considered favorably so long as there is a reasonable prospect that by diligent efforts on the part of a competent management, the property can be restored to a sustaining level. A request for waiver of deposits to replacement reserve may be initiated by the mortgagor and sent directly to the insuring office Director. The mortgagee must join in any such request.

Any request for waiver or deferment is to be accompanied by the mortgagor's financial statement covering the period from the date of the last regular financial statement to within 30 days of the request, unless the last regular financial statement covers the period within 120 days of the request.

Under the contract of mortgage insurance, the mortgagee has optional methods for filing a claim for insurance benefits. One method is to assign the mortgage at a one percent discount. The other method is to acquire and tender title to the property for which payment will be made at par. The election is made solely by the mortgagee.

G. PROJECT MORTGAGE SERVICING

The mortgagee may wish to acquire the property by voluntary deed in lieu of foreclosure and may do so with the consent of the FHA Commissioner. Ordinarily, there will be no objection on the part of FHA to a voluntary conveyance, provided there has been no diversion of funds by the mortgagor, and the full and complete cooperation of the mortgagor can be anticipated in effecting voluntary conveyance.

In general, a voluntary conveyance will involve the execution of an offer by the mortgagor which will require, in addition to a conveyance of the mortgaged property, the conveyance of all assets which might otherwise be obtainable through foreclosure and supplemental legal action. An accounting must be made of all income and disbursements since the last submitted financial statement. Two accountings will be required; one from the date of the last financial statement to the date of offer, and the other from the date of actual conveyance of the property. The mortgagee's request must be forwarded to FHA headquarters for consideration.

PART H.1
ELIGIBLE MORTGAGORS

The types of mortgagors eligible under each section are set forth in this handbook in the portion pertaining to the individual sections. However, the general definitions for both public and private mortgagors are set forth below:

Public Mortgagor: A federal or state instrumentality, a municipal corporate instrumentality of one or more states, or a limited dividend or redevelopment or housing corporation formed under and restricted by federal or state laws or regulations of a state banking or insurance department as to rents, charges, capital structure, rate of return, or methods of operation.

Private Mortgagor (Profit Motivated): Any mortgagor approved by the Commissioner, which until the termination of all obligations of the Commissioner under the insurance contract and during such further period of time as the Commissioner shall be the owner, holder, or reinsurer of the mortgage, is regulated or restricted by the Commissioner as to rents or sales, charges, capital structure, rate of return, and method of operation.

Exceptions to the general control provisions set forth for private mortgagors (profit motivated) are:

- (1) Section 232 mortgagors are not controlled with respect to maximum rents or charges or rate of return and
- (2) Mortgagors of Section 220 rehabilitation projects involving mortgages of \$200,000 or less are not controlled with respect to rents, charges, capital structure, rate of return or methods of operation.

Private Mortgagor (Nonprofit): A private corporation or association organized for purposes other than the

making of a profit or gain for itself or persons identified therewith and which the Commissioner finds is in no manner controlled by nor under the direction of persons or firms seeking to derive profit or gain therefrom.

PART H.2
EXECUTIVE ORDERS

PROVISIONS PROHIBITING DISCRIMINATION BECAUSE
OF RACE, COLOR, CREED OR NATIONAL ORIGIN

In applying for FHA mortgage insurance, the sponsor agrees with the FHA that:

- (a) Pursuant to the requirements of Executive Order 11063 and the FHA Regulations, (1) neither it nor anyone authorized to act for it will decline to sell, rent or otherwise make available any of the properties or housing in the multifamily project to a prospective purchaser or tenant because of his race, color, creed or national origin; (2) it will comply with state and local laws and ordinances prohibiting discrimination; and (3) failure or refusal to comply with requirements of either (1) or (2) shall be a proper basis for the Commissioner to reject requests for future business with which the sponsor is identified or to take any other corrective action he may deem necessary to carry out the requirements of the Regulations, and

- (b) Pursuant to the requirements of Executive Order 11114 and the FHA Regulations, any contract or subcontract executed for the performance of construction of the project shall contain a provision that there shall be no discrimination against any employee or applicant for employment because of race, color, creed or national origin. Where the mortgagor is the general contractor, the building loan agreement shall contain the above provisions.

PART H.3
PREVAILING WAGES

H.3 PREVAILING WAGES

Section 212(a) of the National Housing Act, as amended, provides, in substance, that the Commissioner shall not insure unless the principal contractor certifies that all workmen employed in the construction of the project have been paid not less than the wages prevailing in the locality of the project, as determined by the Secretary of Labor in accordance with the Davis-Bacon Act. The prevailing wage provision applies to all multifamily housing projects other than projects with less than twelve family units which are to be insured under sections 220 or 233 and projects of non-profit or public mortgagors which are to be insured under section 221(d)(3).

The Commissioner must have reasonable assurance of the validity of the contractors' prevailing wage certificates. For that reason, he maintains a continuous program to assure compliance with the labor standards clauses of the FHA Supplementary General Conditions which must be included in the construction contracts for all projects subject to the prevailing wage provisions. The labor standards clauses set forth the requirements with respect to minimum wage rates, the payment of wages, the posting of the applicable wage determination decision on the job site, the classification or reclassification of any class of laborers or mechanics which is not listed in the wage determination, payrolls and basic records related thereto, inspections of contractor's records and interviews of their employees by authorized representatives of the FHA and the Department of Labor, the employment of apprentices, the insertion of the labor standards clauses in subcontracts, and the principal contractor's responsibility for compliance by the subcontractors, as well as his own compliance. The clauses include a statement of possible consequences of violation.

H.3 PREVAILING WAGES

(continued)

In the event of failure of the principal contractor or any subcontractor to comply with the labor standards conditions, the Commissioner may withhold insurance of any advance, and must withhold insurance of the final advance, until the principal contractor establishes, to the satisfaction of the Commissioner, that the violations of the aforesaid conditions no longer exist.

PART H.4
COST CERTIFICATION

Cost Certification is required by Section 227 of the National Housing Act.

Except for (a) land, and (b), only in cases where an identity of interest exists between mortgagor and builder, the builder's fee, only those costs which have been paid in cash by the mortgagor (or which are to be so paid in cash upon release of the balance of mortgage proceeds) are eligible for inclusion in certified cost. Where there is an arm's length relationship between mortgagor and builder, the builder's fee loses its identity as such, and only that portion of the arm's length contract price (inclusive of the fee) paid in cash or so to be paid at final closing is includible.

In Section 220, 221 and 231 projects where a 10% builder's and sponsor's profit and risk allowance is permitted by the National Housing Act, the amount of profit and risk allowance is also includible without regard to payment in cash.

Required Statements: Form 3378, Mortgagor's Certificate of Actual Cost, is required in all cases. Form 3378A, Contractor's Certificate of Actual Cost, is required where there is an identity of interest between mortgagor and general contractor, or where there is a non-profit mortgagor.

A statement must also be filed by the mortgagor as to any identity of interest between mortgagor and any sub-contractor or material

H.4 COST CERTIFICATION

supplier. If any such identity exists, executed Form 3608, in quintuplicate, should be filed by any sub-contractor or material supplier involved in such identity.

Certificate(s) of Accountants Required: All Forms 3378 and 3378A will be returned to mortgagors as unacceptable unless each form is accompanied by the certificate of a certified public accountant or an independent public accountant. If the certificate is made by an independent public accountant, he must, at the time of its submission, establish the fact that he is licensed by the State; or if practicing in a State which has no licensing requirement, he must furnish a resume of his qualifications. The certificate must express an unqualified opinion as to the accuracy of Form 3378/3378A and must also include, in the case of a public accountant, a statement that he has no financial interest in the mortgagor or contractor other than in the practice of his profession. Inclusion in the certificate of any language indicating that the accountant has some reservation as to the amount of the actual costs will make the certificate and the related form unacceptable to FHA. Examples of language intended to convey such reservations are "Prepared from the books without audit", "Because of the unavailability of certain records, we are unable to express an unqualified opinion", or "Based on information furnished by the client which we have no reason to question". Similarly, any qualification which indicates that there exists any identity of interest between accountant and client will render the certificate unacceptable.

The following form is suggested to the accountant as containing the minimum representations acceptable to FHA:

H.4 COST CERTIFICATION

"We have examined the books and records of (Contractor/Mortgagor) related to the development of the (Project Name). Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We certify that we have no financial interest in the (Contractor/Mortgagor) other than in the practice of our profession.

Evaluation of Cost Submissions: FHA will require clarification or breakdown of all or any part of the cost figures presented including, but not limited to, legal and organizational expense, general overhead, equipment rental, and the function of subcontractors or suppliers when such function is not already well known to his office. Differences of opinion may arise because of a genuine misunderstanding of FHA requirements. However, in any situation in which the Director has any reason to believe the amounts certified are not completely correct, he is required to request an audit of the mortgagor's and/or contractor's records by the FHA office of Audit and Examination before issuance of Form 2580.

In projects where a substantial degree of occupancy has been attained during the construction period, there is the possibility that some items properly allocable to renting and operating the project will be claimed as construction costs. In situations of this type, it is, of course, expected that a high degree of vigilance will be exercised in order that misclassifications may be avoided.

Supplemental statements, certified by an accountant in the same manner as the original statements, are required for any estimated amounts included.

Date of Completion for Determination of Actual Costs: The Act now requires the mortgagor to certify "upon completion.....and prior to final endorsement...." as to the actual cost of completing the project. For this purpose, the date of completion shall be that date on which the project is acceptably completed in accordance with the drawings and specifications, and when the entire project has been determined by FHA to be ready for occupancy. Completion may be considered acceptably accomplished if items of delayed completion have been covered by an acceptable escrow agreement.

Acceptable completion is determined by Underwriting, and the date to be used for cost certification shall be the date on which the Chief Underwriter endorses the final Project Inspection Report, FHA Form 2449, showing construction to be acceptably completed.

NOTE: Do not confuse the "date of completion for determination of actual costs", above, with the "date of substantial completion" in the FHA Supplementary General Conditions, FHA Form 2554, which is the date from which the guarantee against latent defects and faulty workmanship runs.

The Director shall notify the mortgagor and mortgagee, in writing, of the date of completion for determination of actual costs; and shall request submission of cost certifications within a time that he deems reasonable, if they have not been previously submitted.

Allowable Costs in Form 3378

Construction Contract: The amount of a lump sum contract, adjusted upward or downward by the net effect, as computed by FHA, or the increased or decreased cost resulting from (FHA approved) construction changes, should be reported on Form 3378

and may be accepted as the actual cost of the work performed under such contract. Actual cost to the mortgagor under a supplemental arm's length lump sum contract for off-site improvements is likewise allowable, and should be entered separately on Form 3378 under the caption "other". When minor items of on-site or off-site work remain incomplete under a lump sum contract, and escrows are to be established for the purpose of making final endorsement, the mortgagor should certify his actual cost as the full amount of the contract (adjusted to reflect approved construction changes) as if the work had been completed.

Where a cost plus fee contract is required, Form 3378 shall be supported by Form 3378A and the total amount, exclusive of fees, actually paid by the mortgagor (but in no case to exceed the maximum upset price exclusive of fees) will be entered on the Form 3378 opposite the caption "Construction Contract". When escrows are to be established for incomplete work in such cases, the entry opposite the caption "Construction Contract" will be made as if the work had been completed, using, in lieu of actual costs, the FHA estimate of the cost of such work. In case an identity of interest exists, "adjustment for acceptable construction changes (plus-minus)" shall not be entered separately on Form 3378, inasmuch as same will have been given consideration in the Form 3378A.

Architect's Fee: The architect's fee is limited to the amount actually paid in cash for architectural services, and no part thereof may accrue to the benefit of the mortgagor. No portion of the architect's fee paid for in stock may be considered as part of allowable costs. If an identity of interest existed between the mortgagor and the architect, the amount allowed may not exceed the amount set forth in the agreement and certification, Form 3305.

Builder's Profit or Fee: No amount shall be shown as builder's and sponsor's profit unless an identity of interest exists. In such an event, the amount to be shown on Form 3378 will be, in 207 and similar type projects, the amount shown on Form 3305 as "builder's fee" (but not including the allowance for General Overhead). The amount of the allowance for builder's fee as shown on 3305 is entered whether or not the fee has been paid. In 220 and similar type cases where a 10% profit and risk allowance is permitted and Form 3306 is used in place of Form 3305, the amount to be shown is 10% of the claimed cost exclusive of certain items. These excluded items are (a) in projects where an identity of interest exists between mortgagor and general contractor, (1) land and (2) amounts paid for acquisition of a leasehold or other interest less than a fee and (b) in projects where there is no identity of interest between mortgagor and general contractor, (1) land (2) amounts paid for a leasehold or other interest and (3) the amount of the construction contract. In repair or rehabilitation projects, the amount paid before rehabilitation for the land and improvements in the case of acquisition by the mortgagor or the amount of indebtedness before rehabilitation in the case of property already owned by the mortgagor is also excluded from the base upon which the profit and risk allowance is calculated.

Interest During Construction: In all cases allowable interest during construction is limited to the amount actually paid or accrued on the first mortgage (construction loan) only through the date of completion plus interest on the outstanding principal balance for an additional 30-day period.

Taxes During Construction: Allowable costs for taxes during construction period will be limited to actual taxes accrued during the period for which

interest is computed as above. If any taxes have accrued but have not been assessed, the amount allowable on the certificate of actual cost shall be limited to the current FHA estimate.

Hazard and Casualty Insurance Paid by Mortgagor During Construction: Allowable costs for the captioned insurance will be limited to premiums accrued during the period for which interest is computed as above.

FHA Mortgage Insurance Premium: Because the Comptroller's Division cannot compute the exact amount of mortgage insurance premium due during the construction period until the project has been completed and the Washington docket forwarded to Washington, mortgage insurance premiums at $\frac{1}{2}$ of 1% per annum on the mortgage amount will be allowed on the basis of accrual through the interest period ending as set forth above.

NOTE: Cost certifications are expected to include, but are limited to, all amounts paid or accrued during the construction period for interest, taxes, insurance and mortgage insurance premiums.

FHA Examination and Inspection Fees: These fees are allowable at the amounts paid.

Financing Expenses: Financing expenses allowable in cost certification are limited to the amounts shown on the mortgagee's certificate, FHA Form 2434, and approved by the Director, or to the amounts actually paid in cash by the mortgagor, whichever is less. The initial endorsement of the mortgage for insurance constituted the FHA approval of the discount fee shown on that certificate (unless otherwise limited) and the actual discount paid in cash by the mortgagor, if not in excess of the approved discount, shall be allowed regardless of whether the

amount was paid directly to the mortgagee or was paid in reimbursement to the party making the original payment.

Service charges are limited to a maximum of the 1½% allowed at processing unless the FNMA issued its commitment to purchase the loan.

On occasion, it will be found that the FNMA requirements include the purchase of stock in that agency and that the mortgagor has been required to purchase such stock or to reimburse the construction lender for such purchase. If so, the maximum allowable for the purpose of cost certification is the actual cash payment or the purchase price of the stock less the bid price last quoted in the market, whichever is less. Other charges made by that governmental agency shall be allowed in connection therewith.

Title and Recording Expense: These items shall be limited to amounts actually paid.

Other: The mortgagor is permitted to report here costs not provided for elsewhere in Form 3378, and which are clearly attributable to actual cost of improvements on the mortgaged property up to the date of completion. The cost of topographic survey or test borings, if not included in the architect's contract, is allowable in the amount actually paid.

Reasonable and necessary legal and organizational expense incurred in connection with the organization of the mortgagor entity, initial and final closing, and the settlement of legal questions or litigation arising in connection with the construction of the project are allowable. Legal or other expenses incurred in connection with the acquisition of land or of obtaining rezoning are not includible.* The amount shown on Form 2264 for Legal and Organization is not to be considered an allowance per se, but an outline itemization of expenses up to that amount

will be acceptable. In most cases, however, the 2264 amount will be an upper limit, to be exceeded only in cases where extraordinary circumstances have arisen to justify the larger sum. In these latter cases, full itemization will be required, and the burden of proof as to reasonableness, necessity and proper classification will be on the mortgagor.

EXCEPTIONS: In cases where the land is acquired from a Local Public Agency, and where the FHA value of the land has consequently been limited to the amount paid to the LPA, reasonable legal expenses in connection with acquisition of land, rezoning, etc. may be included here.

In case the land in the project is held by the mortgagor under a leasehold, an allowable item of cost to be reported by the mortgagor under this caption would be the actual amount, if any the mortgagor paid for acquisition of the leasehold. It is, however, subject to reduction by FHA so as not to exceed the FHA estimate of the fair market value of the leasehold. In the case of a rehabilitation project, outstanding indebtedness on or purchase price of land and improvements to be financed with part of the proceeds of the mortgage are also reported hereunder in their actual amounts, but are subject to FHA reduction so as not to exceed limitations of the Administrative Regulations and related underwriting instructions. As indicated previously, the amount of a supplemental contract which the mortgagor is party to in connection with off-site improvements should be entered under this caption. This, however, is not an allowable cost in the case of a leasehold estate in which the ground rent is based on a land value which reflects off-site improvements and such improvements have not been paid for by the mortgagor.

No amounts paid as ground rent or leasehold rent may be included in certifiable cost under Section 207.

Allowable Costs in FHA Form 3378A: Certifications of allowable cost in cases involving cost plus fee contracts will be reviewed under the following conditions:

Subcontractors: Allowable costs under this heading will be the amounts due to any subcontractors for the construction of on-site or off-site physical improvements after deducting any rebates, refunds, kickbacks or trade discounts. Allowable amounts shall reflect any adjustment of the original subcontract price. When escrows are to be established for items of incomplete work, the full amount of the contract as adjusted shall be reported unless the subcontract is cost plus fee with guaranteed upset price, in which event the cost of the completed work plus the estimated cost for the incomplete work, or the upset price as adjusted by approved construction change, whichever is the lower, is reported.

Materials: Allowable amounts in this category may include only the purchase price of any materials not included as part of a subcontract price, after deducting all rebates, refunds, kickbacks and discounts, but including any delivery and handling costs.

NOTE: If Forms 3608 are required, the amount of any subcontract or material purchase or equipment rental covered shall be subject to downward revision in the sole discretion of the Director to reflect actual going prices for the area.

Labor: Charges for labor will be limited to amounts actually paid.

Escrows: When escrows are to be established for items of incomplete work which are not the responsibility of any subcontractor, the FHA estimate of the cost of such work shall be entered separately under the caption "Miscellaneous".

Job Overhead: Allowable amounts for job overhead cover such items as superintendents, field engineer to provide lines and grades for locating structures and utilities on the site, watchman, temporary offices, telephone, supplies, temporary sheds, temporary toilet, temporary heat for water and power during construction, cleaning, rubbish removal, and building permit. Other items may be approved by the Director provided they can properly be considered as a part of job overhead for the project in question. There shall not be allowed in job overhead any general overhead of the contractor such as his salary as an individual, or the salary of any person employed on a permanent basis and whose activities are in general confined to work performed in the main office or any established branch office of the builder. The time spent on the actual construction of a project by a superintendent or foreman who is generally retained by the firm and who is assigned to a specific job or jobs for the purpose of coordinating the work may be charged to the cost of construction for that portion of such total employment as is actually applicable to the construction of the project in question.

General Overhead: As stated above, no general overhead costs may be included under the "Job Overhead" classification. Under the provisions of the Housing Act of 1956, however, for the purpose of determining actual cost as such term is defined in Section 227 of the Act, there may be included in reimbursement for actual expenses paid "such allocations of general overhead items as are acceptable to the Commissioner".

Inasmuch as a contractor dealing at arm's length will include in his contract price an amount to cover both his estimate of general overhead expense and profit, the Administrative Rules, as amended August 11, 1956, provide for the inclusion of general

overhead only in identity of interest cases.

It has been administratively determined that, in identity of interest cases only, the contractor may include in his certification of actual cost a reasonable allocation of his actual general overhead expense provided that he furnishes an itemized statement of his total general overhead for the period of construction and that the method by which allocation was made to the project under examination is clearly shown and is reasonable, but not to exceed the maximum permitted by FHA underwriting processing. The amount allowed for general overhead shall in no event exceed the amount stated in Form 3305 or 3305A.

Adjustments for Undetermined Costs: The statute requires that the mortgage shall not exceed the applicable percentage of actual costs. Consequently, FHA Form 3305 and 3305A provide that any reductions in estimated costs resulting from the settlement of escrows required for incomplete work or adjustments of costs estimated for purposes of costs certifications, will be paid to, or retained by, the mortgagee for application to reduction of the mortgage, or will be deposited in Reserve Fund for Replacements. Such reductions of cost may arise from refunds, rebates, or discounts; the excess of escrows over the actual costs of incomplete construction items; refund of amounts deposited by the mortgagor (as set forth in Mortgagee's Certificate, FHA Form 2434 or Request for Endorsement of Credit Instrument-Certificate of Mortgagee and Mortgagor, FHA Form 2455) to save the mortgagee from loss in connection with sale of the mortgage; and any receipts from the settlement of claims against bonding companies or others which arose in connection with the completion of the project.

When cost certifications are reviewed, the FHA Director will determine the estimated items, if any,

and whether or not the mortgagor or contractor having any claims in process or contemplated which might affect the actual cost, and will establish an appropriate follow-up system for obtaining supplemental certifications of the actual cost of each item. Any payments on the mortgage required by these certifications shall be considered as reductions in, but not as prepayments to, the insured mortgage.

This application of funds will not be required, however, unless the substitution of the actual costs for the amounts estimated in the original certification of costs would have required a reduction in the insured mortgage.

The Director will not approve release of any escrowed funds without a satisfactory certification of the actual cost of the performance of the work. These costs shall be determined in accordance with instructions herein except that an accountant's certification will not be required.

Occupancy During Construction Period: In many cases some degree of occupancy may be obtained before the cut-off date for inclusion of interest, taxes, mortgage insurance premium and hazard insurance premiums in certifiable cost. In these cases a statement will be required showing (a) gross rents (not including security deposits) collected during the period from first occupancy to the cut-off date and (b) actual operating expenses during the same period. Operating expenses for this purpose shall include advertising expense, rental commissions paid, a reasonable management fee (not including officer's salaries) and electricity, gas, water and operating salaries (maintenance, cleaners, gardeners, elevator operators, etc.) to the extent they are not already included in construction cost on Form 3378 or 3378A. If this statement produces an excess of income over

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operating expense, the excess will be treated as a recovery of construction costs and will be entered as a disallowance in Schedule 1, Form 2580, under the caption "Recovery of Construction Period". If operating expense exceeds income, the excess will be carried as a loss to the Advance Amortization calculation, if such calculation is required.

Determination of Maximum Insurable Mortgage: On completion of the review of certificates of actual cost and acceptance thereof by the Director, Maximum Insurable Mortgage, FHA Form 2580, will be executed by the Director for the purpose of indicating to the mortgagee and mortgagor whether or not a reduction in the original amount of the mortgage is necessary. Upon execution of FHA Form 2580, the original will be forwarded to the mortgagee and an executed copy will be forwarded to the mortgagor.

When the supplemental certification of the actual cost of all items for which estimates were accepted at final endorsement is made, the Director will determine whether or not an adjustment in the mortgage amount is required. The Director will advise the mortgagee of his findings by a letter showing the basis of his computation. Copies of this letter will be forwarded to the mortgagor.

PART H.5
FEEES AND PREMIUMS

A schedule of the charges is set forth as the Fee and Premium Chart following this paragraph. There can be no deviation from these rates or the basis defined for their use. The application and collection of these charges to fit each service performed is the responsibility of the Field Office Director, and each Director has the responsibility of determining the amount of fees and premiums due in connection with each project. No part of a fee or premium may be refunded except as provided for in the paragraphs under the heading of Refund of Unearned Fees.

PERMISSIBLE TRANSFERS: Before fees are earned under the original application, a transfer may be made to any other title and section under which it is otherwise eligible, and the full amount of the fees collected and retained under the initial application may serve as a credit on the fees due under the transfer. Any excess fee over and above those collected in connection with the initial application will be refunded as an overpayment.

Transfers Between Titles and Sections After Fees are Earned: After fees are earned under the Initial application, and while active or during the reopening period, transfer may be made between stated sections of the Act, subject to specific limitations. On transfer, the commitment may be issued for a term not to exceed the remaining unexpired term of the original commitment (or the reopening or reconsideration period remaining) or 30 days, whichever is greater. The amount of fees collected and retained under the initial application (except any earned reopening fees) may serve as a credit on any fees due under the transfer; however, no fees earned under a, b, or c below may be refunded.

a. Transfer of Fees Between Titles and Sections After Processing Has Begun: When eligibility requirements for the transferee Section

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are met, and after fees are earned and prior to initial endorsement for insurance, credit for fees may be transferred, provided the location is the same and plans are substantially the same.

b. **Transfer of Fees Within the Same Section of the Act:** When eligibility requirements are met, it is permissible to transfer fees within the same Section of the Act, after processing has begun and prior to endorsement for insurance, provided the location is the same and plans are substantially the same.

c. **Transfer of Fees From One Type of Commitment to Another:** After processing has begun, and prior to initial endorsement for insurance, it is permissible to transfer fees from one type of commitment to another, on the same project, with full credit allowed for the amount of fees paid.

Exception: Transfers to Section 221(d)(3). When eligibility requirements are met and provided the location is the same, and plans are substantially the same transfers may be made to Section 221 (d)(3) from any other eligible Section of the Act, at any time prior to final endorsement for insurance.

d. **Other Transfers of Fees:** Any request for a transfer of fees not classified within the provisions of this paragraph must be treated as a new application with no credit for fees earned under the initial application to apply under the second application.

REPROCESSING ON THE BASIS OF COMPLETELY DIFFERENT PLANS: If for any reason the sponsor or mortgagee requests reprocessing on the basis of completely different plans, after architectural and commitment processing has begun, such requests must be accompanied by a new application and a new application fee. If the application is process-

H.5 FEES AND PREMIUMS

ed to commitment, a new commitment fee will be required. No credit will be allowed for any fees previously paid in connection with the earlier application. Where the mortgagee, sponsor, and location remains the same, and only the plans are changed the original project number will be retained.

EARNED FEES: The following conditions establish earned fees:

Application Fee: When the Chief Underwriter determines that the application is eligible for processing he will prepare a memorandum to the Director recommending that the application be assigned for processing. Upon receipt of the Chief Underwriter's memorandum, the Director will review the submission, and if he concurs in the recommendations of the Chief Underwriter that the case be assigned for processing, he will so indicate by dated endorsement on the memorandum. With this endorsement the application fee is earned. No refund of the application fee can be made after the date of the Director's endorsement as described above, except as provided in the paragraphs under Refund of Unearned Fees.

Commitment Fee: The Commitment Fee is earned upon its receipt in the office and any later reduction in the amount of the commitment will not require or permit a refund or reduction of any portion of the fee. Acceptance of the commitment by the mortgagee is conditioned upon payment of the required Commitment Fee within 30 days after the date committed. If the fee is not paid within 30 days after the date of the commitment, it shall expire upon the 30th day. A request for reopening received within 90 days after a commitment expires will be considered only if such request is accompanied by payment of the commitment fee and a reopening fee of 50¢ per \$1,000 of the amount of the expired commitment.

Inspection Fee: The Inspection Fee is earned when construction has started. For purposes of determining when the FHA Inspection Fee has been earned, the start of construction means (a) the driving of a foundation piling has begun, (b) the pouring of a foundation footing has begun, or (c) the pouring or placing of a pier or caisson has begun.

This definition of start of construction is not only a fiscal definition but it is FHA's administrative definition to be used in determining compliance with Item 16 of the Commitment To Insure Upon Completion, FHA Form 2453. For the definition to be used in complying with the wage enforcement procedures of the Department of Labor, refer to the section of this handbook concerning Prevailing Wages.

When the amount of the commitment is decreased before the start of construction (before the inspection fee has been earned), the amount of the inspection fee is based on the decreased amount of the commitment. Where the commitment is decreased after construction has started, the inspection fee is determined on the amount of the commitment before the decrease.

Insurance Premium: The Insurance Premium is earned when the credit instrument is endorsed for insurance.

Reopening Fee: The reopening fee is earned when the application for reopening is assigned for processing.

Transfer Fee: The transfer fee is earned on the date the application for transfer is assigned for processing. This date is construed to be the date the memorandum is signed by the Director transmitting the application and related papers to Washington Headquarters.

H.5 FEES AND PREMIUMS

Under and Over Collections: At the time of initial closing of insured projects, any net deficiency in earned fees and premium totalling more than \$1.00 must be collected. Such deficiencies discovered when final endorsement occurs must be collected before release of the endorsed instrument. Any deficiencies of \$1.00 or less must not delay endorsement, and further collection efforts need not be made in connection therewith. In billing for the second year's mortgage insurance premium, the Assistant Commissioner-Comptroller will make appropriate adjustment for such premium deficiencies.

- a. Deficiencies Created By Erroneous Refund: Any deficiency created by an erroneous refund must be promptly recollected.

- b. Overcollections: In the event there are net fee overcollections in excess of \$1.00 a refund voucher will be initiated when the closing fiscal examination is performed at time of initial endorsement. A subsequent closing fiscal examination will be performed at the time of final endorsement, and any net fee overcollections (in excess of \$1.00) will require the initiation of a refund voucher. Any net fee overcollection of \$1.00 or less will be refunded only upon specific request from the remitter.

REFUND OF UNEARNED FEES: The basis for each refund must be determined by a qualified administrative officer to be proper in amount and to be in exact accord with the various reasons for permissible refunds as outlined in the following paragraphs. Except as indicated, it is preferred that required refunds be made at the time of initial endorsement or at the time of the issuance of a Commitment To Insure Upon Completion, unless earlier refund is requested by the Remitter.

TYPES OF REFUNDS: Permissible reasons for refund are as follows:

1. Rejected Prior To Start Of Processing: When an application is rejected or withdrawn for any reason prior to start of processing, any collected fees shall be refunded at the time of closing fiscal examination. The endorsement by the Director of the Chief Underwriter's memorandum recommending that the application be assigned for processing is defined as the start of processing. With this endorsement the application fee is earned and a refund may not be made under the provisions of this paragraph.

2. Should Have Been Rejected Prior To Start Of Processing: When a project application is found to be of a type which should have been rejected prior to start of processing any fees collected shall be refunded. The chief of the section recommending rejection after processing has begun will prepare a memorandum setting forth the reason why the application should have been rejected prior to assignment for processing.

3. Rejected Or Withdrawn During Processing: When during processing (the period between assignment for processing and issuance of the commitment to insure) any project application is rejected or withdrawn for any reason except that covered in (2) above, refund will be made only of that amount of the fee collected which is in excess of \$1.50 per \$1,000 of the face amount of the mortgage loan applied for.

4. Construction Not Started: If construction has not started as previously defined, any collected inspection fee may be refunded at withdrawal time, provided any Commitment To Insure Upon Completion or any endorsed instrument is returned for cancellation.

5. Overpayment of Fee: Any overpayment of fee, including duplication of fee, or fee remitted in error, will be refunded at initial endorsement,

with the following exceptions:

(a) Any minor overpayment of an Application Fee will be adjusted in the collection of the Commitment Fee; however, if the overpayment of the Application Fee is material, it should be refunded without delay after receipt in the office;

(b) Any overpayment under a Commitment For Insurance, FHA Form 2432, will be refunded at time of initial endorsement for insurance; and

(c) Any overpayment under a Commitment To Insure Upon Completion, FHA Form 2453, will be refunded when the commitment is issued and accepted.

6. Construction or Financing Thereof Prevented: When construction or the financing thereof is prevented because of (a) condemnation proceedings, (b) legal proceedings instituted, or (c) other legal action taken by any state, county, municipality or other governmental body or public agency, in connection with an application that has been formally assigned for processing or an active commitment, the Director may initiate a refund of any collected fees thereunder, provided the outstanding commitment, if any, is surrendered.

7. Lack of Need For Housing: When a Director determines there is a lack of need for the additional housing represented by an application in process, or by an active commitment, he may initiate a refund of any collected fees thereunder upon surrender of the commitment involved.

8. Insurance Cannot Be Made Effective: When insurance endorsement is prevented by non-compliance with commitment, expiration or withdrawal, etc., any collected initial mortgage

insurance premium will be refunded.

9. Reopening Refused: If the request for reopening is not approved, any collected reopening fee will be refunded.

10. Transfer to Home Mortgage Section of the Act: When a transfer is made from a project mortgage section to a home mortgage section, the fees paid for the project section which are eligible for transfer to the home section will be refunded. The refund will not be made until the transfer has been completed.

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FEE AND PREMIUM CHART

RATE PER \$1,000

.1 APPLICATION FEE-Code 7: On face amount; with application \$ 1.50

NOTE: (a) For Investor Sponsored Project, see note under Commitment fee.

(b) For increase in application, fee is based on the amount of increase requested.

(c) For refinancing transactions, see note under Commitment Fee.

.2 COMMITMENT FEE-Code 1: On highest amount committed due upon delivery of commitment, or within 30 days after date committed, less application and commitment fees previously received \$ 3.00

NOTE: (a) For Investor Sponsored Project, application and commitment fees are based upon the commitment amount applicable to the owner of a management project.

(b) No commitment fee is due in connection with applications covering AEC properties, i.e., properties sold by the Government, pursuant to the Atomic Energy Community Act of 1955, as amended.

(c) For increase in commitment, application and commitment fees are based upon the amount of the increase granted.

(d) When a commitment is reissued, the term of the commitment will be for a period of at least 30 days, or such further period as estimated by the Director to permit closing.

(e) Refinancing - Application and commitment fees are based upon the amount of the commitment for the refinancing transaction. (See Section 207.1 of the FHA Regulations).

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FEE AND PREMIUM CHART

RATE PER \$1,000

★ .3 INSPECTION FEE-Code 6: On amount of commitment, due prior to the beginning of construction if commitment is to insure upon completion, or upon initial endorsement if advances are to be insured . . . \$ 5.00

NOTE: (a) Inspection Fee for Title VII Projects is \$2 per \$1,000.

(b) There is no inspection fee for Section 213 Sales Projects.

(c) There is no inspection fee for AEC properties.

(d) On Investor Sponsored Project, fee is based on amount committed to Investor Sponsor. No additional fee required when converted to management project.

(e) In instances where the amount of commitment is reduced before the start of construction, the amount of the inspection fee should be based on the decreased amount of the commitment. If the commitment is decreased after construction has started, the amount of the inspection fee is determined on the amount of the commitment before the decrease. See 63217.3. An inspection fee must be collected to cover any increase in amount of commitment or mortgage loan during construction and prior to final endorsement, except transfers from Section 213 Investor Sponsored project to Section 221(d)(3).

(f) For existing properties, the Inspection Fee is based on the amount of rehabilitation work involved. The method of computation is as follows:

(1) Add together the amounts shown on Line 7(a) and 7(b) of Form 2264-A or Form 2264-C.

(2) Round the result to the next higher multiple of \$100 and compute the inspection fee at \$5.00 per thousand on the resulting amount.

(g) No inspection fee is due in connection with an increase approved under the provisions of Section 207.4(f) of the FHA Regulations.

63210

FEE AND PREMIUM CHART

RATE PER \$1,000

.4 INSURANCE PREMIUM - Code 2: On amount insured \$5.00

NOTE: (a) The first insurance premium of \$1 for Section 803 Projects is billed for and collected by the Assistant Commissioner-Comptroller.

(b) At the time of sale of an Investor Sponsored Project collect \$5 per \$1,000 of purchasing cooperative's mortgage for the period from date of insurance to one year following first principal payment date. The Assistant Commissioner-Comptroller will adjust the premium previously paid for the Investor Sponsored Project.

(c) There are no insurance premiums due under Section 221(d)(3) below market interest rate projects; however, if for any reason the interest rate is not reduced upon completion and final endorsement to the rate specified in the commitment, as determined by the Secretary of the Treasury pursuant to Section 221(d)(5) of the Act, mortgage insurance premiums will be charged commencing with the date of initial endorsement for insurance.

★ .5 REOPENING FEE - Code 6: On amount of the expired commitment when application for reopening is received within 90 days of the expiration of the commitment, payable with application for reopening. (See 207.1(g) of FHA Regulations)50

NOTE: A commitment which has expired because of failure to pay the commitment fee within 30 days after the date of the commitment may be reopened only upon payment of the commitment fee and the reopening fee.

★ .6 TRANSFER FEE - Code 6: On the original face amount of the mortgage in all cases involving the transfer of physical assets and in all substitution of mortgagor cases; with application50

PART H.6
URBAN RENEWAL

This section contains general information regarding urban renewal redevelopment and rehabilitation as well as basic policies, procedures and standards developed and agreed to jointly by the FHA and the Urban Renewal Administration to facilitate the establishment and maintenance of effective coordination between the FHA and Local Public Agencies.

The term "Urban Renewal" may be defined generally as a planned community effort undertaken with Federal assistance to eliminate and prevent slums and blighted conditions in Urban areas. Urban Renewal may involve slum clearance and redevelopment or rehabilitation and conservation or a combination of both. Definitions and explanations of several terms used by URA and LPA's in the operation of their urban renewal programs are set forth below:

- (a) Workable Program for Community Improvement - A locality's official plan of continuing action for effectively dealing with its problems of urban slums and blights, for the establishment and preservation of a well planned community with well organized residential neighborhoods of decent homes and suitable living environment, and for utilizing private and public resources to achieve the objectives of the plan. There must be an approved Workable Program, certified by the Administrator, before Federal aids for urban renewal are available to the community.

- (b) Application for Community Renewal Program (CRP) Grant - The application of a municipality or public body for a Federal grant covering two-thirds of the cost of preparing a CRP which identifies slum and blighted areas in the community, measures the nature and degree of

- blight in these areas, determines the financial and other resources needed and available to renew these areas, identifies potential project areas and type of urban renewal action contemplated, and schedules urban renewal action (with or without Federal Aid) over a long-term period. A CRP is not a prerequisite to any other urban renewal activity.
- (c) Local Public Agency (LPA) - The official body empowered under State law to plan and undertake a local urban renewal program with Federal Assistance. May be a city, county or other governmental entity, or a separate body such as a redevelopment agency or a local housing authority.
- (d) Urban Renewal Project - A project planned and undertaken by an LPA in an urban renewal area with Federal financial and technical assistance under Title I of the Housing Act of 1949. A project may involve slum clearance and redevelopment, rehabilitation and conservation, or a combination of both. It may include acquisition of land, relocation of displaced site occupants, site clearance, installation of site improvements, rehabilitation of properties and disposition of acquired land for redevelopment in accordance with the Urban Renewal Plan.
- (e) Urban Renewal Plan - The plan officially approved by the governing body of the locality and HHFA for the redevelopment and/or conservation of the urban renewal project areas. Its requirements, identification of properties to be acquired, property rehabilitation standards and redevelopers' obligations.
- (f) General Neighborhood Renewal Plan (GNRP) - A preliminary plan for an urban renewal area of such scope that renewal activities may

have to be phased over a period as long as ten years and the planning of the area in its entirety for urban renewal purposes is desirable. The approved GNRP provides a framework for the planning and undertaking of urban renewal projects within the area.

- (g) Survey and Planning Application - The application of an LPA for a Federal advance covering the cost of surveys and plans leading to the preparation of an Application for Loan and Grant for an urban renewal project in a specified area. (If the locality elects to pay all administrative, overhead and legal costs during the planning and execution of a project, it submits a Request for Concurrence in Planning Three-Fourths Grant Project with Limited Project Costs, in lieu of a Survey and planning Application.
- (h) Application for Loan and Grant - The application of an LPA for Federal loan and grant assistance to carry out an urban renewal project. The application is submitted in two parts:

Part I of Application for Loan and Grant -
Final Project Report

Submitted after completion of the surveys, Urban Renewal Plan, other reports and documents such as:

Rehabilitation and Conservation Report
Land Acquisition and Disposal Reports
Relocation Program
Project Improvements Report
Financing Report

Part II of Application for Loan and Grant --
Local Project Approval Data

Submitted after the local governing body has

approved the Urban Renewal Plan and the URA requirements with respect to Part I have been satisfied. Upon approval, HHFA enters into a Contract for Loan and Grant with the LPA for the carrying out of the approved project.

- (i) "Nonassisted" Urban Renewal Project - An urban renewal project undertaken by an LPA for which Federal financial assistance is not required but the Administrator's certification of the Urban Renewal Plan is necessary to make the provisions of Section 220 apply to the urban renewal area. An Urban Renewal Plan approved by the local governing body and HHFA is necessary.

Inter-Agency Coordination

Basic responsibility for the development and execution of urban renewal plans rests with the Local Public Agency. It initiates, plans and carries out the urban renewal project. Whether the LPA is the city or is a separate instrumentality of local government, it derives its authority from the community and it is therefore obligated to carry out the local will in the administration of the local renewal program.

The Urban Renewal Plan is prepared by the LPA, but it is adopted by the local governing body (typically the city council) after a public hearing on the project. Once adopted, the Urban Renewal Plan has the full force of law. The land use and other controls are binding on the LPA and cannot be altered or changed except through adoption by the local governing body of an amendment of the Plan itself.

The Urban Renewal Administration (URA) provides Federal financial aid for local urban renewal projects and, through the HHFA Regional Offices, furnishes advice to LPA's. URA does not initiate, plan, or carry out any urban renewal projects. It does review the Urban Renewal Plan and other proposals of the LPA

to assure that they comply with requirements established to carry out the Federal law and to protect the Federal financial interest. When requested by the LPA, the HHFA Regional Office advises the LPA as to whether the objectives being considered by the LPA are achievable and, if so, what is the best way of achieving them.

The FHA, through its Section 220 and other mortgage insurance programs, provides the primary means by which the financing of private residential redevelopment and rehabilitation in urban renewal areas is obtained. If FHA's support is to be effective, it is essential that FHA's real estate and construction skills be made available to LPA's and to URA at all stages of project planning and execution. However, FHA's advice is confined to factors directly relating to the economic and financial feasibility of residential redevelopment and rehabilitation and to mortgage insurance. In giving its advice, FHA must be aware of the primary responsibility of the city for establishing its objectives and of the dignity and importance which attach to an Urban Renewal Plan as an official expression of local will.

Experience has shown that effective operation of the FHA urban renewal housing programs and the related housing programs for low and moderate income families and displaced families can be accomplished only if there is close and harmonious meshing of the FHA programs and staff skills with those of the URA. It is also necessary that the FHA and URA be available to support, assist and guide the LPA's.

To assure that there will be effective FHA coordination with the URA and to provide support and assistance to the LPA's, several basic steps have been taken. The Multifamily Housing Representatives (Director, New York Multifamily Housing Insuring Office), assisted particularly by Urban Renewal Coordinators,

have been charged with the responsibility for coordinating the FHA urban renewal program activities within their respective areas with those of the Urban Renewal Administration. The Representatives serve as the FHA contacts with the URA Regional Directors and OA Regional Administrators and are responsible for establishing and maintaining joint consultation. Also, the Representatives are responsible for providing advice and assistance to FHA insuring offices and LPA personnel as necessary to assure establishment and maintenance of effective operations. The FHA insuring office Directors are responsible for maintaining effective FHA-LPA coordination, providing advice and assistance to the LPA's and for keeping the Multifamily Housing Representative informed as appropriate.

Urban renewal project operations fall into three stages: (1) Preplanning (the period before URA approval of a Survey and Planning Application); (2) Planning (from approval of the Survey and Planning Application with approval of the Loan and Grant Application; and (3) Execution (the period after the final approval of the Loan and Grant Application). Consultation between LPA, FHA and URA in regard to these projects should be a continuous process.

The following identifies the principal element of this consultation at various stages with respect to (a) projects involving residential redevelopment and (b) those involving residential rehabilitation. For projects involving both private residential redevelopment and rehabilitation, the consultation on redevelopment will be carried out concurrently with that on rehabilitation.

(a) Urban Renewal Projects involving Redevelopment.

Consultation during Preplanning (or Preapplication) stage - Prior to URA Approval of Survey and Planning Application - This is the period during which the LPA selects the urban renewal

project area and prepares its Survey and Planning Application for a Federal advance (or authority to use local funds) to finance the planning of the project. Although not required, the LPA is encouraged to seek advice of the FHA insuring office as to the concept of the project and the proposed boundaries. While conversations at this time will be in general terms, important elements relating to the suitability of residential redevelopment may come to light, growing out of FHA's prior experiences with the area. In short, the LPA is urged to take advantage of FHA's experience and knowledge of local conditions at this early stage and to seek FHA's involvement in the project. At the same time, when FHA advice is sought, comments are to be confined to those elements of the proposed renewal project which bear directly on the suitability and character of residential redevelopment.

Collaboration during Planning Stage - After the Survey and Planning Application has been approved, the LPA embarks on the planning of the project. It completes the studies necessary to confirm the blighted conditions in the area and determine the necessary treatment--rehabilitation, clearance and redevelopment, or code enforcement. It obtains the data on needs and resources for the relocation of families and other site occupants, and prepares its relocation program. It determines the new uses of the land, the location of major traffic routes and public facilities, and land use controls and prepares the Urban Renewal Plan. It prepares the estimates of costs and disposition proceeds, and develops the plan for financing the costs.

- (1) Preliminary Planning: The preparation of the necessary data and plans usually requires the retention by the LPA of professional planners and other technicians.

Among these is a real estate consultant, whose services include consultation with the LPA staff and planning consultants during evolution of the Urban Renewal Plan and preparation of a report as to re-uses which will be appropriate in the light of the local economic situation and location of the area.

During the development of the Plan, the FHA insuring office, if requested by the LPA, will furnish informal advice regarding the suitability of any private residential uses which are contemplated.

- (2) Mid-Planning Conference: When the land uses have been tentatively determined, the LPA will submit a request to the HHFA that a conference be scheduled to consider the tentative determinations. This mid-planning conference is to assure that all pertinent factors regarding the suitability of the proposed land uses have been considered by the LPA before its proposals are solidified in an Urban Renewal Plan.

Upon receipt of the request from the LPA, the HHFA Regional Office will notify the Representative. The Representative, in collaboration with the insuring office Director, will schedule the conference at the earliest possible date, but in any event within 30 days of receipt of the request by the Representative.

- (3) Final Planning: After the mid-planning conference, the LPA will complete the Urban Renewal Plan, taking into account the reviews and counsel offered. Further

consultation with the FHA insuring office and the HHFA Regional Office to work out remaining problems may be initiated during completion of the Plan.

The LPA may also ask the FHA insuring office for preliminary estimates of land value. The estimates are not intended to be formal appraisals of value, but rather a preliminary judgment based on general knowledge of the market values in the locality.

The FHA insuring office, on request, may also advise the LPA as to its preliminary judgment on the suitability of the land for private residential use.

Upon completion, the Urban Renewal Plan will be assembled with other plans, data, estimates, and reports regarding the project in Part I of the Application for Loan and Grant, for submission to the HHFA Regional Office. The Regional Office will forward to the Representative the pertinent documents, including the proposed Urban Renewal Plan, the report on the Urban Renewal Plan, and the land utilization and marketability reports, and request that FHA furnish an official statement on the "Suitability of Land Use" for any areas or parcels proposed for private residential uses. The Representative will forward the complete file to the insuring office Director.

In view of the time that usually will elapse between the review of Part I and the disposition and redevelopment of land, FHA will not attempt to pass judgment on the marketability of the land, the

prospective rental ranges or sales price of residential structures, and, the densities and type of residential construction most suitable. All of these elements will depend on the character of the housing market existing at the time land in the project area is offered for redevelopment and can be more accurately estimated at a later date.

The FHA opinion will be limited to the suitability of sites for residential use after clearance and site preparation, assuming that there will be a market in the community at the time the land is offered. Various nonresidential elements of the plan that influence residential development will be taken into account. Particular attention will be given to the planned proximity of redevelopment housing to convenient shopping, large retail centers, transportation, and schools. The planning and timely provision of an adequate quantity and quality of these facilities is clearly essential to the successful marketing of new housing.

In its review of Part I, the HHFA Regional Office will take into account the Land Utilization and Marketability Report of the LPA's consultant, the FHA Report on "Suitability of Land Use", and other pertinent documentation and information. If consideration has been given to the advice obtained at the mid-planning conference and other consultations, any formidable problems should have been resolved prior to the submission of Part I.

Upon approval of Part I, the Urban Renewal Plan is submitted to the governing body

of the locality (City Council, Commission, et al.) The approved Plan and other data are then submitted as Part II of the Application for Loan and Grant. After Part II has been approved by the Urban Renewal Commissioner, a Contract for Loan and Capital Grant providing funds to the LPA for carrying out the project is executed.

Collaboration during Project Execution - Early Execution Phase: Following the execution of the Contract for Loan and Capital Grant, the LPA will proceed with the acquisition of land, the relocation of site occupants, the demolition and removal of existing improvements, grading, and other site improvement work which must precede the offering of land. Since these are time-consuming activities, a period of at least 2 years may elapse before the LPA will be ready to make the first formal offering of land for redevelopment.

An alert LPA, however, will be anticipating its disposition program. It will keep other city departments informed of its plans and schedules for public improvements. In view of the importance of property taxes to the feasibility of residential redevelopment, the LPA should also acquaint the tax officials with the broad objectives of the Urban Renewal Plan and with the nature of the proposed residential redevelopment. It may be making preliminary explorations of potential redevelopers. It will be informing the FHA insuring office from time to time as to its progress in the earlier execution stages and will be seeking information from FHA as to developments in the housing market which may affect the marketability of project land. It may seek advice from FHA on the feasibility of carrying out disposition and residential

redevelopment in stages, and the identification of priority areas, and it may schedule its acquisition, clearance, and site preparation activities accordingly. Advice from FHA at this early execution stage may also be useful in scheduling the provision of public improvements and facilities.

It is also important that FHA be advised and consulted on any proposed changes in the Urban Renewal Plan during project execution which might affect residential land uses. The HHFA Regional Office will arrange with FHA for appropriate review when Urban Renewal Plan changes affecting residential use are submitted for HHFA concurrence. FHA will review the proposed changes in the same manner as for the proposed Urban Renewal Plan and other elements of Part I.

Approximately 2 years before the formal offering of land for private redevelopment (or first offering if staged disposition is contemplated), the LPA will develop a schedule of the necessary preparatory actions for disposition. These include the obtaining or updating of disposition appraisals and the preparation of disposition documents and their submission for HHFA Regional Office and FHA review, as well as the preparation of other offering documents. This schedule may also include the obtaining of consultant services on marketing techniques and methods, and new or updated marketability studies. The HHFA Regional Office will advise FHA of the anticipated offering and the prospective dates on which FHA actions will be requested. At the same time the LPA will prepare and submit to the HHFA Regional Office a schedule of clearance, project improvements, and public facilities requiring completion to support residential redevelopment. The HHFA

Regional Office will make this schedule available to FHA.

A formal offering is defined as a formal invitation for proposals or bids. Preliminary advertising to stimulate interest is not considered to be a formal offering.

FHA is notified of forthcoming Land Offering and Prepares for It - The next step will be formal notification to FHA of the approximate date of the formal offering of a particular parcel or parcels of land for residential redevelopment. This will occur about a year in advance of the offering date. This step will be taken by the HHFA Regional Office, at the initiation of the LPA, after it has been jointly determined that the land will be ready for the offering and for transfer to a prospective redeveloper within a reasonable period of time after the offering. This notice will initiate two actions by FHA:

- A. The FHA insuring office will begin to assemble whatever additional appraisal and market data it may need, will review the market studies prepared for the LPA, will request a new or updated FHA market analysis of the community, if necessary, and will take whatever other steps are needed to prepare itself for subsequent consultation with the LPA and ultimate firm agreement on the sale price of the proposed land on the type, number, and price of units which can be marketed on the land.

- B. The FHA insuring office will begin to take note of the prospective residential redevelopment planned for the urban renewal project. It will avoid acceptance of

applications for mortgage insurance on properties which would be competitive with the urban renewal development unless sufficient market demand is evident for both. Because of the Federal interest already committed to the success of the urban renewal project, FHA will not jeopardize the market for the proposed housing in the urban renewal area by issuing commitments to insure loans on other housing that would preempt the market demand for housing planned in the urban renewal project area. This does not preclude considering other applications if the proposed housing could be completed and absorbed by the market before housing proposed in the renewal area is ready for occupancy. The Director of the FHA insuring office will exercise his best judgment. This action cannot constitute at this time a firm assurance by FHA that a market will exist for the proposed residential redevelopment or a commitment that FHA will provide mortgage insurance for a specific housing proposal in the urban renewal area.

Of critical importance at this stage and during later stages, are actions taken by the LPA and other public bodies to develop and preserve the market for the housing proposed in the project area. The LPA is responsible for initiating the steps necessary to achieve this result. Informing and working closely with other public bodies responsible for some of the actions will usually be essential.

The timely provision of suitable public improvements and of other environmental factors conducive to the successful completion and occupancy of the new housing is necessary in developing the market.

Also important are public actions which will help protect the potential market for project land from being dissipated by other competitive housing. For example, the availability of land in the project area, in which there is a heavy public investment, undoubtedly will be considered by zoning officials and by the local governing body reviewing rezoning proposals which would open up new areas for the construction of competitive housing.

Not less than 6 months prior to the formal offering, the LPA shall request informal advice from the FHA insuring office as to the amount that FHA will attribute to the land for mortgage insurance and its estimate of market absorptive potentials. The LPA will furnish all pertinent information to FHA, including market studies and appraisals as they are completed. The FHA preliminary opinion on land value will be furnished on the basis of its appraisals and other information, in accordance with LPA Letter No. 279, "HHFA Concurrence in Disposal Price of Land for Private Residential Redevelopment". It should be noted that the effect of the policy contained in this statement is to augment the procedure contained in LPA Letter No. 279 by adding preliminary consultation and final agreement on market. FHA views of land absorptive capacity and market will take into account the market analysis report, current vacancy rates in comparable new buildings, the amount of new housing construction, and other pertinent data which have been previously assembled.

At the time that the LPA requests informal advice from FHA regarding price and market potentials, it will submit a status report on the installation of site improvements and

public facilities in the renewal project area together with a scheduling of the completion of work remaining. A copy of this report and schedule will be furnished to FHA, as well as to HHFA, so that both agencies will be informed of the timing of the public work to be done in creating favorable conditions conducive to residential occupancy.

HHFA concurrence in price is required before formal offering of land. The LPA's request for concurrence should be submitted not less than 3 months prior to the offering. Concurrently with this submission the LPA will also request that the HHFA Regional Office ask FHA for a market reservation as to the number of dwelling units FHA is willing to issue commitments to insure.

If, after review and analysis by the insuring office, the proposed price is acceptable for mortgage insurance purposes, the insuring office Director will signify agreement by memorandum to the Multifamily Housing Representative for transmittal to the HHFA Regional Office.

In the event the proposed price exceeds the insuring office estimate of value, the insuring office Director's memorandum to the Representative shall set forth the price that would be acceptable as an amount for mortgage insurance purposes. In the event the price is not acceptable to the HHFA Regional Office; the Multifamily Housing Representative, the insuring office Director, and the HHFA Regional Office will attempt to resolve the difference. If agreement cannot be reached within 10 working days, the matter shall be referred to the FHA Associate Deputy Commissioner for Operations, with all pertinent data

including the recommendations of the HHFA Regional Office, the insuring office Director, and the Multifamily Housing Representative.

After agreement has been reached in the Washington office between FHA and URA, the insuring office Director will be advised of the price agreed upon, with a copy to the Representative. This price will be used by the insuring office as an amount for mortgage insurance purposes subject to outstanding underwriting instructions.

If, in the opinion of the insuring office Director, an amount significantly larger than that proposed by the LPA will be acceptable for mortgage purposes, notice of that finding shall be transmitted to the Representative for transmittal to the HHFA Regional Office.

When the HHFA Regional Office notifies the LPA as to the joint concurrence in disposition prices, it will also transmit a statement from FHA as to the maximum number of dwelling units in different types of structures at various rental brackets on which FHA will be prepared to insure mortgages over a specified period of time. This market reservation will generally be for 2 years, but may be for a shorter period of time if, in the opinion of FHA, market conditions may change adversely within 2 years because of factors beyond the control of FHA. The period may be extended on the request of the LPA. It also may be terminated, in whole or in part, before the expiration date, if in the joint determination of FHA and the HHFA Regional Office, the LPA will be unable to accomplish the scheduled disposition in time to use the reservation.

The concurrence in disposition price may cover more land and extend for a longer period of time than is covered under the market reservation. A comparatively large offering, for example, may anticipate selection of a single redeveloper who will "take down" land over a considerably longer period of time and for a larger amount of housing than FHA would be prepared to "reserve". In this event, requests for further market reservations will be made as the redeveloper is ready to take possession and redevelop additional parcels. Having made an agreement to issue commitments on a stated number of dwelling units, FHA will thereafter be particularly mindful of the consequences of accepting applications for multifamily projects elsewhere in the community, and will not accept such applications wherever they would jeopardize the orderly marketing of the redevelopment housing.

Concurrently with its request for price concurrence and market reservation, the LPA will complete other plans for the offering and obtain the required HHFA approvals of certain documents, such as the disposition agreement.

After the offering and selection of the redeveloper, a reasonable period of time is allowed for the redeveloper to complete his plans and arrange for financing. His application for FHA mortgage insurance will be submitted during this period of time. If the application is within the time limits, number of units, rental brackets, and type of structures covered by the FHA reservation made prior to the offering, and if the application is otherwise acceptable, the time lapse between the offering and the commencement of residential redevelopment should be considerably reduced under these new procedures.

The local taxes assessed on residential redevelopment projects are a significant element of the operating costs which must be reflected accurately in FHA's analysis of the required rents, effective market, and general feasibility of a sponsor's application for mortgage insurance in a residential redevelopment proposal. At times the success of redevelopment projects insured under Section 220 has been jeopardized by inaccurate assumptions on the amount of local taxes or by substantial unexpected tax increases after construction was completed.

It is of the utmost importance to the success of future residential redevelopment that sponsor, FHA, the HHFA Regional Office, and the LPA (1) collaborate in securing a reliable estimate of the future level of local taxes which will apply to the project in the critical early years of its life, and (2) make certain that all concerned, including the tax officials, understand that unexpected tax levies or increases can seriously affect the marketability and solvency of the redevelopment project and lead to default and foreclosure of the mortgage, thus jeopardizing the successful execution of the entire urban renewal project.

In order to be prepared to make a proper review of the real estate tax estimates shown in the sponsor's mortgage application, the FHA insuring office shall maintain up-to-date data on taxes applying to comparable properties and projects (including any previous projects insured under Sections 220 and 207). In addition to comparable tax data, the FHA insuring office shall also record experience on typical tax increases from year to year for the type of project under consideration, and be alert to possible blanket reassessments.

In reviewing the sponsor's mortgage insurance application for redevelopment housing, the FHA insuring office should analyze carefully the estimates of real estate taxes in the light of the tax data and experience it has developed. To the extent feasible, sponsors should be required to secure from the tax officials estimates of the taxes which will apply to this project. If the tax estimates provided by the sponsor appear to be excessive or unrealistically low, clarifying information will be secured. This may be done by requesting the sponsor to consult with the tax officials to secure a review of the estimate. Or, FHA may request the assistance of the HHFA Regional Office, and through it the LPA, in working out the problem. In such instances, the LPA, HHFA, and FHA will collaborate in seeking solutions.

Continuing FHA-URA-LPA collaboration during the redevelopment and "rent-up" period is essential. The role of the LPA is particularly important to successful redevelopment. The timely completion of demolition and removal work in adjoining portions of the project area, the provision of project improvements, and the maintenance of LPA-owned land are steps which are essential to successful residential redevelopment. The LPA should also exercise all possible influence in obtaining the cooperation of other city departments and agencies in providing the schools and other essential facilities in accordance with the schedules previously developed. Close collaboration in working out any apparent inequities in property tax levies made on completed buildings is also important. The LPA, URA, and FHA cannot safely relax their vigilance or suspend their intimate collaboration until normal occupancy of the residential

redevelopment has been achieved. A breakdown of effective collaboration on any mutual problems during the "rent-up" period can imperil future financing in the community's urban renewal project areas.

Variations - The various actions taken for a typical urban renewal project at the time intervals given in this statement may be telescoped as needed by the nature of the project.

Telescoping of steps will usually be appropriate in early land acquisition and in open or predominantly open land projects, and may be warranted in other cases where land will be made available to a redeveloper earlier in the execution stage.

Projects which involve redevelopment of low and moderate-income housing under Section 221(d)(3) are expected to follow generally the lines described above. However, variations may be appropriate, particularly if the LPA prepares illustrative plans and requests a determination of eligibility for Section 221(d)(3) financing.

(b) Urban Renewal Projects Involving Rehabilitation.

The FHA Minimum Property Standards for Rehabilitation in Urban Renewal Areas were developed in close collaboration with URA. Those standards constitute the basis on which LPA's proposed Property Rehabilitation Standards will be evaluated by URA, irrespective of the extent to which the use of FHA loan insurance is contemplated. Full concurrence in the Property Rehabilitation Standards as a basis for mortgage insurance will be required prior to URA's approval of the LPA's Loan and Grant Application.

FHA concurrence in these standards will mean that the FHA is prepared to approve loan insurance for any qualified borrower in the area whose property will be brought up to the Property Rehabilitation Standards. In these areas where FHA has not established Rehabilitation Standards for properties having more than eleven unit, because there is not a significant number present in the area, those properties will be reviewed on a case by case basis when submitted for mortgage insurance.

Urban renewal project operations fall into three stages: (1) Preplanning (the period before URA approval of a Survey and Planning Application); (2) Planning (from approval of the Survey and Planning Application with approval of the Loan and Grant Application); and (3) Execution (the period after the final approval of the Loan and Grant Application).

Consultation between LPA, FHA and URA in regard to these projects should be a continuous process. The following identifies the principal elements of this consultation at various stages:

- (1) Preapplication Stage - During this stage the LPA is not required to have formal consultation with FHA. However, informal discussions are encouraged and LPA's will usually find it profitable at least to keep FHA informed and obtain their advice on project boundaries and preliminary judgment on the suitability of the area for rehabilitation.
- (2) Planning Stage - During this stage, the LPA is required to consult fully with FHA and FHA is expected to offer its advice and assistance freely. FHA-URA and LPA consultation in the planning stage includes

consultation on establishment of mutual agreement on rehabilitation standards based on FHA Minimum Property Standards for Rehabilitation in Urban Renewal Areas, and consultation, studies and exchange of information or opinions on property rehabilitation feasibility.

In the planning stage, the FHA is to make exterior and interior surveys of a sufficient number of typical properties, and the LPA and the FHA local insuring offices are to reach agreement on the tentative PRS. Using the tentative PRS as a basis, the LPA will conduct its property classification surveys and other data obtained during the planning stage are to be made available to the FHA insuring office to minimize duplication of effort.

Upon receipt of Part I, Loan and Grant Application, the URA Regional Director will submit the binder to the Multifamily Housing Representative. The Representative will transmit the binder to the insuring office Director with jurisdiction for review.

The insuring office Director will have FHA Forms 3501 and 3501R, Report of FHA insuring office, completed to set forth firm determinations and opinions with respect to all items. Usually these will be confirmations of agreements previously reached with the LPA. These forms are to be sent to the Multifamily Housing Representative for transmittal to the URA Regional Director.

- (3) Execution Stage - In carrying out property rehabilitation during the project execution

stage, public improvements, community organization code enforcement and property owner service and counselling should be closely coordinated by the LPA. The FHA insuring office is to provide advice and assistance. In the servicing of property owners, in particular, the FHA insuring office Director and the LPA should collaborate closely. This includes the development for property owners of simplified specifications of work to be done, the provision of simple sketches and floor plans, assistance in finding reliable rehabilitation contractors, assistance in the preparation of FHA loan insurance applications and assistance in consummating the loan transaction. In all of these matters, the FHA insuring office is to be prepared to furnish advice and assistance to the LPA and to work closely with the LPA. Where a preprocessing procedure for handling FHA application is decided upon, the FHA insuring office is to provide appropriate training to the LPA on FHA procedures and forms. In other cases, it may be more appropriate to place one or more FHA staff in a project office. The objective to be achieved is coordinated actions by LPA and FHA to streamline the FHA processing and to provide a speedy "one-step" rehabilitation financing service to property owners in the area.

PART H.7
SPECIAL PROVISIONS APPLICABLE TO NONPROFIT ORGANIZATIONS

SPECIAL PROVISIONS APPLICABLE TO NONPROFIT ORGANIZATIONS

1. NONPROFIT SPONSORSHIP ELIGIBILITY REQUIREMENTS

Organizations proposing to sponsor nonprofit rental housing projects or nursing homes with the assistance of FHA mortgage insurance must meet established administrative requirements. For an organization to be eligible under FHA nonprofit standards, FHA must determine that the corporation or association was organized for purposes other than the making of a profit or gain for itself or persons identified therewith and that it is in no manner controlled by nor under the direction of persons or firms seeking to derive profit or gain therefrom.

The determination with respect to nonprofit sponsorship eligibility therefore includes evaluation with respect to (1) the motivation, reliability, substance and ability of the sponsoring group to initiate, complete, and assure continuity of operation of the project or nursing homes and (2) the acceptability of the relationships between the sponsor and mortgagor and the various persons, parties or organizations concerned with the project or nursing home and mortgage transaction.

In considering the relationships between the sponsor and mortgagor and the various persons, parties and organizations furnishing land and services, determinations must be made as to whether the relationships result in the possibility of any control or undue influence of the nonprofit mortgagor due to "identity of interest" by persons, parties or firms deriving profit from the transaction. (The term "identity of interest" for the purposes of these instructions may be regarded as an interest of a financial nature, but would not include business relationships arrived at by arm's length bargaining between parties having complete independence of action.)

The mere presence of an identity of interest will not necessarily have an adverse effect upon the determination as to eligibility under FHA nonprofit sponsor

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standards. An identity of interest that is beneficial to the mortgagor corporation, the project itself and the purposes for which it is being built may be acceptable. However, an identity of interest, the benefits of which accrue to other parties, is not acceptable.

The manner by which the relationship between the sponsoring group and the mortgagor corporation is to be maintained is important. The continued association between the mortgagor corporation and the sponsoring organization should be clearly established by a charter requiring that the trustees of the mortgagor organization be appointed from the membership of the sponsoring group or organization.

Demonstrable financial ability of private nonprofit sponsors may present complex problems of evaluation. Factors for consideration, in addition to the present financial condition, include the prominence of the proposed sponsorship, the extent of its community, fraternal or religious affiliations and fund raising facilities and the size and cost of the proposed project. Where subsidy is necessary or contemplated, income producing assets necessary to meet the subsidy must be provided or, in lieu thereof, assurance of a continuing income adequate to meet the subsidy.

Procedure Followed in Determining Eligibility of Nonprofit Sponsors: During the initial conferences the sponsor, in addition to being advised of the information which must be furnished to obtain preapplication analysis of the proposed project or nursing homes, will be furnished FHA Form 3433, Request for Preliminary Determination of Eligibility as Nonprofit Sponsor and Mortgagor; FHA Form 3434, Certificate of Relationships and Nonprofit Motives and FHA Form 3435, Certification, and advised that:

- (a) The Request for Preliminary Determination, FHA Form 3433, should be submitted in triplicate promptly, together with a statement as to the

SPECIAL PROVISIONS APPLICABLE TO NONPROFIT ORGANIZATIONS

number of units and the amount of mortgage proposed.

- (b) An application with fee will not be accepted until action has been completed upon the Request.
- (c) Any outlay of funds in connection with the proposal will be at the sponsor's risk.
- (d) In addition to the preliminary determination, certifications must be made prior to initial endorsement (prior to beginning of construction in insurance upon completion cases), which, if unsatisfactory, may result in the cancellation of the FHA Commitment to Insure.
- (e) Approximately thirty (30) days prior to initial endorsement of the note for insurance, (beginning of construction, if insurance upon completion), the sponsor and mortgagor must certify to the FHA on FHA Form 3434 as to their relationships with persons, parties or firms furnishing land and services and such persons, parties or firms furnishing land or services must certify to the Commissioner on FHA Form 3435 as to their relationship with the Sponsor and Mortgagor. Also, if subsequent to such certifications there is a change in the certified relationships, the Sponsor, Mortgagor and the other parties must furnish the FHA additional certifications with respect to each change.
- (f) A preliminary determination with respect to non-profit sponsorship is to be made on the basis of sponsorship information required by FHA Form 3433, (plus basic project information required by FHA Form 2012) with a view to preventing unnecessary outlay of funds by a sponsor or proposed mortgagor.

SPECIAL PROVISIONS APPLICABLE TO NONPROFIT ORGANIZATIONS

- (g) In some instances as plans of the sponsor take shape, it may be necessary to make intermediate and/or subsequent findings in addition to the regular preliminary and final determinations. The regular final determination is made prior to initial endorsement in insurance of advances cases and prior to beginning of construction in insurance upon completion cases. Any intermediate or subsequent determinations are to be made at any-time there is a change in relationships of the parties.

Upon receipt of the completed FHA Form 3433, the field office Director will review it for adequacy and completeness and, if necessary, will require the submission of missing, additional or clarifying information. If the Director determines that the sponsorship is ineligible, he will forward the Request and his favorable recommendation to the Multifamily Housing Representative.

FHA Forms 3434 and 3435 and any interim or subsequent change in the relationships of the parties involved will be subject to the same review and approval as that set forth in the preceding for FHA Form 3433.

2. OTHER FACTORS INFLUENCING FEASIBILITY

In addition to standard technical considerations, the following factors are also considered in determining the acceptability of nonprofit proposals.

- (a) Financial Considerations with Respect to Project - If a project is to be subsidized, as evidenced by an acceptable flat guarantee, the mortgage amount need not be limited to the extent that anticipated income will meet anticipated debt service requirements. (See definitions and explanations of Subsidy Differential and Flat Guarantee).

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- (b) Financial Considerations with Respect to Sponsor - The nonprofit sponsorship must be financially qualified to initiate, complete and provide competent, continuing management of the property.
- (c) Founders' Fees - Nonprofit organizations sometimes charge "founders' fees" or "life care fees" to obtain funds to meet financial requirements. Collection of these fees obligate the organization to provide services or accommodations to the donor in varying degrees. In order to safeguard the rights of the donor and to avoid creating any impression that FHA is any way obligated to provide any services or accommodations to donor, no mortgagor corporation may be approved if it collects any type of fee on the promise of furnishing future accommodations of services. The sponsoring organization may collect such fees, provided it assumes the obligation to give the donor the agreed upon services and accommodations in the FHA project or other property. To assure that there will be no obligation to tenants limited exclusively to the FHA project, this FHA prohibition shall be included as a condition on the commitment to insure, and the sponsor will be required to execute FHA Form No. 3437, Sponsor's Certification, showing that it has not collected, nor will it collect, from residents or prospective residents of the project, admission fees, founders' fees, life care fees or similar payments pursuant to any agreement or representation, oral or written, whereby it is agreed or represented that accommodations or services will be furnished exclusively in the specific project.
- (d) Controls and Special Requirements - Commissioner's control over mortgagor - The Model Form of Charter is used for corporations to be formed. The FHA Regulatory Agreement form must be used by every such corporation, whether in existence or

SPECIAL PROVISIONS APPLICABLE TO NONPROFIT ORGANIZATIONS

to be formed. Existing corporations must amend their charters if their existing charters fail to meet FHA requirements. The sponsor's attention shall be directed to the requirement in the Regulatory Agreement that all funds of the project shall be segregated from any other funds of any parent or affiliated corporation and shall be separately accounted for in accordance with the requirements of the Commissioner.

- (e) **Occupancy Charges** - Nonprofit organizations interested in sponsoring a project for housing for elderly persons often inquire into the degree and extent of control of occupancy charges exercised by FHA as provided by statute, FHA Regulations and the required Regulatory Agreement. In the earliest discussion stage, it should be understood, bearing in mind the required nonprofit nature of the accommodations on the services to be rendered, the Commissioner will approve such charges as will defray debt service requirements, estimated operating expenses and reserve funds, including a reserve for possible future deficits. If deficit operations are inherent in the mortgagor's program, whatever charges are stipulated will be approved, provided that satisfactory evidence of sufficient subsidy has been given. By the terms of the Regulatory Agreement, the Commissioner's control is restricted to the operation of the housing for the elderly project where the mortgagor engages in other activities.
- (f) **Guaranty Agreement** - Where the sponsor of a nonprofit Section 231 Housing for the Elderly Project, or Section 232, Nursing Home wishes to obtain FHA approval of a mortgage within the statutory limit, but in an amount greater than that which could be allowed under established debt service limitation criterion, and FHA determines that the sponsor is financially able to provide the anticipated subsidy, FHA Form 3436, Guaranty Agreement

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executed by both the sponsor and mortgagee must be received before there can be any endorsement for insurance.

- (g) Donated Labor - Where there is any possibility of the use of donated labor in construction of a nonprofit project under Section 231 or Nursing Home under Section 232, the sponsorship must be informed of the requirements and procedures incident to "Use and Control of Donated Labor".
- (h) Management - The competency and ability of the managing agent, administrator, etc., must be approved by FHA, as set out in the Initial Closing Section, prior to execution of a management contract by mortgagor.

3. DEFINITION AND EXPLANATION OF TERMS

- (a) Non-Subsidized Project - Means a project where debt service limitation, on Form 2264-A is one of the governing criteria in determining the maximum insurable mortgage.
- (b) Subsidized Project - Means a project where debt service limitation on Form 2264-A would be the governing criteria in determining the maximum insurable mortgage, but pursuant to the sponsor's acceptable flat guarantee to provide funds to meet the deficit anticipated, a larger mortgage amount within statutory limits is allowed.
- (c) Subsidy Differential - The difference between the eligible mortgage amount which could have been allowed on the basis of the debt service limitation and the mortgage amount allowed on the strength of the sponsor's flat guarantee to subsidize the project.
- (d) Flat Guarantee - A guarantee furnished by a legally and financially qualified sponsor, sup-

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ported by executed FHA Form 3436, Guaranty Agreement which provides, that, in the event of default on the mortgage, it will pay to the mortgagee the amount of the subsidy differential.

FHA Form 3436, Guaranty Agreement, must be executed by the sponsor-guarantor and the mortgagee. It provides that if the mortgagor defaults on the mortgage, the sponsor-guarantor must pay to the mortgagee the subsidy differential. The mortgage would then be recast and the sponsor-guarantor would be released from any further liability. There would be no prepayment penalty.

In the event the subsidy differential is not paid to the mortgagee on demand, the right to collect the subsidy differential would be assigned to the FHA at the time the mortgagee makes its claim for debentures. The FHA would then be entitled to collect the subsidy differential and this right would survive any action, including foreclosure, taken by the mortgagee or by the FHA.

The sponsor-guarantor has the right at any time to make payment of the subsidy differential and thereby terminate its obligation under the agreement.

- (e) Allowance for Making Project Operational - For projects sponsored by nonprofit organizations there is included in the estimated replacement cost an allowance equal to 2% of the total replacement cost figure which is available to meet necessary expenses incidental to construction. This allowance is in lieu of the 2% working capital deposit required to be made by profit-motivated mortgagors.

The use of funds provided by the allowance for making the project operational may be approved by the insuring office Director to meet necessary

SPECIAL PROVISIONS APPLICABLE TO NONPROFIT ORGANIZATIONS

expenses for the following types of items:

- (1) Costs incidental to construction involving purchase of personalty items such as office equipment and supplies for recreational facilities, sun deck furniture, lobby furniture and other items of equipment essential to the operation of the project.
- (2) Costs incidental to construction involving the purchase of intangibles such as sales, advertising and other expenses directly related to the renting of the project.
- (3) Additional costs resulting from unavoidable construction delays such as taxes, special assessments, property insurance premiums and construction loan interest. There will also be included the cost of prepaid expenses to the extent that prepayment is customary or necessary. For example, the cost of insurance premiums for a policy will be allowed from this fund provided that the term is for a typical period.

Any allowance funds unspent at the time of final closing will be transferred to the "Residual Receipts" account if a Section 221(d)(3) project, or to the Reserve for Replacements account if a Section 231 or 232 project for future project needs.

- (f) Types of Construction Contracts - A cost-plus construction contract is required in any case in which there is a nonprofit sponsor. At the election of the nonprofit organization, FHA Form 2442-A, may be used in its present form or it may be amended to include an incentive provision under which the contractor will receive a specific portion of the amount by which his actual costs are less than the lesser of (a) the FHA estimated cost or (b) the maximum upset price.

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- (g) Special Financing Provisions - It is permissible for nonprofit mortgagors to borrow funds for project purposes subject to the conditions set forth below:
- (1) Loans from Contractor or Other Parties Involved with Project: It is permissible for nonprofit mortgagors to borrow funds from the contractor or other parties furnishing supplies or services only for the cost of items to be covered by the insured mortgage. Any such loan must be paid in full at the time mortgage proceeds are advanced for the item for which the loan was made. In insurance upon completion, any such loan must be paid in full at the time of endorsement of the note for insurance.
 - (2) Loans from Sponsor or From Parties in no Way Connected with Project: It is permissible for nonprofit mortgagors to borrow funds required for any project purpose from the sponsor or from persons or firms in no way connected with the project. If funds are to be borrowed for project purposes not to be included in the mortgage, the total amount of the debt must be secured by a promissory note executed by the mortgagor on FHA Form No. 1710. This note is non-negotiable and is not payable until the maturity date of the FHA insured mortgage. The maximum rental schedule for a project will not be increased to allow for repayment of any such loan.
 - (3) Donations to Mortgagor by Parties Other than Sponsor: If the mortgagor receives any gifts or donations from the general

SPECIAL PROVISIONS APPLICATION TO NONPROFIT ORGANIZATIONS

contractor, a subcontractor, the architect, or other parties furnishing supplies or services, the amount of such gifts or donations must be deducted by the mortgagor in cost certification.

PART H.8
INCREASED MORTGAGE AMOUNT

H.8 INCREASED MORTGAGE AMOUNT - OPERATING LOSSES

Under the provisions of Section 223(d) of the National Housing Act, as amended (and the applicable FHA Regulations for the section of the Act under which a Multifamily Housing Project is insured) the mortgagor may request and the Commissioner may insure an increase in the mortgage to cover the excess of taxes, interest on the mortgage debt, mortgage insurance premiums, hazard insurance premiums and the expense of maintenance, and operation of the project over project income "during the first two years following the date of completion of the project". Payments of principal on the mortgage debt are not included in calculating the excess.

It is intended that this authority shall be exercised only for the purpose of recasting the mortgage to include operating deficits during the first two years which arose from uncertainties during the formative years of the project, and only when it can be demonstrated that such uncertainties have been, or reasonably can be expected to be, favorably resolved.

To be eligible for consideration for an increase in the outstanding mortgage amount it must be found that all six of the following conditions are present:

- a. Two years have elapsed since the date the final Project Inspection Report, Form 2449, was signed by the Field Office Chief Architect; and
- b. An allowable loss has been experienced; and
- c. Sustaining occupancy has been attained or there is every indication that sustaining occupancy will be attained at a predictable date in the immediate future (in most cases 18 months or less); and
- d. The mortgagee has assented in writing to the increase in mortgage amount (see NOTE); and

H.8 INCREASED MORTGAGE AMOUNT - OPERATING LOSSES

- e. Final endorsement of the mortgage was subsequent to May 31, 1957; and
- f. The competence and responsibility of the project management have been established to the satisfaction of FHA.

Formal application will be accepted only after the two year period has elapsed, and must be accompanied by financial statements prepared by independent certified public accountants or independent public accountants in conformity with the guide lines set forth in the instructions for accountants, FHA Form 771.

If a sustaining occupancy is based on projected rentals and expense levels all or such portion of the recommended increase as required to cover the estimated additional losses must be held in escrow to meet expenses, amortization, etc., until the project is self-sustaining.

No funds shall be released from such escrow at any time without prior approval of the FHA Commissioner.

If warranted by projections of income and expense which indicate that the increased mortgage makes sense economically, a letter agreement will be issued with title requirements identical to those at final endorsement of the original loan and incorporating any required escrow provisions.

NOTE: In the case of mortgages held by FNMA, application may be made by the mortgagor, since the President of FNMA advised his Agency managers on December 11, 1962 that: "FNMA will be governed by the conclusions reached by FHA, and you are authorized to take such action as may be necessary to increase the mortgage..provided...", etc.

H.8 INCREASED MORTGAGE AMOUNT - OPERATING LOSSES

COMBINATION DECLINING ANNUITY PLAN - INITIAL**CURTAIL RATES FOR VARIOUS REMAINING MORTGAGE TERMS**

For use in determining "sustaining occupancy" only, the following factors are furnished. Please note that, because of rounding off at four decimal places, these factors are not to be used to compute monthly payments.

I. For Section 207 and Section 231 Profit Motivated:

<u>Remaining Term (Months) to Maturity</u>	<u>Initial Annual Curtail Rate</u>
441	1.7177
438	1.7446
435	1.7721
432	1.8001
420	1.9180

II. For Sections 220 and 221

<u>Remaining Terms (Months) to Maturity</u>	<u>Initial Annual Curtail Rate</u>
452	1.1304
449	1.1465
446	1.1628
443	1.1793
431	1.2485

H.8 INCREASED MORTGAGE AMOUNT - OPERATING LOSSES

As a matter of information both tables contemplate that monthly payments will be accelerated at the rate of 100.375% for 120 months from the scheduled beginning of amortization of the original mortgage and thereafter at 100.1% for 207 type mortgages and 100.32% for 220 type.

For remaining terms other than those for which factors are given above, interpolation will produce a factor which will be approximately correct and may be used for the purposes described above.

By way of illustration:

- A. Under 207 a remaining term of 436 months is desired:

Factor for <u>435</u> is	1.7721
Factor for <u>438</u> is	<u>1.7446</u>

Difference	3 months =	.0275
1/3 of difference	(1 month) =	.0092 (app.)
Subtract .0092 from 1.7721 (factor for 435) -		
1.7629 - factor for 436		

- B. Under 220 a remaining term of 438 months is desired:

Factor for <u>431</u> is	1.2485
Factor for <u>443</u> is	<u>1.1793</u>

Difference	12 months =	.0692
1/12 of difference	(1 month) =	.0058 (app.)
Subtract from 1.2485 (factor for 431) 7 x .0058		
or .0406 = 1.2079 - factor for 438		

- III. In cases where the Level Annuity Monthly Payment plan of amortization is involved, an approximate factor may be obtained from the tables at the back of FHA Form 2025 by multiplying the monthly installments there given by

1964 amendments to the National Housing Act provide that maximum mortgage amounts shall not exceed, for such part of the project as is attributable to dwelling use, the limits shown in the following table:

UNITS IN ELEVATOR-TYPE STRUCTURES

<u>Section of Act</u>	<u>0-BR (Effi- cien- cies)</u>	<u>1-BR</u>	<u>2-BR</u>	<u>3 or more BR</u>
207	10,500	15,000	18,000	22,500
213	10,500	15,000	18,000	22,500
220	10,500	15,000	18,000	22,500
221	9,500	13,500	16,000	20,000
231	9,500	13,500	16,000	20,000
234	10,500	15,000	18,000	22,500

UNITS IN NON-ELEVATOR-TYPE STRUCTURES

<u>Section of Act</u>	<u>0-BR (Effi- cien- cies)</u>	<u>1-BR</u>	<u>2-BR</u>	<u>3 or more BR</u>
207	9,000	12,500	15,000	18,500
213	9,000	12,500	15,000	18,500
220	9,000	12,500	15,000	18,500
221	8,000	11,250	13,500	17,000
231	8,000	11,250	13,500	17,000
234	9,000	12,500	15,000	18,500
810	9,000	12,500	15,000	18,500

The above limits are all subject to increase up to 45% in geographical areas where FHA has found that cost levels so require. Local Directors should be consulted for limits applying to specific areas within their respective jurisdictions. Special limitations apply to Guam and to the States of Alaska and Hawaii, and local Directors will supply information thereon upon request.

NOTE: Maximum mortgages for trailer courts or parks are set by the 1964 amendments at \$1,800 per space or \$500,000 per mortgage.

Leaseholds: When a proposal for the development of a rental housing project involves a leasehold which is determined to be freely marketable, the maximum mortgage amount will be subject to a reduction in an amount equal to the capitalized value of the ground rent. Further, it should be emphasized that the annual ground rental shall not exceed that amount resulting from the application of the insured mortgage interest rate to the FHA value of the land. In addition, if it is contemplated that the terms of the lease will provide for the payment of ground rent during the construction period, such rents may not be paid from mortgage proceeds but must be provided for in the required working capital deposit pertaining to the proposed leasehold. The sponsors will be furnished with a copy of Instructions for Leasehold 207 Projects, in which the Lease Addendum is prescribed (FHA Form No. 2070). The Addendum provides that the Commissioner shall have the option to purchase fee title under the conditions therein set forth unless this option right is waived by the Commissioner in cases where:

- (a) an insured loan is to be refinanced and the lease did not contain such option at the time the original loan was insured;
- (b) a state, including any political subdivision thereof, or the United States, an Indian tribe, or an Indian, or an eleemosynary institution, a church, or a university or similar public purpose institution, is the lessor and an option to purchase would not be permitted under existing laws or regulations or would not be feasible because of a restraint upon the lessor such as a reversion of title in the event of transfer from the lessor;
- (c) a loan is to be insured and the interest of the mortgagor is under a lease in existence at the time the application is filed, provided the lease was made prior to September

1, 1961 and evidence is submitted establishing to the satisfaction of the Commissioner that diligent efforts have been made to purchase the fee but without success and that the lease cannot be rewritten or amended to include the option to purchase; or

(d) where the property is located in an area which the Commissioner has determined that the option to purchase is not economically feasible or acceptable because of the customs and practices relating to land ownership and its use, or an irredeemable ground lease is involved and the use of such type of estate is by long tradition, and practice, normal and customary in that community

In such event, Paragraph 2. of the Addendum shall be deleted and the last three lines of Paragraph 5.(a) following the words "the total value of the land as established by" should be stricken and there should be added "the Federal Housing Commissioner at \$_____." The amount to be inserted would be the value of the fee as determined at the time of initial processing and which otherwise would have been indicated in Paragraph 2. of the Addendum. As to any leasehold, otherwise acceptable, there shall be the further requirement that the annual rental be fixed for the initial 55 year period but not necessarily limited to one rate; however, any change in rental must be fixed and not be determined through negotiation or arbitration.

Exceptions

Determination of Annual Ground Rentals: For projects built in an urban renewal area under any Section of the Act, a rental rate factor not to exceed 6% may be allowed instead of the insured mortgage interest rate. For Section 221(d)(3) Below Market Interest Rate projects located outside of an urban renewal area a rental rate factor not to exceed the current FHA market interest rate may be used in lieu of the going below market

interest rate. The latter fact is also to be considered in determining the capitalized value of the ground rent.

PART I.
UNDERWRITING CONCEPTS

I. UNDERWRITING CONCEPTS

Conceiving and developing a rental project can be costly and complicated, because of the number of factors which are inherent in this type of property. On the other hand, there is an orderly economical approach whereby the soundness of a proposal can be examined and tested at its inception before more than the barest minimum of expenses have been incurred.

Only a minimum of information is needed to test the feasibility and soundness of a proposal with sufficient accuracy to reach a conclusion, either that the proposal has sufficient possibilities to warrant proceeding with its development, or that likelihood of developing a sound project is too remote to warrant spending further time and expense on it.

This section of the handbook has two purposes, first, to set forth the minimum information required to test the soundness of a proposed rental housing project without regard to financing or the type of financing and, secondly, to provide information whereby proponents may estimate the maximum insurable mortgage likely to be obtained.

The test of the soundness of an investment in a rental housing project is comparatively simple and easily understandable, and applies equally to the point of view of investors and lenders.

The value of rental properties arises from their ability to return the capital invested as well as pay a return in the form of interest on the investment at a rate set by the competition of capital seeking investment. The problems of management and relative risk involved in various types of investments are prime factors in establishing the rate of return the market demands.

If the value of a rental project equals or closely approximates its cost, it is a sound transaction. If the costs of producing and operating a property are not properly related to the net income which can be

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obtained from it, the proposal will not be attractive to either investors or lenders.

What Makes Value?

Creating a rental project is analagous to setting up a manufacturing and merchandising operation. The type of information needed to come to a decision as to whether or not there is an opportunity to enter the rental field with reasonable prospects of establishing a successful, profitable operation is likewise analagous.

The first question that arises relates to potential demand for the product. In the case of rental housing, the question is: What type and size of family unit is in greatest demand? The needs and preferences of local markets are usually well known generally and if they are not, the information is readily obtainable from reliable sources who are well informed on the subject.

Knowing the demand, with respect to type and size, the next question is: What services must be furnished to satisfy the needs and desires of the market for these units?

Having ascertained the needs of the market, the vital question of the price buyers will pay for the product, or the services must be answered. In the case of housing, the price the market will pay for a given type and size of family unit will vary with the desirability and popularity of the location of the project. So the next step is to find out which locations in the community or city are now and will continue to be most popular and in greatest demand by families seeking accommodations of the type and size it is proposed to build.

The price that can be obtained places a definite limitation on the amount that profitably can be spent on producing and distributing the product. So the

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next problem is to estimate the cost of producing the product or property, as well as the cost of distributing the product or, in this case, operating the project.

To drop the analogy to manufacturing and revert to rental housing projects, investors contemplating production of a rental project, being prudent and desirous of proceeding soundly, must know or ascertain:

1. What type and size family unit is in greatest demand?
2. What services must be furnished to meet the needs and desires of the market seeking these units?
3. What is the maximum rental obtainable?
4. Where are the particular locations in which these units will command and continue to command these maximum rentals?
5. How much will it cost to acquire the land and produce the property?
6. How much will it cost to operate the property?
7. What rate of return on capital does the market demand?

The information assembled at this point relates to demand for rental units, cost of producing and operating a project, the income it will produce and an appropriate capitalization rate. This information is essential to testing the feasibility of a rental project since the soundness of a project is almost solely dependent upon its value equalling or closely approximating its cost.

Value can equal cost providing certain relationships

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exist between the cost of the property; the amount and duration of the rents the market will pay; the expenses of operating the property; and the rate of return demanded by investors to induce them to invest their capital in rental projects.

Investors, architects, and builders should know what these relationships are, and understand them, in order to design structures which are economical to construct and maintain, and to select sites where the properties will attract and hold the tenants at the contemplated rental.

Graphic Charts Simplify Calculations

To simplify determination of the effect of the various relationships of the significant elements in developing projects the value of which will closely approximate or equal cost, Federal Housing Administration has developed an original series of graphic charts a few of which have been reproduced in this section of the handbook. Through the use of these charts, it is possible to readily determine the relationships that must exist between the cost of producing the rental project, gross rent obtainable, operating expenses, and net rents. Use of the charts permits numerous assumptions to be made, and their effect on the end result found with a minimum of effort and calculation.

The income a project will produce at the rentals proposed, if it were 100% occupied and there were no collection losses, is Gross Income.

Since both vacancies and collection losses must be anticipated, rentals actually collected will be less than the estimated Gross Income. The allowance for vacancies and collection allowances used in preparing the chart was assumed to be 7% of the Gross Income. Reducing the Gross Income 7% provides an estimate of the rentals actually collected. This figure is referred to as Effective Gross Income.

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Operating Expenses are deducted from Effective Gross Income, and the remainder is Net Income.

Estimates of value of rental properties are derived through capitalizing the Net Income the properties will produce.

Reference to operating expenses in this discussion will be expressed as percentages of Effective Gross Income. Reference to an operating expense ratio of 40% means that operating expenses are estimated to be 40% of the estimated Effective Gross Income. It is important to note this to avoid miscalculation of Net Income which would occur if the operating expense ratio were applied to Gross Income and not to Effective Gross Income, which is 7% less under the stated assumption.

Relationship of Income to Expenses

The Expense Ratio Chart illustrates the fact that the amount of gross monthly income required to provide a given net income will vary with the expense ratio. Higher expenses will require larger gross rentals, whereas lower expenses will produce the same net return from lower gross rentals.

Where the expense ratio is known you can determine the monthly gross rentals required to produce a first year net income of $6\frac{1}{2}$ to $8\frac{1}{2}$ %. For example, where the expense ratio is 40% follow the line marked "7 $\frac{3}{4}$ % Net Return". Lay a ruler horizontally across this point and it will cross the outer lines of the chart at approximately \$1,160, which represents the monthly gross rents on a property costing \$100,000.

By moving the decimal point three places to the left, the dollar figures used on the chart can be changed to percentages. In the illustration above, it shows that the monthly gross rent required to produce a 7 $\frac{3}{4}$ % net return where the expense ratio is 40% is 1.16% of the cost of the property. Conversion to

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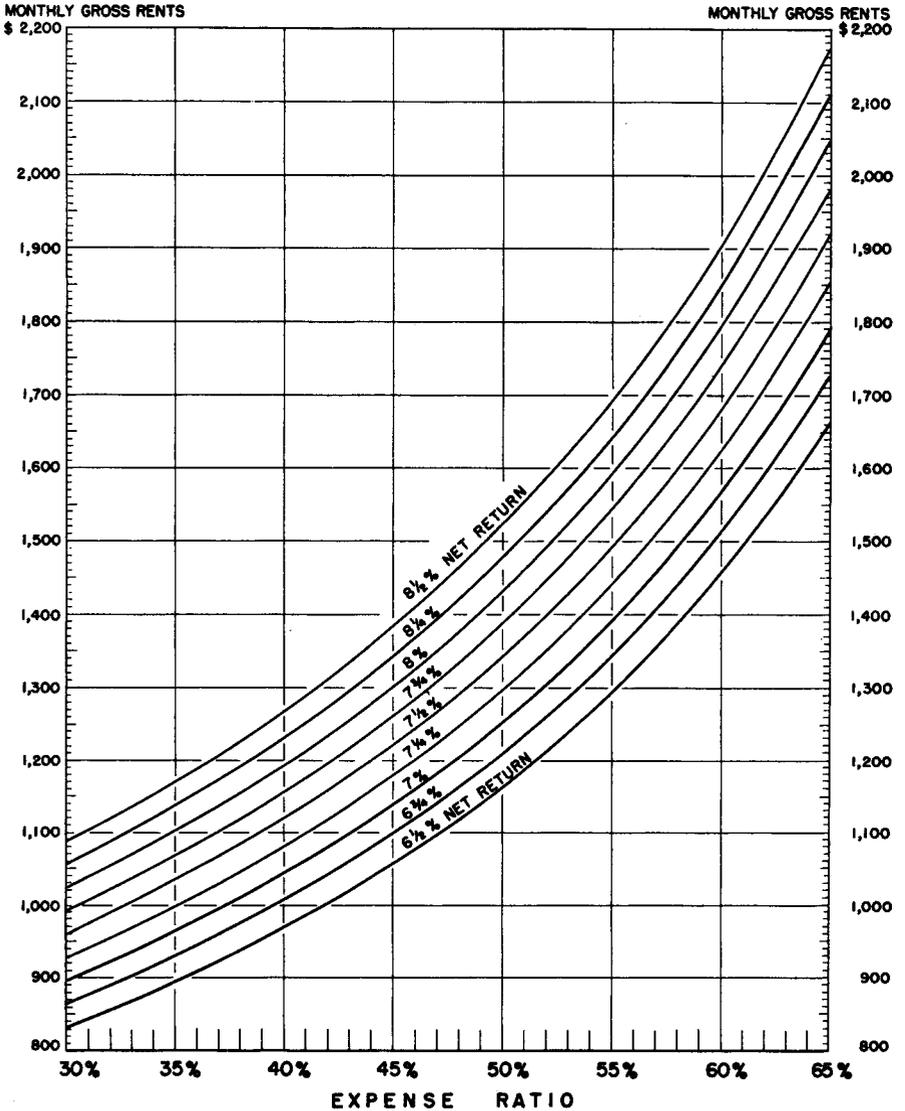
decimals permits the determination of the monthly gross rent required to produce a 6½ to an 8½% net return on any cost at various expense ratios and thus adds flexibility to the use of the chart.

The effect of the expense ratio on the gross rent required to produce a net of 7 3/4% on a cost of \$100,000 is strikingly illustrated by this chart. A gross rent of \$990 per month will return 7 3/4% net on \$100,000 with an expense ratio of 30%. A gross monthly rental of \$1260 will be required to produce a 7 3/4% net income on \$100,000 if the expense ratio is 45%, and \$1540 gross will be required to produce the same net return on \$100,000 if the expenses run 55%.

The financial impact of failing to design a building with an eye to economy of operation and maintenance is clearly presented by the chart. Failure to design and build with operation and maintenance costs in mind could result in producing a project almost certain to fail in a given location. However, full understanding of the effect of these expenses, would permit designing a project which could succeed on the same site, since the rentals could be reduced if operating and maintenance costs were reduced.

I.

MONTHLY GROSS RENTS REQUIRED TO PRODUCE FIRST YEAR NET RETURNS OF 6½% TO 8½% (AFTER AN ALLOWANCE OF 7% FOR VACANCIES AND COLLECTION LOSSES) AT VARIOUS EXPENSE RATIOS ON A PROPERTY COSTING \$100,000



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RELATIONSHIP BETWEEN COST PER FAMILY UNIT AND MONTHLY GROSS RENTALS AT VARIOUS EXPENSE RATIOS

This chart (2 sheets) is more versatile in its use. By assuming a cost per family unit and an expense ratio a ruler can be laid across these two points and where the ruler crosses the column headed "monthly Gross Rental per Family Unit", will be found the monthly gross rent required to produce a 7½% net return on the unit cost assumed, at the expense assumed.

For example, a unit costing \$12,000 having an expense ratio of 35% will require a gross monthly rental of \$124 to return 7½% net on the cost. But if the expense ratio was 45% a gross monthly rental of \$147 would be needed.

The chart also can be used to determine the maximum cost per family unit on which a given monthly gross rental will net a 7½% return at various expense ratios.

By placing a ruler on the \$150 gross rental line and across the 40% expense ratio line it will be found that the cost per family unit cannot exceed \$13,400 if a 7½% net return is to be received.

Using the same gross rental and a 45% expense ratio it will be seen that the unit cost cannot exceed a figure of \$12,300 and provide a net return of 7½%.

A third use of the chart can be made by placing a ruler across the chart from an assumed monthly gross unit rental to an assumed cost per family unit and finding the expense ratio at the point the ruler crosses the Expense Ratio Line. The expense ratio at this point is the maximum that can be used to produce a 7½% net return on the assumed cost at the rental assumed.

We have seen now why costs, rents and expenses must be considered jointly. It is also evident that if

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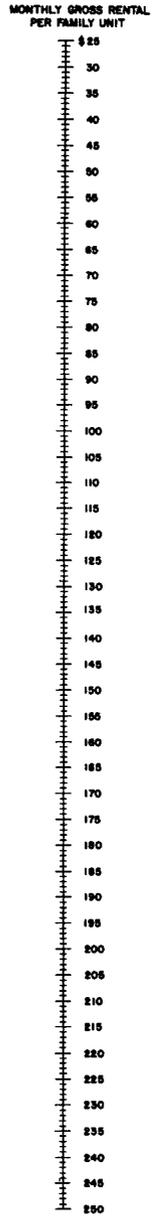
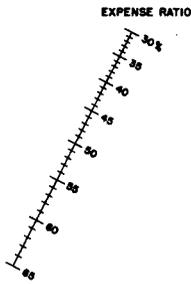
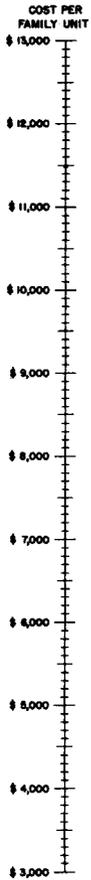
construction costs are reduced to a point which unduly increases the expense of operating and maintaining a project, rents must be obtained that are beyond those the market will pay for the accommodations and amenities the project offers.

These relationships are mathematical and immutable and apply universally to all rental projects at all times under the assumptions stated. The charts serve the practical purpose of defining certain limitations between costs, rents and expenses within which builders and architects must work to produce projects that will yield a net return of 7½% on the total investment.

I.

NECESSARY RELATIONSHIP BETWEEN COST PER FAMILY UNIT AND MONTHLY GROSS RENTALS TO PRODUCE A FIRST YEAR NET RETURN OF 7½% ON COST (AFTER AND ALLOWANCE OF 7% FOR VACANCIES AND COLLECTION LOSSES) AT VARIOUS EXPENSE RATIOS

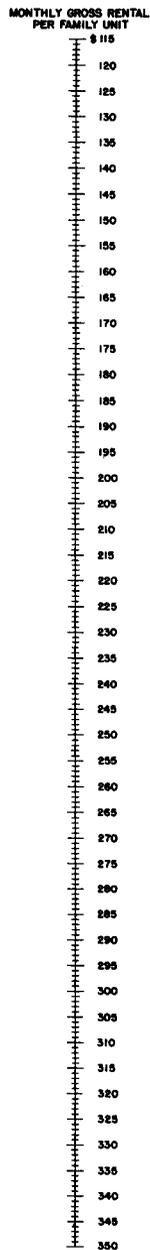
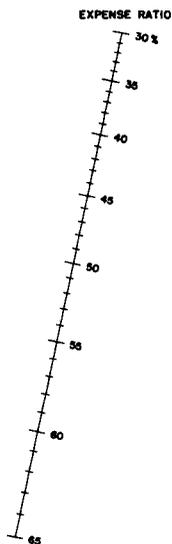
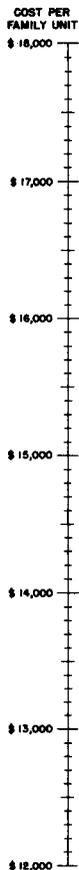
COST RANGE: \$ 3,000-\$13,000
RENTAL RANGE: \$ 25-\$250



I.

NECESSARY RELATIONSHIP BETWEEN COSTS PER FAMILY UNIT AND MONTHLY GROSS RENTALS TO PRODUCE A FIRST YEAR NET RETURN OF 7½% ON COST (AFTER AN ALLOWANCE OF 7% FOR VAGANCIAS AND COLLECTION LOSSES) AT VARIOUS EXPENSE RATIOS

*COST RANGE: \$12,000 - \$18,000
RENTAL RANGE: \$115 - \$350*



I. UNDERWRITING CONCEPTS

QUALITY OF LOCATION MORE IMPORTANT THAN COST OF SITE

Excellence of location is very important in maintaining long term demand, but investors sometime seek low priced land in order to reduce the unit cost of projects. However, land is ordinarily such a small percentage of the total cost of residential income properties that its cost has little effect on the gross rentals needed to support a project. Contrariwise, the better locations which are usually higher priced have a marked effect on the rentals obtainable and on the duration of those rents. The next illustrates this principle.

This chart analyzes two properties. One property is illustrated by A. The other property is illustrated under two different assumptions by B and C. The building improvements are considered to be identical in construction and cost \$100,000 in each instance. However, the locations are different.

In illustration A, the location is excellent and the cost of the site is \$12,000.

Illustrations B and C relate to a mediocre location where the site cost is \$6,000, or one half as much as at location A.

In A and B, monthly gross rents are based upon a 7% first year net return on cost. In C, which is the same property as B, an alternate assumption is made that the gross rental is on the basis of a 6% first year net return because this probably would be the highest rent obtainable in the mediocre location.

It will be noted that the gross rent of \$1,154 required to produce a first year 7% net return in A, where the site was twice as costly, is only about 4% higher than the gross rent of \$1,108 necessary to produce a first year 7% net return in B having a mediocre location. Further, it will be noted that the gross rent of \$1,009 obtainable in the market in case C is

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about 9% less than the amount obtainable in B.

When these seemingly minor changes in rentals are capitalized, a major change in capitalized value is found. In the following illustrations it is assumed that the net income will decline over a 50 year economic life of the building in accordance with Table II premise, FHA Underwriting Manual.

In case A, because of the excellent location, it is assumed that duration of the income is more assured and less risk is present, than in B and C. This case therefore assumes conditions warranting the use of a capitalization rate of 6.25%, which results in a capitalized value slightly in excess of cost.

Case B shows that even though the rents presently obtainable would produce a first year return of 7% on cost, a capitalization rate of at least 7%, which it is assumed would be required because of the additional risk introduced by the greater lack of assurance of continuity of net income in the mediocre location, results in a capitalized value of 8% less than cost. In this instance the saving of \$6,000 in cost of the site has produced a loss of nearly \$18,000 in value as compared with A.

In case C, where it is assumed that because of the mediocre location the rents obtainable in the market will produce a first year return on cost of 6%, and a 7% capitalization rate is used, a capitalized value 21% less than replacement cost is produced. In this case, although saving \$6,000 on the cost of the site, a loss in value of nearly \$30,000 compared with case A has resulted.

It will be noted that operating expenses vary but slightly in the examples shown on the chart. The increase in gross rents required to support the higher land cost is slight, because increasing land cost increases expenses approximately only to the extent of additional taxes. Since better locations produce

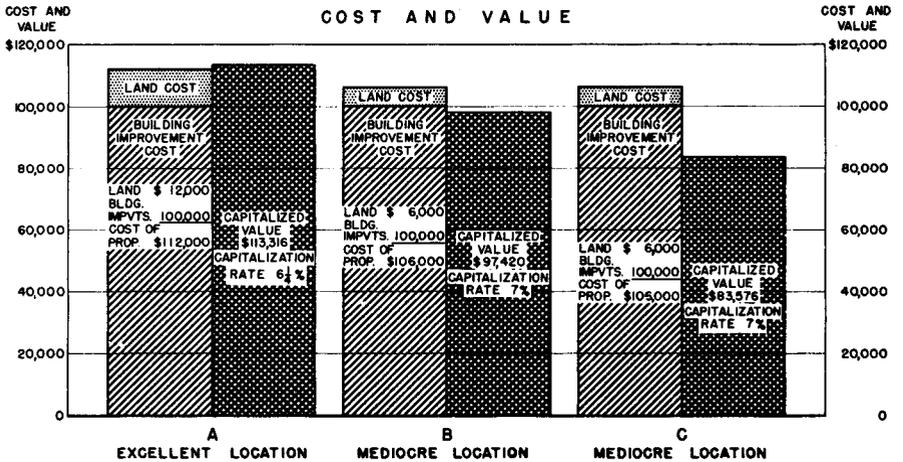
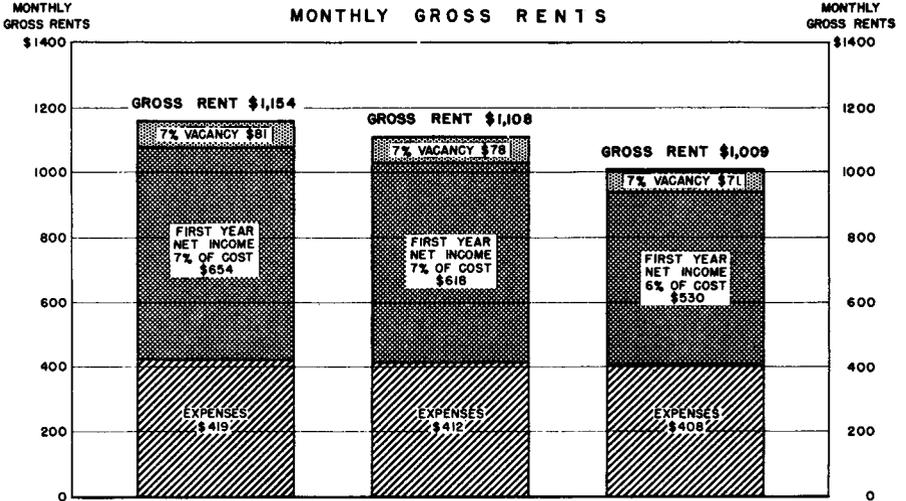
I. UNDERWRITING CONCEPTS

and sustain higher, more stable rentals, the net income is most favorably affected by the additional investment in the land.

The difference in expenses between cases A and B, results from an increase in management expense because of larger effective gross income and an increase in taxes because of the higher assessed value of the site in case A. The difference in expenses between cases B and C result from a decrease in management expense because of the lower effective gross income in case C.

I.

ILLUSTRATION OF PROBABLE EFFECT OF VARIATIONS IN QUALITY OF LOCATION ON RENTS AND VALUATIONS



PART I.1
ARCHITECTURAL ANALYSIS

BASIC PRINCIPLES

Purpose and Nature of Architectural Analysis.

Purpose. The purpose of architectural analysis is to determine the eligibility and acceptability of the physical improvements, except those site improvements analyzed by the Land Planner; to provide architectural conclusions and estimates essential to underwriting determinations; and to suggest feasible means of improving the project design and construction, thus minimizing mortgage risk. The underlying purpose of architectural functions is improvement in housing standards and the protection of the Commissioner's interests in all architectural and construction matters.

Nature.

- a. Architectural analysis specifically relates to the buildings and all elements therein, the attachments thereto, garages, carports, the adaptation of buildings to site conditions, and certain land improvement items consisting of all phases of water supply (except lawn sprinkling systems) and sanitary sewage disposal systems, gas mains and heating tunnels. Architectural analysis does not include the site planning and land improvement items which are prescribed elsewhere as the primary responsibility of the Land Planning Section for analysis.
- b. Architectural analysis of the physical improvements as performed by FHA is similar to project analysis by a practicing architect; the adequacy and appropriateness of the project design is judged on the basis of all limiting conditions, natural advantages of the site, sponsor's objectives and the market the project is to serve, as well as FHA standards. The nature of architectural analysis and the desirability of minimizing mortgage risk make the pointing out of features needing improvement and the suggesting of ways and means of effecting all feasible improvement an important function.

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Essentials of Acceptability. The factors motivating occupants and owners outlined above show the needs, desires and demands of the rental market and owners that must be met in the physical characteristics of the project. These will vary in degree and detail for each project depending upon such matters as rentals, mode of living, custom, present and future availability of housing and preferences and practice.

To be considered acceptable, projects in general must provide:

- a. compliance with the established FHA standards and requirements;
- b. compliance with good planning and construction practice;
- c. amenities inviting extended tenure;
- d. a high degree of livability with desired types of living units, number and size of rooms and closets;
- e. facilities, services and equipment appropriate to the project;
- f. desirable residential environment and visual appeal;
- g. rentals and charges within ability to pay;
- h. initial costs and fixed charges appropriate to the anticipated project income, unless the project is to be subsidized;
- i. continuing appeal, low vacancy ratio, economical operation and maintenance with sustained project income and adequate net return;
- j. compliance with applicable laws, ordinances and deed restrictions; and
- k. favorable comparison with competitive housing.

Economy of Operation and Maintenance. It is essential in planning, construction, selection of materials, equipment and their assembly to strive for economical operation of the project. Planning should provide for effecient utilization of project personnel used in services, such as collection of refuse, deliveries, cleaning and maintenance. Minimum public space, conveniently located cleaning closets, and shops for maintenance and repairs, are generally necessary or desirable. Construction, materials, equipment and manner of use should be suitable for the conditions of exposure, wear and abuse to which they will be exposed, and should necessitate a minimum of expense for repair, is a limit beyond which added cost will not be justified by resultant savings in repair, replacement, maintenance or operation, generally such savings place the project in the sounder position. Appropriateness will prescribe a limit to which minimum expense, etc. is justified.

Architectural Services.

Professional Authorship of Exhibits. The sponsors are advised at the earliest moment of the nature and extent of professional services essential for the design of all aspects of the physical improvements. It is to be stressed that retaining adequate professional services is the sponsor's responsibility and to his interest and that this could expedite processing as well as similarly experienced structural, mechanical and sanitary engineers where the nature of the work warrants. The Architect's Fee allowed in FHA estimates will take into consideration the character of service rendered.

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Completeness of Exhibits. Architectural exhibits in three varying degrees of completeness are required to be submitted for (a) the first stage of pre-commitment processing (b) pre-commitment final processing, and (c) pre-closing review and contract use. In order to shorten processing time and to keep the expense to the sponsor of exhibits at a reasonable minimum, exhibits for the analysis and for pre-commitment processing need be developed only to the extent that they indicate all the information essential for architectural analysis and processing during the respective stages in which they are used.

Guidance as to the character and number of exhibits to be submitted is provided by the insuring office and the outlined instructions in Appendix D for Properties of Minimum Property Standards. When necessary, revised, amplified or additional exhibits are required.

Premature Completion of Exhibits. The sponsor or his architect may have or may choose to submit architectural exhibits more developed than are required by the FHA. Although inadvisable, due to the difficulty of effecting essential changes and possible improvement and due to the retarding effect of premature details on processing, fully completed working drawings and contract-type specifications may be submitted. However, FHA Form 2435, Outline Specification, must also be submitted completed to the extent required and with the understanding that the contract-type specifications will be used only for optional reference before the pre-closing stage is reached.

A prematurely advanced state of development of the drawings may influence the sponsor's or project architect's reception of suggestions for improvement of the project. Since the submission of prematurely completed exhibits is the unilateral election of the sponsor or his architect, their submission places no obligation for preferential treatment by the FHA or for any limitation of analysis and negotiation.

ARCHITECTURAL PROCESSING

Pre-application Stage. The Architectural Section participates in this stage to the extent required by the Chief Underwriter. The nature of its participation is usually in connection with the physical elements of the site and location such as engineering and construction problems which may be encountered. The Architectural staff may also furnish technical advice and assistance during the pre-application stages.

Pre-commitment Stage.

General.

Purpose. The purpose of the first stage of pre-commitment architectural processing is to provide (1) tentative architectural conclusions as to acceptability, replacement cost of physical improvements and related matters, (2) architectural guidance, encouragement or betterments, and negotiations for the improvement of the physical security if warranted.

Initial Review of Application. Upon receipt of the application with fee, the project processor may be required to complete an initial review of the submission to determine whether or not it conforms with the proposal considered in the pre-application stage and to ascertain the adequacy of the submission for the first stage of pre-commitment processing.

When the Chief Underwriter has reported to the Director that the submission is acceptable and the Director has

released the case for processing, it will be returned to architectural for the development of a tentative conclusion with respect to the estimated replacement cost. Tentative estimates of land value and maximum mortgage amounts will be developed by the other Sections.

The Director will advise the sponsorship of these tentative findings. If the sponsorship elects to proceed they will have the preliminary working drawings and specifications prepared and, as soon thereafter as possible, will furnish the required quantity survey and cost estimated.

Work Shown on Pre-commitment Exhibits. The preliminary working drawings must be competently prepared and show the intention with respect to all improvements, on-site as well as off-site. They must show the extent of work with sufficient typical units and details to establish the project design and planning, and be supplemented by the Outline Specifications, to show the construction materials intended. They must also show the intention with respect to such items as utilities, streets, and landscape work. Because the characteristics of projects will vary, the drawings needed to delineate and explain the characteristics of each project may vary. The list of architectural exhibits in Appendix D of the MPS will serve as a general guide. The preliminary working drawings required are not complete working drawings nor is it advisable that they be completed to that state. While they must be adequate for cost estimation purposes, they need contain only sufficient indication, dimensions and notes to achieve this adequacy and to permit the determination as to acceptability.

Analysis of Pre-commitment Exhibits.

a. Analysis of the preliminary working drawings and Outline Specification must reveal provisions for a property meeting the essentials of acceptability.

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While the intention with respect to the major elements of the project should be established during the first stage pre-commitment analysis, only tentative determinations are possible in that stage. The pre-commitment exhibits are the basis for the definite determinations necessary in the Pre-commitment Stage and the analysis of these exhibits must be concerned with the feasibility and acceptability of the project as a whole, as well as in detail.

Correction of Pre-commitment Exhibits. The submitted preliminary working drawings and Outline Specification may be found to contain deviations or changes from previous exhibits, the addition of indications or data not anticipated from earlier exhibits and conferences, omission of necessary information, ambiguities as to intention, opportunity for feasible betterments, non-compliance, or planning or construction unacceptable to FHA. In order to present and record in an orderly manner FHA requirements, betterments, requests for clarification and additional information as to assumptions resulting from analysis of the submitted exhibits, it is usually advisable for the project processor to prepare in duplicate a check list of all such items. The check list may be prepared in any convenient form and the wording of the items should be clear as to meaning, except that reference may be made to FHA amendments on the exhibits when more advantageous. The original is given to and discussed with the sponsor or his architect, and agreement negotiated. The duplicate becomes a part of the Project Record. In many instances, amendment of the pre-commitment exhibits may suffice to permit continuation of processing without interruption. These amended exhibits not only provide the basis for the cost estimate but also, in effect, restrict and tend to commit the FHA respecting the intentions shown and implied therein. Likewise, they restrict and circumscribe the sponsor in a manner which may or may not be agreeable to him in their development into contract drawings and specifications. Thus, it is important that the sponsor or his architect be made aware of these amendments, and

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concurrence obtained, particularly as to all elements which may result in cost increase. Failure to observe these instructions may occasion possible future question or disagreement, or may necessitate revision in FHA cost estimation and processing. Piecemeal amendment or haphazard notification of the sponsor should be avoided. Architectural examination is not a function performed as a side issue incidental to cost estimation.

Interim Guidance. After the completion of architectural processing in this stage the project processor provides architectural guidance to the sponsor's architect respecting the character of the working drawings and "trade" type specifications to be submitted in the Pre-closing Stage. In providing such guidance in the Pre-commitment Stage, the FHA assumes no responsibility that a commitment can or will be issued and that, if issued, it will contain the terms and conditions anticipated by the sponsor. Thus, it should be understood that guidance is provided at this time on the understanding that the sponsor and his architect are willing to assume the risk of continuing the development of the project drawings and specifications in the interim period for a saving in time and other advantages to them.

Pre-closing Stage.

General.

a. Purpose. The purpose of processing in this stage is to ascertain that the working drawings and "Trade" type specifications are competently prepared for use as contract documents and are sufficiently detailed and complete, that they are reasonable developments of the exhibits upon which commitment has been based and are acceptable to the FHA.

b. Insurance Upon Completion. Projects which are to be insured upon completion differ in that no commitment has been issued, nor is there an initial endorse-

I.1 ARCHITECTURAL ANALYSIS

ment at the end of this stage. However, at the same point in processing as the commitment, Form 2432, is issued for a project involving insurance of advances, the Director indicates whether the issuance of Commitment to Insure Upon Completion, Form 2453, is likely. This commitment is issued at the stage corresponding to initial endorsement (or "closing") in projects involving insurance of advances.

The processing of projects involving insurance upon completion follows the same procedures as those specified for projects involving insurance of advances, except: (1) preparation of the Hazard Insurance Schedule is deferred to the Construction Stage, (2) the Trade Payment Breakdown is omitted, and (3) the same architectural analysis and review of submitted exhibits and the same character of drawings and specifications are required, with the same identification and distribution, regardless of differences in nomenclature in these instructions.

Submission of Pre-closing Exhibits. At least ten days in advance of "closing" or issuance of a Commitment to Insure Upon Completion, to allow sufficient time for examination of the documents, the sponsor shall furnish for FHA detailed review, two sets of prints of the drawings and specifications, including drawings and specifications for land improvements and landscape work, in the form proposed for "closing" or contract use. Similarly, two separate sets of drawings and specifications pertinent to the Off-site Construction must be provided for FHA use. (If off-site work is included on drawings dealing with on-site work, such work shall be clearly designated.)

Analysis of Pre-closing Exhibits.

a. The drawings and specifications to be acceptable shall:

(1) Conform with (a) the exhibits upon which the pre-commitment processing was based, both as to the extent

I.1 ARCHITECTURAL ANALYSIS

and the character of the work indicated, (b) the provisions and conditions of the commitment, or other indication of FHA acceptance, (c) all applicable laws, ordinances, regulations, and deed restrictions, (The processor requires correction to comply with such applicable provisions as are known to him, although the FHA does not assume responsibility for enforcement), and (d) all applicable FHA requirements. (This is required to be shown definitely wherever applicable without reliance on general provisions.);

(2) Provide for all work necessary to the acceptable completion of the project in conformity with established architectural, engineering and construction practice, appropriate to the type and class of work involved; and

(3) Consist of "contract" type working drawings and specifications, competently prepared and logically arranged.

b. The processor, being responsible for protecting the Administration's interest, must bear in mind during his analysis that the drawings and specifications accepted at "closing" supersede all previous exhibits and agreements, become the basis for agreement upon which the mortgage is based and insured, and will be the criteria used in compliance inspection. Thus, he is at all times alert for errors, omissions and ambiguities. He anticipates the problems and questions that may arise during construction and requires clarification or correction of anything which is subject to misinterpretation and likely to detract from a well-defined objective of providing for a complete and acceptable project. He must be vigilant to see that the quality of the improvements indicated in pre-commitment processing is not diminished in the final drawings and specifications as an over-all condition or to any considerable extent with respect to any specific item.

c. The processor requires correction of any noted

I.1 ARCHITECTURAL ANALYSIS

dimensions which lack coordination, but does not check the drawings for this purpose. Likewise, the processor reviews the general aspects of the structural and mechanical work and requires correction or substantiation of any item or condition which appears unacceptable. The Administration does not assume responsibility for checking such elements, this being the professional responsibility of the project architect and engineers.

d. Analysis of Changes in Exhibits. Any deviation or change from the drawings or Outline Specification upon which the pre-commitment processing was based must be completely analyzed for acceptability on the same basis as it would have been considered if proposed originally. A deviation or change to be acceptable must be such that it would have been acceptable had it been proposed in the original submission or during pre-commitment processing. It must have no significantly adverse effect on the Project Income Analysis and Appraisal, such as increased expense for replacement, maintenance or operation, reduced construction cost, and diminished rentability at the proposed rents.

Any change or its effect, which might be in question, is discussed with the Chief Architect, and the Chief Underwriter if necessary. If the adverse effect of a change is so slight as to be deemed negligible, it will not preclude acceptance. However, changes having a slight adverse effect should be offset by other changes having a compensating favorable effect. Correction must be required where a deviation or change is not acceptable.

e. Alternates. Working drawings and specifications must be definite and specific as to what is required. Therefore, the term "or equal" or alternates of methods, materials or equipment are not acceptable, nor is any other device providing for an option or choice by the owner, architect or builder.

f. The specific nature of the working drawings and specifications is required by the necessity of safeguarding the cost of construction evidenced by the exhibits on which the previous processing was based and to provide a well-defined basis for determining compliance. FHA Construction Change procedure during the Construction Stage does provide for the possibility of submitting requests for changes due to necessity, or to desire to use an equivalent, or to provide a betterment. Thus obtaining competitive bids on any item subsequent to "closing" is not excluded by the requirement for definite and specific working drawings and specifications.

g. Cash Allowances. Cash or lump sum provisions are not acceptable in the specifications or drawings as this would in effect limit the responsibility of the contractor to the amount allowed rather than to require completion of the item in question. This does not mean, for example, that a complete hardware list with quantities must be incorporated in the specifications, when a schedule of the different items by manufacturer's catalog number would be adequate.

Check List of Corrections. The complete translation of the Outline Specification into "Trade" type specifications and their necessary amplification, the final development of the working drawings, the removal of dependence upon established FHA minimum standards in the pre-closing exhibits, as well as possible changes occurring from further study and refinement by the project architect, will often result in the need or advisability of a number of corrections in the submitted exhibits. The project processor prepares a check list of all architectural corrections to be made in the exhibits in the manner prescribed for the check list of corrections to the pre-commitment exhibits.

All items on the check list shall be clearly worded to avoid misunderstanding as to the requirement or intent and thus keep any addenda or "last minute"

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changes to a minimum. The original should be given to the sponsor or his architect in ample time to allow the corrections be made before "closing".

Trade Payment Breakdown. (not required for projects to be insured upon completion.)

a. The Trade Payment Breakdown is required when advances during construction are to be insured. This is to be prepared by the contractor or mortgagor on Form 2536 and submitted to FHA. On this breakdown the "Total Estimated Cost of On-Site Construction, including Contractor's Cash Fee" is required to equal the contract price (or the upset price in a cost plus fixed fee contract) for on-site work, including the contractor's cash fee. When received, the processor reviews the completed form for: (a) conformity with the instructions on the form for its preparation; (b) its suitability for the characteristics of the project under consideration; (c) the reasonableness of the amounts allocated to the various trades in relation to the total for each building; (d) the reasonableness of the relationship of individual building totals to the project total; and (e) possible errors in addition.

b. In the analysis of the Trade Payment Breakdown, the processor detects and requires correction of an overly generous allowance for trades likely to be completed or well advanced in the early stages of construction; such as, excavation, concrete walls and footings, masonry, or rough carpentry. Failure to detect any distortion in the allocation of unduly large amounts to trades or buildings, likely to be completed or well advanced at an early stage, may have the effect of reducing the undisbursed balance during construction to a sum which is inadequate to complete the unfinished work.

c. Revision of the breakdown is required as necessary. When found reasonable with no corrections it is completed with dates and signatures in the space provided for use of the Federal Housing Administration at the

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bottom of the form. The mortgagor is provided with the signed original copy of the breakdown for reproduction purposes. He is also responsible for providing sufficient copies for use at "closing."

"Closing" Drawings and Specifications. The sponsor shall furnish for FHA use, four sets of the corrected pre-closing exhibits sufficiently in advance of the "closing" (or before issuance of a Commitment to Insure Upon Completion) to allow time for thorough examination. Any additional sets of exhibits required by the signatories may also be submitted for identification.

All steps necessary to safeguard the interest of the Federal Housing Administration are taken in matters relating to the proposed improvements. The following are specifically required:

- a. the current issue of the "General Conditions" of the American Institute of Architects and the special sheet of "FHA Supplementary General Conditions," Form 2554, must be included, unaltered, in each set of specifications;
- b. all of the required sets of drawings and specifications must be identical including any "last minute" revisions;
- c. all required building permits must have been issued for the proposed construction;
- d. acceptable evidence must be presented to show that the streets and other improvements which are to be dedicated will be acceptable to the local governmental authorities for maintenance;
- e. four complete and acceptable sets of drawings and specifications (on-site and off-site), must be submitted for FHA use. Set No. 1 is designated as the Master Set; and

f. the cover sheet of the drawings and the cover sheet of the specifications are to be in accordance with the instructions in Appendix D of the MPR.

Amendment of "Closing" Drawings and Specifications. Upon completion of review of the "closing" drawings and specifications, the sponsor or his architect is immediately notified of any modification of the exhibits needed for "closing" (or before issuance of a Commitment to Insure Upon Completion). If necessary, the exhibits are required to be revised. Usually it will suffice for the project processor to enumerate and describe all changes in the form of a typed addendum, to be identified and initialed by all parties and inserted at the beginning of each set of specifications at the time of "closing."

The decision of whether to require revision of the exhibits or to use an addendum will depend upon the nature and character of the modification, bearing in mind the need for clarity and definiteness, the subsequent use of the exhibits by the contractor and the FHA compliance inspector, and the advisability of avoidance of future misunderstanding in exhibit interpretation during construction. While a desire to meet the "deadline" date set for the "closing" may influence the adoption of amendment by addendum, this desire is not sufficient warrant for hurried or haphazard revision at this time.

Identification of Drawings and Specifications. At the "closing" (or before issuance of a Commitment to Insure Upon Completion), the cover sheets of the drawings and specifications are signed by the representatives of the architect, owner, contractor, mortgagee, bonding company, if any, and by the Chief Architect or his deputy representing the Federal Housing Administration. Also the Master Set of drawings and specifications, including any "last minute" revisions, is initialed on the back of each sheet and opposite each "last minute" revision by all the signatories.

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Minor "last minute" revisions which have no effect on cost may be made in white, black or colored ink, selected for legibility. These revisions must be made in each set and initialed by all the signatories.

If the project is to be insured upon completion, the same identification of the drawings, specifications and revisions by all the parties is required.

Construction Stage

General.

a. Definition. The Construction Stage is the period in which the construction of the project is inspected for compliance with the contract documents including drawings, specifications and any approved Construction Changes.

Construction Changes

a. Purpose - Construction Changes requested on Form 2437 and found acceptable by FHA constitute the sole means for amending the contract documents relating to on-site work. A primary purpose of this procedure is to facilitate construction operations without jeopardizing the Commissioner's interests. It may also operate to mitigate undue hardship, which might otherwise result if no means for the equitable modification of contract requirements were provided. It is contrary to the purpose of the Construction Change Procedure to alter the intent of the contract documents, as interpreted by FHA, or to impair the quality or value of the project.

b. Scope - Architectural processing of Construction Changes in projects involving insurance upon completion as well as in projects involving insurance of advances shall conform to these instructions. However, reference in the instructions to contract requirements or contract documents in projects involving

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insurance on completion shall be interpreted to mean the conditions and provisions of the commitment as well as the working drawings and specifications, and reference to the Contract Sum shall be interpreted to mean the amount of the FHA estimated Total of All Improvements.

Adequacy and Clarity of Proposals. Prior to processing the entries on the face of Form 2437 are reviewed generally for conformity with instructions on the form and for adequacy and clarity in setting forth the proposal. If changes cannot be properly analyzed on the basis of the information submitted, the mortgagor or contractor shall be so informed and advised to provide the essential exhibits or data. If necessary, tests or comparative tests by a recognized impartial testing laboratory may be required.

Changes Involving Engineering. Change requests involving engineering must be accompanied by the certification of the architect or engineer responsible for the work involved. Related computations and data shall also be required when the need for detailed review is evident.

Inspector.

a. Analysis of any changes relating to project construction or other conditions at the site may require consideration of the project inspector's opinion and recommendation concerning the same.

Analysis of Proposed Changes.

a. Maintenance of Project Quality. Analysis of each change requested must be performed with impartiality and fairness to all concerned. Accepted changes amend the contract documents, and require thorough consideration from the viewpoint of maintaining the quality and value of the project. This consideration requires that the standard of project quality, established by the contract drawings and specifications,

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be the principal criterion for judging a proposed change. It is important that all considerations include risk and feasibility, the probable effect on present and continuing rentability, maintenance expense and replacement cost, and soundness, safety, livability, and durability.

b. Appropriateness. Each change is thoroughly analyzed to ascertain the characteristics and qualities of the materials, equipment, method of construction and design involved, in order to determine the suitability and appropriateness of the change. Consideration is given to the conditions of use under which each change must function, together with the possible effect of the change on maintenance cost and operating expense, and in certain changes, the effect on livability and visual appeal.

c. Effect on Cost in Analysis. Determination of acceptability is made without consideration of cost. Increased cost does not necessarily imply betterment or increased value, nor may it be assumed that a cost decrease necessarily indicates reduced quality, decreased value or absence of equivalence.

Basis for Acceptance of Changes. As stated on Form 2437, a proposed change, to be acceptable, must be found to be actually due to necessity, or must be recognized as an appropriate betterment, or must qualify as an equivalent. Each proposed change is analyzed for acceptability on this basis. It is also required that the change be appropriate to the character of housing and in harmony with the other elements of construction and design in the project, and that it exhibit compliance with all applicable requirements, laws, regulations and deed restrictions. In changes due to necessity and in the case of additional work, construction and design are considered acceptable only if equal to or exceeding that which would have been acceptable in the subject project at the time of commitment.

Criteria for Acceptance of Changes.

a. Necessity - Substitutions less than equivalent are not acceptable except in the case of proven necessity and then only when equivalents or betterments are not obtainable. Necessity is a valid reason for change due to:

(1) Unavailability of Material. Claims of unavailability of all or part of the material specified shall be accompanied by conclusive evidence thereof. This must be corroborated through investigation by the office.

(2) Labor Shortage - Claims of labor shortage must be verified locally. Data are usually obtainable from the State Employment Bureau and from officials of the related building trades organization as well as from other employers of the same type of labor. The inspector should be consulted for any information he may have gained in the field.

(3) Clarification of Contract Documents. A proposal to amplify or clarify the contract documents requires thorough examination to ascertain that the proposed change will not adversely affect other work, and that the items in the proposal are not adequately described or indicated elsewhere in the contract exhibits. If the change is a duplication of work already required, it is unnecessary and confusing and thus unacceptable. However, changes proposing a clarification of contract requirements may necessarily involve a degree of duplication.

(4) Unforeseen Conditions. When these are claimed as the basis for necessity, the request must be accompanied by conclusive evidence thereof unless the conditions are self-evident. Site conditions claimed as justification shall be verified by consultation with the inspector, or by examination of the site by either the inspector, his supervisor, the Chief Architect, Sanitary Engineer, or Land Planning Section personnel, as may be warranted.

b. Betterment. Appropriate improvement of the project is a valid reason for change.

c. Equivalent.

(1) Equivalent is a valid reason for acceptance of a proposed substitution if it is known by the office, or proven conclusively by laboratory test or otherwise that the substitute is equal to that which was specified as to all qualities of importance. Unless the substitution will serve the purpose equally as well as the specified item, without increase in maintenance or operating cost or more frequent replacement or repairs, and without impairment of essential safety and visual appeal, it is not acceptable.

(2) Nevertheless, an occasional change may be accepted as qualifying as an equivalent at the discretion of the insuring office when construction equal to or exceeding that which would have been acceptable in the subject property at the time of commitment is proposed as a substitution for construction definitely superior to the general project level of quality. Acceptance of such changes in any project shall be applicable only to instances of obvious imbalance and shall be strictly limited in number in any project. It is not the purpose of the Construction Changes procedure to provide a means for manipulation to gain financial advantage which might jeopardize or impair the Commissioner's interests.

Deficiencies Revealed in Analysis. Correction of minor deficiencies in construction and design, revealed as the result of this analysis, may be stated as a condition of acceptance, if the change is otherwise acceptable. Major deficiencies are discussed with the proponents if possible, and unless the related Request is amended and revised exhibits are provided as may be necessary, the change must be considered unacceptable. When major deficiencies are present in a change found to be actually due to

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necessity, all possible means of correction including acceptable alternate solutions must be suggested to the proponent. Unless the proponent makes acceptable corrections, the change is considered unacceptable and the reason for unacceptability is stated. The means of correction which would make the change acceptable is also stated as a matter of record.

Delay in Processing Requests. Because the net effect on cost is recorded for all accepted changes to date, it is important that processing of change requests be performed in the numerical sequence of the request numbers. When the processing of a request is temporarily delayed through need for additional information or for other valid reasons, the processing of subsequently numbered requests is performed without delay after renumbering such requests in their actual processing sequence and informing the signatory parties of this action. Occasionally it may be advisable to provisionally reject a requested change on which processing must be deferred (a) in order to expedite the processing of other changes on the same request, (b) when more than short delay is anticipated, or (c) for other reasons; if such action is taken, the reasons for rejection shall clearly state that re-submission of the request for the change may be made when the conditions causing delay have been corrected.

PART I.2
VALUATION ANALYSIS

Value is defined as the price which typical buyers would be warranted in paying for the property for long term use and investment. During the process of estimating the value of a property, the valuation section of the insuring office conducts a thorough analysis of the acceptability and suitability of the location and improvements, extent, quality and duration of the net earning capacity, rate of return, market conditions as to both extent and absorption rate, and other factors pertinent to the proposed mortgage loan transaction.

Preapplication Stage

During this stage the valuation section assists the Chief Underwriter in determining the acceptability of the site and location and whether a sufficient market is available for the number and composition of units in the rental range proposed.

Application Through Commitment Stage

This stage begins with the receipt of a formal application and fee and embraces the intensive study of all valuation factors bearing on the property under appraisal. The objective is to have a properly designed project in the right location capable of permitting the sponsor a maximum loan, the mortgagee a sound loan, and the community a desirable addition to its rental housing supply. As part of the appraisal process the appraiser will analyze, among other things, the location and the structure proposed in the light of market demands and the ability of the market to pay the rentals proposed.

Analysis of Location: Consideration of location characteristics is of first importance in a rental housing value analysis. The pattern of appropriate improvements, the bracket of available rents, the level of warranted costs of construction and the

probable economic life of the structures comprising the area and competing areas are to a high degree determined by location factors.

The specific site is compared with others in consideration of neighborhood and city-wide physical, social and economic influences. Limitations of use imposed by zoning or deed restrictions are determined, trends of development, stability, or decadence are discovered and evaluated. Availability of utilities, services, shopping and employment centers appropriate to the intended use are also analyzed. The many and varied influences operating on the site which affect its market price and income potential when improved are collected, classified and compared with similar characteristics of comparable parcels recently offered or sold in the market.

A thorough study is made in the neighborhood of the proposed project site to determine the amounts of rent which are being currently received by the owners of competitive housing for units of the type and size offered by the proposed project.

The accumulated and analyzed location and site data produce certain general conclusions, or brackets with respect to the types, planning and designs most appropriate to the area, that is, highest-and-best use.

Estimate of Market Price of Site: During location analysis any matters required to make the site suitable for use or eligible for FHA insurance are noted and are made assumptions in the estimate of market price of the site and are made mandatory conditions of the commitment for insurance. Proper employment of all data assembled in the analysis of location results in the "Estimated Market Price of Site".

The estimate makes use of the Substitution Principle. The site is compared with other sites which offer similar elements of utility and desirability for the type and size of the proposed development. In order for the results of the physical comparison to be converted to terms of price, it is necessary that some definite price information be known concerning the properties chosen for comparison. It is not essential that the sites chosen for comparison be in the immediate vicinity of the site being appraised, but it is necessary that they be competitive thereto and that they be deemed to offer:

- a. Adequate size to meet generally the requirements of the proposed project
- b. Comparable appeal to prospective tenants of a social and economic status and rent-paying capacity similar to the type of tenants contemplated for occupancy of the proposed project, and
- c. Sufficient other similar attributes of utility and desirability to make the comparison reasonable and true.

The estimate of "available market price of site" within the meaning contemplated by FHA is as a site for the proposed rental housing project. This limit is imposed in recognition of the fact that the construction of a project upon the land will tend to fix the value of the land for the economic life of the project whether or not the site might have produced greater returns in combination with another type of structure. Valuation for most profitable use must always take into consideration zoning, deed restrictions or other limitations or restrictions imposed upon the property or applicant.

Analysis of Property: In a manner similar to that used in location and site analysis a study is made of the proposed improvement. Unit plans are examined from the standpoint of rentability and rental value. Building equipment, and services to be included in the rental charges, are reviewed for sufficiency and quality consistent with the type of property, rental level and customs of the area.

Analysis of Income Expectancy: This process first determines the gross income which may be anticipated from the proposed project. It is the summation of the rental values of shelter, services, and utilities, provided by the property. The annual income is estimated from a variety of sources including a complex of plan, arrangement, size, location, neighborhood and city-wide incomes, social characteristics, tax levels, housing supply and demand factors and the many other forces which may influence the gross income of a rental housing property.

The maximum earning potential of the property is found by a comparative and analytical process. Once the gross income is estimated, it is necessary to adjust it to reasonable expectations assuming average rather than ideal conditions. Therefore, the total yearly rental value estimate is modified by a predicted occupancy ratio indicated by considerations of vacancy, turnover and collection losses. The resultant is the Effective Gross Income Expectancy.

Analysis of Operating Expenses: This estimate requires the determination of the portion of gross income which must be used to maintain, operate and repair the property and to defray the cost of ownership arising from it. Under proper management these expenses are a first claim upon income and must be met if predicted gross income is to be realized.

For purposes of analysis, expenses are compiled in three groups, the sum of which constitutes the estimate of annual operating expense:

- a. Operating expenses are those occasioned by the continuous functioning of the property. With the exception of insurance and renting expense they represent materials and services physically applied to the property.
- b. The Reserve for Replacement makes provision for certain infrequently recurring expenses and is a means of distributing such items on an annual basis.
- c. General real estate taxes, special assessments and other types of Governmental charges which may become a lien prior to a first mortgage are grouped in this category. Social Security taxes are also included.

Estimates of operating expenses are made by use of data obtained from all available sources and by comparison with operating expense developed by comparable properties situated in areas which are comparable with regard to climate, custom, labor and operating material costs, type and amount of services provided, and methods of operation and management.

By the foregoing appraisal process, basic and essential conclusions have now been developed with respect to the feasibility of improving the site with a rental housing project. Assume for the moment that the market data indicates such a venture would prove successful if developed properly. To produce a successful project with the knowledge of the rent paying capacity of the people in the proposed location and the type and kind of living units they need is a matter of relating project costs to net income.

Unless the project is to be subsidized, the cost of producing the project must be properly related to the net income to support a maximum insured mortgage. The following elements bear directly on the relationship of debt service to net income.

- a. Cost of producing the property.
- b. Gross income.
- c. Cost of operating and maintaining the property.
- d. Net income.
- e. Debt service requirements.

A tentative, maximum mortgage amount may be calculated and from that the probably debt service requirements deduced.

From these figures, the appraiser can determine the maximum total cost that can be incurred to provide a net return equal to the debt service rate plus the additional one-half permitted in establishing FHA rent limitations. From the tentative mortgage amount, the appraiser deducts land, financing, carrying charges, legal and organizational expenses. The remaining figure will be an estimate of the upper limit of the cost of on-site improvements. These findings and tentative conclusions are made available to the sponsor and his architect in the early stage of the processing of the application and serve as a guide and assistance in determining the final project design, working drawings and specifications which will satisfy the market requirements and also hold the costs to an amount that can be supported by the expected net income. This data is also useful to the sponsor since it can assist him in obtaining the wisest use of cost dollars to obtain the best project for the intended occupancy. Usually

this will necessitate not only competent planning, but the avoidance of materials or features involving high maintenance expense and elimination of those features or materials whose utility or appeal do not provide economic justification for their inclusion. The cost dollars referred to are those dollars required to produce the property and those dollars required to be expended annually to operate and maintain the property. Thus the project must be analyzed from the point of view of obtaining a properly balanced relationship between the cost of installation of given items and the effect of their use on maintenance and operating costs.

Economic justification for recommendations for betterments in plans and specifications or elimination or modification of certain features in the plans and specifications can be directly tested.

If a change involves a more costly item and does not increase net income at least 7-3/4% of the difference in cost, it is not worth while from our economic standpoint. For example, if a design feature increases cost per family unit \$1,000, it should increase net earnings at least \$77.50 per year per family unit. It may do this by increasing rents, or decreasing operating expenses or both. Conversely, substitution of a less costly design feature is not worth while if it reduces net income more than 7-3/4% on the cost saving.

The 7-3/4% used in this illustration is based on the maximum net return permitted by the formula when the following assumptions are used: Interest 5¼%, Initial Curtail 1½% plus per cent, Mortgage Insurance Premium ½%, Override ½%.

The Valuation Section is kept informed of suggested modifications in plans and specifications made by the Land Planning and Architectural Sections in the interest of reducing production and operating costs.

The Valuation Section should then be able to suggest elimination of items whose costs will not be properly supported by rentals obtainable or which unduly decrease net income through unnecessarily increasing expenses.

Once a plan and specifications have been agreed upon, the valuator reviews the final plan and makes such changes as are required in his initial estimates of gross income, operating and maintenance expenses and reserves in order to arrive at the final estimate of the net income stream the finished project will achieve.

NOTE: In those sections of the Housing Act where "acceptable risk" rather than "economic soundness" are applicable, the net income is used only to calculate the maximum mortgage amount that can be supported. In those sections of the Housing Act requiring "economic soundness" the net income is developed into an estimate of capitalized value of the total project. Regardless of the section of the act under which the project is being processed the methods used to develop net income are identical.

Capitalization of Net Income

The annual net income is considered as the principal source of value of the property. Value arises from the right to receive this income stream. The estimated net income is developed into a capitalized value of the total project, including land, by use of the "building residual" method. This method requires a division of net income into two portions:

1. A return on land, which is assumed to continue indefinitely into the future and
2. The residual, which is imputable to the building for amortization of their cost

together with a return on the investment.

The capitalization process is based upon an annuity premise. The premise is that the residual net income attributable or imputable to the building will be received in succession annual installments at the end of each year and that these installments will be of sufficient magnitude to retire a portion of the debt and pay an annual interest return to the owner commensurate with the risk involved. These residual earnings are assumed to decrease gradually until they disappear. At this point in time the building is said to be at the end of its economic life.

The capitalization technique is the mathematical process of calculating or discounting to present worth a series of payments or installments to be received annually over a period of years.

The series of payments to be received is the net income or earnings of the property and the term of the payments is the economic life of the improvements.

The estimate of capitalized value is the sum of the value of the land and the capitalized value of the income stream residual to the structures.

Estimate of Replacement Cost of Property: The substitution theory postulates that replacement cost of the property in new condition constitutes one of the upper limits of value. The process requires calculation of the current cost of improvements to the land (but exclusive of off-site work), and the cost of structures, including the fees of the builder and architect. Also considered as a part of replacement cost are the financing and carrying charges incident to the construction. Legal and organizational expenses and other expenses normally incurred by builders in constructing apartment projects are part of the allowable cost.

To the total of the foregoing items is added the estimated market price of the site in fee simple as determined by comparison.

The cost of the off-site work is estimated for use by Mortgage Credit Section in determining cash requirements. It is reflected in the market price of the site to whatever extent is found to be justified by comparison with competitive sites.

Estimate of Market Price: The substitution theory also demonstrates that market price is one of the upper limits of value. It is therefore necessary to investigate sales and offerings of equivalent or comparable properties, preferably those of recent occurrence, if available, or those which have taken place during the same period of similar market conditions. Under conditions of relative equilibrium between supply and demand, market data, when obtainable in sufficient quantity is usually the most factual of the numerous data employed in valuation estimates; hence considerable weight is assigned to it as an upper limit of value.

Estimate of Value: Having found comparative values produced by the appraisal methods of capitalization, replacement cost and market price should be weighted. Assuming there was equal information and justification for the results of each test of value the lowest is selected and certified by the appraiser as the value. The reason for this is that an investor is not warranted in paying more than substitute properties would currently cost to acquire, whether by outright purchase, or by assembling a duplicate.

If an improvement is proper to its location and satisfies market demands, the results of the three appraisal methods should approximate each other very closely.

Valuation of Land for Cost Certification Purposes

Unlike the "Estimate of Market Price of Site" the fair market value of the land found for cost certification purposes does not reflect proposed or mandatory improvements, either off-site or on-site. Comparisons are made of sales and offers to buy or sell of similar sites with subject site in its "as is" condition as of the date of the application. The reason for this is to avoid duplication of costs that might be reflected in the land value and also in the costs allowed the Sponsor. However, the market value estimate will reflect consideration of any streets and utilities, on-site or off-site, which are present at the time of the application and appraisal and prior to the construction of the project. Off-site improvements in the process of installation will be reflected in value as if completed. The value will also reflect any superiorities or deficiencies in the subject site as compared to competitive sites, such as the necessity for unusual site preparation (piling, rock outcropping, etc.) which will require expenditures and which detract from, and influence downward the "as is" value of the subject site. Where sites are located in designated urban renewal or redevelopment areas and are cleared or will be cleared with the aid of Federal subsidies and the cleared sites are sold by the municipalities to the developers, the "Commissioner's estimate of value" in each case shall in no event exceed the purchase contract. Approved itemized expenditures or accruals of liability subsequent to acquisition may be included provided such-costs are not allowable as a construction cost.

Construction Stage

If a request for a building or equipment change is received after initial closing, the processing appraiser estimates the effect the change will have on net income. The proposed change is considered

in the light of future maintenance and operating expense, livability of the apartments, desirability, appearance, and similar factors.

PART I.3
MORTGAGE CREDIT ANALYSIS

MORTGAGE CREDITNATURE AND PURPOSE OF MORTGAGE CREDIT ANALYSIS

The Mortgage Credit risk in a mortgage loan transaction is the probability of failure of the mortgagor to complete and provide competent management of the project and the probability that the income from the project, plus pledged subsidy, if any, will not provide for all financial requirements. The anticipated income and expense figures are factors of risk determined largely by valuation analysis. From the Mortgage Credit standpoint, these income and expense figures are applied to arrive at one of the upper limits in mortgage amount, or to determine the anticipated subsidy requirement if the project is to be subsidized by a non-profit organization.

The determination of the acceptability of the Mortgage Credit risk involves an analysis of the sponsorship and a conclusion that:

1. The character and reputation of the sponsors are satisfactory and that they possess the ability and experience to develop, build, and operate (directly or indirectly) a project of the type proposed.
2. The sponsor(s) have the financial capacity to complete a project of the size contemplated in accordance with established requirements.
3. The mortgage amount established bears sound relationship to the prospective net income (including any acceptable subsidy pledge) and expenses of operation and maintenance and does not exceed the statutory and regulatory limitations.

STEPS IN MORTGAGE CREDIT ANALYSIS

Detailed analysis of all pertinent factors proceed logically in the following order:

- (a) Credit investigation
- (b) Amount and amortization period of loan
- (c) Determination of estimated requirements for completion of project
- (d) Determination of mortgagor's ability to close transaction
- (e) Analysis of acceptability of sponsorship
- (f) Assurance of completion
- (g) Insurance of advances
- (h) Construction changes
- (i) Advances under Escrow Agreement for Off-Site Facilities
- (j) Cost certification
- (k) Consent to Substitution of Mortgagors

CREDIT INVESTIGATION

The basic purpose of credit investigation in connection with multifamily projects is to determine the acceptability of the sponsorship as to their credit reputation, capacity and financial responsibility. The scope of the investigation will usually include factual data and/or commercial credit reports on the principals, financial statements as evidence of the availability of or demonstrated ability to obtain capital that may be required, and information from other FHA insuring offices under whose jurisdiction the sponsors have previously operated.

Information required for analysis of the credit risk ordinarily includes:

- (a) The data and supplementary schedules in the Application for Mortgage Insurance.
- (b) Current factual data credit reports on each principal sponsor.
- (c) Commercial credit reports on any business concern in which the principal sponsors hold substantial ownership interest.
- (d) Current financial statements with adequate supporting schedules.
- (e) Copy of purchase agreement or valid option or statement of ownership concerning the land.
- (f) Explanatory statements, if required, to supplement or clarify information submitted.
- (g) Information in the Project Income Analysis and Appraisal.

The Mortgage Credit Examiner reviews the application and accompanying exhibits to determine:

- (a) Whether the sponsorship appears to be acceptable on the basis of the data submitted.
- (b) Whether the mortgage amount applied for would be eligible for insurance on the basis of estimates submitted by the sponsors.
- (c) What supplementary credit information is needed to prepare the case for processing.

While the extent of credit investigation required for competent analysis will, of course, vary with each case it is essential in all cases that any important contradictory information be reconciled.

AMOUNT AND AMORTIZATION PERIOD OF LOAN

Analysis of the credit risk is premised upon a loan for a definite amount and amortization period. The amount of mortgage loan will be the amount applied for but not to exceed the maximum amount permitted under the statutory and regulatory limitations for the particular Section of the Act.

The mortgage will involve a principal obligation in an even multiple of \$100 and a term not appreciable in excess of three-fourths of the remaining economic life of the building improvements but not to exceed the maximum term prescribed for the particular Section of the Act and plan of amortization.

DETERMINATION OF ESTIMATED REQUIREMENTS FOR COMPLETION OF PROJECT

The development of the financial requirements for completion of a multifamily project is essential for the subsequent analysis of the mortgagor's financial capacity to provide all required funds. The analysis determines the net amount of cash required to close the transaction. This is accomplished by totalling the FHA estimate of the replacement cost of the property or project, the estimated cost of off-site improvements and required working capital deposits. (In projects involving rehabilitation the requirements will be based on the FHA estimate of the cost of rehabilitation plus (1) the actual purchase price of the property and closing charges or (2) the principal amount of the indebtedness against the property and closing charges, if rehabilitation

involves property already owned.) From this is deducted the maximum insurable mortgage. The remainder will represent the estimated capital requirements for the realty. In Housing for the Elderly and Nursing Home projects further capital will generally be required to defray all costs of placing the project in immediate operation as operational income will be vital to proper mortgage liquidation. This will include cost of all capital expenditures necessary to the basic operation of the project such as furniture, supplies, equipment and other expenditures not covered by the proceeds of the insured mortgage. The sponsors will be required to submit with their application separate detailed cost schedules covering each of the proposed additional facilities of this nature. These schedules will be reviewed for the purpose of estimating the reasonableness of such cost. Subsequent information may be obtained if there is evidence of inconsistencies or errors in the estimates. Funds for these installations in elderly projects must be in the form of a permanent investment.

DETERMINATION OF MORTGAGOR'S ABILITY TO CLOSE TRANSACTION

A fundamental credit consideration in the analysis of a multifamily project involves the determination of the mortgagor's ability to provide funds which, with the mortgage proceeds, will be adequate to assure satisfactory completion and provide working capital. This may require the analysis of balance sheets, operating statements and other credit data to determine the adequacy and availability of funds.

If the mortgagor corporation has been formed and capital paid in, the corporate financial statements are analyzed in accordance with credit analytical practices. The object of this analysis is to determine the current working capital position of the mortgagor corporation and to determine the adequacy of this capital to meet the financial requirements of the project.

In most instances the mortgagor corporation will not be formed prior to the issuance of a commitment. It is therefore necessary that the financial statements of the principal sponsors be analyzed to determine the availability of funds for investment in the mortgagor corporation. This may include operating capital readily available for investment purposes and/or other assets that can be readily hypothecated to produce investment capital. In addition to the amounts so determined consideration is given to any sources of allowable equity other than cash, such as builders fees, etc. The total capital estimated as available from the project sponsorship will be adjusted to reflect any pledges of capital outstanding in connection with other building operations.

DETERMINATION OF MORTGAGOR'S ABILITY TO PROVIDE OTHER CAPITAL AND ASSURANCES OF FINANCIAL CAPACITY TO OPERATE ELDERLY PROJECTS OR NURSING HOMES

Projects of this type involve more extensive financial considerations than other multifamily projects in that they entail more than a rental market debt service relationship. These transactions often involve the operation of a business providing all living facilities for elderly persons or complete nursing care. As fundamental credit considerations in the analysis of these multifamily projects, the mortgagor must submit evidence with the application to show:

1. That the mortgagor (or sponsoring group) has the total needed capital available for investment in the project.
2. A comprehensive outline of the plan for operating the project together with supporting schedules of all income from all sources and schedules in detail covering estimates of operating cost of the project such as cost of attendants, operating community dining and recreation facilities, operation of infirmaries, and other substantial costs of this nature. The reasonableness of these estimates will be studied as a primary responsibility of the Mortgage Credit Section. In many instances supplementary information must be obtained both from the sponsors and outside sources.

Additionally, in Nursing Home projects, a carefully prepared budget must be submitted showing projected income and expenses covering the initial period estimated to produce a self-sustaining or profitable operation. This is essential for analysis by mortgage credit in determining the operating fund escrow to meet expenses of the project in this initial period of partial occupancy.

3. That the mortgagor has capable and experienced management for these highly specialized programs.

The Mortgage Credit Section will make an over-all estimate of the income and expense of the project using the above information to which will be added:

1. All operating expenses directly related to the property as computed and itemized by the Valuation Section.

2. Total debt service (including special assessments and ground rents). Many of these projects will be dependent on subsidies of various kinds. In such cases it must be determined whether or not (1) the mortgagor has a sponsorship that is capable of meeting the anticipated subsidy requirements and (2) there is a legally binding agreement to do so. In no case may a mortgagor be approved if it has or will change admission fees or founders fees and will in any way be obligated to provide service or living accommodations. Sponsoring organizations may collect such fees, provided that their obligation to provide service or living accommodations is not to be limited exclusively to the FHA project.

ACCEPTABILITY OF SPONSORSHIP

The accumulated credit data and processing conclusions are then reviewed to determine whether the sponsorship meets the following eligibility requirements:

- (a) The sponsors (and contractor, if named) must be of good reputation, must have credit standings reflecting a satisfactory attitude toward obligations and must have demonstrated ability to manage affairs of this nature. If the sponsor or contractor has engaged in other FHA insured transactions, the office will take into consideration its past experience with such sponsor or contractor. The credit reputation and the previous experience is important in order to assure that management of the project, especially the direction of its financial affairs, will be conducted in an ethical businesslike manner and with due regard to the interest of all parties concerned.

- (b) There must be reasonable assurance that the sponsors are financially able to provide assets which, together with mortgage loan proceeds, will be adequate to meet all costs of completing the project and provide working capital to equip, rent and meet the mortgage payments until such time as the net income from the project is estimated to be sufficient. Insurance of construction advances requires also that the mortgagor provide satisfactory assurances of completion under FHA Regulations.

ASSURANCE OF COMPLETION

At the initial closing of a multifamily project involving the insurance of advances the sponsors are required to provide satisfactory assurance of completion. This may be in the form of a surety bond or a cash deposit in accordance with FHA Regulations.

An assurance of completion is not required in projects involving a Commitment to Insure Upon Completion. Prior to endorsement of the credit instrument for insurance, however, the mortgagee is required to obtain from the mortgagor a form of guarantee against latent defects and defective workmanship and materials in accordance with administrative instructions.

INSURANCE OF ADVANCES

Advances of mortgage proceeds made during the construction of a property or project are eligible for insurance in amounts consistent with the progress of construction or rehabilitation. The purpose of mortgage credit analysis is to determine the amounts eligible for advance and insurance. This will involve four general considerations.

- (a) that all escrowed funds for on-site improvements are disbursed prior to the advance of any mortgage proceeds.
- (b) that the amount of mortgage proceeds advanced and approved for insurance is consistent with the progress of construction as reported and approved by the construction examiners.
- (c) that the amount of mortgage proceeds advanced for construction items is adjusted to reflect a 10% retainage as a protection against latent developments.
- (d) that the final amount approved for insurance is in accord with the maximum insurable mortgage as redetermined in accordance with cost certification instructions

Requests for approval and insurance of advances of mortgage proceeds are usually submitted on a monthly basis. The application for Insurance of Advance of Mortgage Proceeds, Form 2403, is initiated by the mortgagor who executes the request for payment on the reverse side of the form. Entries are made separately to show amounts requested for Architect's Fees, various individual items of carrying charges and financing and the total payment requested to meet the net amount due according to the Contractor's Requisition, Form 2448.

Final Advance

The Application for Insurance of the Final Advance will include the retained 10% or the unadvanced portion thereof, plus any remaining balance of mortgage proceeds. Approval of the application is subject to compliance with the following conditions:

- (a) thirty days or more have elapsed (unless, at an earlier date, the mortgagee is willing to advance such funds and the title insurer consents to such earlier date) since the date of 100% completion of the on-site construction, even though some items involve work which qualifies for delayed completion;
- (b) the Final Inspection Report has been approved subject to the escrowing of sufficient funds, to assure acceptable completion of items listed as items of Delayed Completion. All off-site sewer, water, electrical and gas facilities are completely installed and connected, and safe, adequate all-weather facilities for ingress and egress are provided, and
- (c) all other required off-site construction, if any, is 100% complete or completion has been assured by a cash deposit in an amount equal to the FHA estimate of cost of such off-site construction.
- (d) Mortgagor's cost certification has been approved and the maximum insurable mortgage amount redetermined.
- (e) Mortgagor's profit and loss statement covering income and expenses from partial occupancy, if any, during the construction period has been submitted and the amount, if any, of advance amortization has been established.

The sum to be approved for advance of insurance is the balance of the mortgage proceeds based on the maximum insurable mortgage as redetermined in connection with the mortgagor's cost certification less the required amount of advance amortization, if any.

CONSTRUCTION CHANGES

The inherent complexity in the planning and construction of a multifamily project will frequently require changes in the plans and specifications after the start of construction. Requests for changes are initiated by the contractor and mortgagor on FHA Form 2437 and require the approval of the mortgagee and the FHA. Mortgage credit analysis of the Architectural and Valuation findings with respect to construction changes is required to determine the net effect on costs and mortgage amounts.

Cases Involving Insurance of Advances During Construction. The following considerations are applicable to mortgage credit analysis of construction changes pursuant to commitment to insure advances of mortgage proceeds:

- (a) If the net effect of the acceptable changes is to decrease the FHA estimate of the total cost in an amount less than $2\frac{1}{2}\%$, a reduction is not required in subsequent contractor's requisitions. However, the amount of the net decrease in cost, if any, will be deducted from the final request for approval of advances, and the amount of the insurable mortgage will be similarly reduced.

- (b) When the net effect of acceptable changes is to reduce the FHA estimate of the total cost of the project $2\frac{1}{2}\%$ or more, a reduction in subsequent contractor's requisitions in an amount equal to the net decrease in cost is required. Once decreases have reduced costs $2\frac{1}{2}\%$, and the procedure just described has been invoked, deductions from contractor's requisitions are thereafter made in all instances involving reductions in cost, regardless of whether or not they involve amounts equal to, or more than, $2\frac{1}{2}\%$ of cost.
- (c) When the net effect of the acceptable changes is to increase the cost less than $2\frac{1}{2}\%$, FHA will make no requirement with respect to the deposit of additional funds to cover the increase.
- (d) If the net effect of the acceptable changes is to increase the cost of the project $2\frac{1}{2}\%$ or more, FHA will require the mortgagor to deposit with the mortgagee the sum needed to cover FHA's estimate of the increased cost. Once increases have equalled or exceeded $2\frac{1}{2}\%$ of the cost and the procedure just described has been invoked, deposits to cover increased costs will be required in all instances regardless of the amount involved.
- (e) In the event approved changes increase costs 10% or more, FHA will advise the mortgagee that consent to surety to the changes shall be obtained in writing, and a signed copy of the consent is to be furnished to FHA prior to effecting the changes.

Whenever the proposed construction change will adversely affect the prospective net income from the project, a trial income analysis and appraisal will be made. From this data the Mortgage Credit Examiner redetermines the maximum insurable mortgage in accordance with prescribed limitations.

Where the FHA estimate of the net effect on construction cost of all acceptable construction changes shows a net decrease in cost and differs substantially from the mortgagor's estimated net effect on cost, a letter will be directed to the mortgagee informing the mortgagee of the amount of the FHA estimate of such net decrease in cost and that the mortgage amount will be reduced at the time of final endorsement of the credit instrument to the extent of any net decrease in construction costs, resulting from acceptable construction changes. Such a letter, however, will not be furnished where the conditions of approval require a deduction on subsequent Contractor's Requisitions.

Cases Involving Insurance Upon Completion.

Mortgage credit analysis of construction changes in connection with a commitment to insure upon completion differs somewhat inasmuch as approval of advances is not involved.

If the FHA estimate of the net effect on construction cost differs substantially from the mortgagor's cost, a letter will be directed to the mortgagee informing the mortgagee of the net effect on cost of the project based on FHA estimates. Where the net effect of the changes results in a net increase in cost, attention will be directed to the fact that the mortgagor must be able to provide the additional funds required and the mortgagor must not

have outstanding any obligation in connection with construction other than the insured mortgage at the time the mortgage is presented for insurance. Where the net effect of the change results in a net decrease in cost, attention will be directed to the fact that the maximum insurable mortgage will be reduced by the amount of any net decrease in cost resulting from acceptable construction changes.

ADVANCES UNDER ESCROW AGREEMENT FOR OFF-SITE FACILITIES

The installation of off-site public utilities and streets necessary for the proper operation of a rental housing project will be assured by:

- (a) Assurances from public authorities or public utility companies in form satisfactory to the Commissioner; or
- (b) A contract guaranteed by a surety bond of a satisfactory surety company in an amount equal to the FHA estimate of the cost of such off-site facilities; or
- (c) An escrow deposit of cash with the mortgagee or with a depository satisfactory to the mortgagee in an amount equal to the FHA estimate of cost of such work.

In cases where advances of mortgage money are to be insured during construction and an escrow deposit has been made to assure the construction of off-site facilities, disbursements may be made from this escrow deposit as the construction of such off-site facilities proceeds. These disbursements will be in proportion to the percentage of such

off-site work completed, less a holdback of 10%. The 10% holdback is approved for disbursement thirty days after all of the off-site facilities covered by the escrow agreement have been completed. The Request for Approval of Advance of Escrow Funds is made on FHA Form 2464.

COST CERTIFICATION

The Administrative Regulations require the mortgagor to execute a certificate upon the completion of the construction of the property or project as to the actual cost of the completed property or project.

It is the responsibility of the Mortgage Credit Section to determine the maximum insurable mortgage based on actual cost of the completed project and the amount of the reduction of the original mortgage amount, if any. This determination will be based on the cost certification of items and amounts included in the Mortgagor's Cost Certification after a careful review has been made of the items and amounts included.

CONSENT TO SUBSTITUTION OF MORTGAGORS

When a mortgagee requests a release of the original mortgagor from liability, by submitting "Consent to Substitution of Mortgagor", it is the responsibility of the Mortgage Credit Section to determine that the new mortgagor who is to be substituted on the insured mortgage is acceptable from a credit standpoint. The proposed mortgagor must have a credit standing reflecting a satisfactory attitude toward obligations and have sufficient available assets to complete the transaction. There must also be indications that the rental project will be managed in accordance with good real estate practice.

These determinations, made in the Mortgage Credit Section, are ordinarily based upon analysis of the financial statement of the mortgagor corporation and its principles, information obtained from credit references, and an adequate credit report. When the transaction has not yet been completed a copy of the purchase agreement also is required in order to determine the amount of cash needed to complete the transaction. It may be necessary to require any of these exhibits or other credit data when sufficient information to make the above determinations has not been submitted with the request for "Consent to Substitution of Mortgagor."

PART J.
AMORTIZATION PLANS

J. AVAILABLE FHA AMORTIZATION PLANS FOR MULTIFAMILY MORTGAGES

INDEX

INTRODUCTION

AVAILABLE AMORTIZATION PLANS

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INTRODUCTION

FHA approved amortization plans fall into four basic categories each of which is designed to serve particular purposes. These plans are:

- I. Level Annuity Monthly Payment
- II. Combination Declining Annuity
- III. Accelerating Curtail Declining Annuity
- IV. Level Principal Payment

For general reference purposes, Form 3010-3 may be considered as typical of the Level Annuity Monthly Payment Plan and Form 3010-1 as illustrative of the basic concept of the Combination Declining Annuity and Accelerating Curtail Declining Annuity plans. The Level Principal Plan is not prescribed for any particular programs--it is merely available if desired. For this reason and because the payments to principal are determined simply by dividing the total mortgage amount by the total number of months in the term of the mortgage, this plan is not illustrated herein.

The amortization plans and the available alternates for each of the several Multi-family Housing programs may be found by reference to the index above.

All plans require monthly payments to principal and interest. Interest is required to be computed on outstanding balances.

The Level Annuity Monthly Payment Plan, the oldest of the four, requires a monthly payment to interest and principal which remains constant during the full term of the mortgage. Each payment is applied first to interest on the unpaid principal balance with the remainder applied to reduction of principal. The payment to principal is increased each month by the amount of the decrease in interest charges.

The Combination Declining Annuity and the Accelerating Curtail Declining Annuity plans differ from the Level Annuity Monthly Payment plan in that the amount applied to principal each month accelerates at a

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rate lower than the rate at which interest payments decrease. Under these plans, the initial monthly payments to interest and principal are higher but as the project ages, the total payments decrease to a point much lower than that required by the level annuity plan. Both of the declining annuity plans recognize that in a mortgage transaction involving a relatively long amortization period, the potential decline in earning capacity of the project may present a serious problem in later years. Accordingly, under both plans each monthly payment to interest and principal is slightly less than the preceding one, with the cumulative decline approximately equalling the decline in potential earning capacity.

The Combination Declining Annuity plan involves a relatively slow decrease in monthly payments in the earlier years when potential earning capacity is highest and this fact permits a lower initial principal payment. In the later years, however, the rate of decrease is changed to equal that of the Accelerating Curtail Declining Annuity plan.

The Accelerating Curtail Declining Annuity plan differs from the "Combination Declining Annuity" only in that there is no change in accelerators during the term of the loan and the rate of decline in total payments is relatively constant throughout the life of the mortgage, and in that the payments to principal are necessarily somewhat higher when amortization begins.

The Level Principal Payment plan involves a payment to principal in the same dollar amount each month throughout the life of the mortgage. Total payments to interest and principal decrease each month in the exact amount of the decrease in interest. Initial payments to principal exceed those required under the other plans.

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BASIC AMORTIZATION PLANS
SECTION 207 - MULTIFAMILY HOUSING

The amortization plans specifically authorized for use under Section 207 of the National Housing Act are set forth on this page.

The principal payment rates for the Combination Declining Annuity Plan and the Accelerating Curtail Declining Annuity Plan follow. Since no mortgage may have an amortization period appreciably in excess of 75% of the Commissioner's estimate of the remaining economic life of the project, the maximum mortgage amortization periods are also shown for each finding of economic life.

COMBINATION DECLINING ANNUITY PLAN

Remaining Economic Life in Years	Maximum Term		Initial Curtail Rate	First Principal Payment Rate *	Principal Payment Acceleration Rates	
	Years	Months			for Payment Numbers	for Payment Numbers
50	39	0	1.50%	\$1.250000	2 - 120	121 - 468
45	35	4	1.75%	\$1.458333	2 - 108	109 - 424
40	30	1	2.25%	\$1.875000	2 - 84	85 - 361
35	26	0	2.75%	\$2.291667	2 - 72	73 - 312
30	23	1	3.25%	\$2.708333	2 - 60	61 - 277
25	18	9	4.25%	\$3.541667	2 - 48	49 - 225
20	15	3	5.50%	\$4.583333	2 - 36	37 - 183

ACCELERATING CURTAIL DECLINING ANNUITY PLAN

Remaining Economic Life in Years	Maximum Term		Initial Curtail Rate	First Principal Payment Rate *	Principal Payment Acceleration Rate For	
	Years	Months			Accelerator	Payment Numbers
50	39	3	2.00%	\$1.666667	100.1%	2 - 471
45	35	8	2.25%	\$1.875000	100.1%	2 - 428
40	30	3	2.75%	\$2.291667	100.1%	2 - 363
35	26	3	3.25%	\$2.708334	100.1%	2 - 315
30	23	2	3.75%	\$3.125000	100.1%	2 - 278
25	18	10	4.75%	\$3.958334	100.1%	2 - 226
20	15	3	6.00%	\$5.000000	100.1%	2 - 183

*Under both plans, the amount of the first payment to principal is determined by dividing the mortgage amount by 1,000, multiplying the result by the amount shown in the "Rate" column and rounding off the total to the next higher whole cent.

The Level Annuity Monthly Payment plan of amortization is NOT permitted under Section 207 but, if the mortgagee and mortgagor so desire, the Level Principal Payment Plan may be used.

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BASIC AMORTIZATION PLANS
SECTION 207 - MOBILE HOME COURTS

The amortization plan specifically authorized for mortgages covering Mobile Home Courts is set forth on this page.

The principal payment rate for the Accelerating Curtail Declining Annuity Plan follows. Since no such mortgage may have an amortization period in excess of 15 years, this is the maximum term shown for Mobile Home Courts.

ACCELERATING CURTAIL DECLINING ANNUITY PLAN

<u>Remaining Economic Life</u>	<u>Maximum Term</u>		<u>Initial Curtail Rate</u>	<u>First Principal Payment Rate *</u>	<u>Principal Payment For</u>	
	<u>Years</u>	<u>Months</u>			<u>Accelerator</u>	<u>Payment Numbers</u>
20 years	15	0	5.55%	\$4.625000	100.20%	2 - 180
15 years	10	0	8.86%	\$7.383333	100.20%	2 - 120

*The amount of the first payment to principal is determined by dividing the mortgage amount by 1,000, multiplying the result by the amount shown in the "Rate" column, and rounding off the total to the next higher whole cent.

The Level Annuity Monthly Payment plan of amortization is NOT permitted under Section 207 but, if the mortgagee and mortgagor so desire, the Level Principal Payment Plan may be used.

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BASIC MULTIFAMILY AMORTIZATION PLANS
SECTION 213 - COOPERATIVE HOUSING

The LEVEL ANNUITY MONTHLY PAYMENT plan is authorized for Multifamily Cooperative Housing projects. The allowable mortgage terms and monthly payments to principal and interest for several possible interest rates follow. In new construction, the maximum mortgage amortization period is forty years. Since in the case of existing construction, no mortgage may have an amortization period appreciably in excess of 75% of the estimated remaining economic life of the project, the maximum amortization period for each finding of economic life is also presented.

Investor-Sponsor computations: Amortization for the first 2 full years will require a level annuity monthly payment using the table and factors set forth below. Thereafter, amortization of the remaining balance of the mortgage will be by the accelerating curtail declining annuity method. Assuming an original term of 40 years at an interest rate of 5% percent, to determine the amount of the monthly payment for the accelerating curtail declining annuity method for the remainder of the mortgage term it is necessary to multiply the original face amount of the mortgage divided by 1.000 by the factor 1.705129.

Interest Rate	Years of Remaining Economic Life	Maximum Term		Number of Payments	Initial Curtail Rates	Monthly Payment to Principal and Interest Rate per \$1,000 *
		Years	Months			
5-1/4%	50	40	0	480	.736444%	\$4.988703
5-1/4	45	35	0	420	.998916	\$5.207430
5-1/4	40	30	0	360	1.376444	\$5.522037
5-1/4	35	25	0	300	1.940972	\$5.992477
5-1/4	25	20	0	240	2.836130	\$6.738442
5-1/4	20	15	0	180	4.396532	\$8.038777
5%	50	40	0	480	.786359	\$4.821966
5	45	35	0	420	1.056252	\$5.046877
5	40	30	0	360	1.441859	\$5.368216
5	35	25	0	300	2.015080	\$5.845900
5	25	20	0	240	2.919468	\$6.599557
5	20	15	0	180	4.489523	\$7.907936
4-3/4%	50	40	0	480	.839095	\$4.657579
4-3/4	45	35	0	420	1.116280	\$4.888567
4-3/4	40	30	0	360	1.509768	\$5.216473
4-3/4	35	25	0	300	2.091409	\$5.701174
4-3/4	25	20	0	240	3.004683	\$6.462236
4-3/4	20	15	0	180	4.583983	\$7.778319
4-1/2%	50	40	0	480	.894754	\$4.495628
4-1/2	45	35	0	420	1.179080	\$4.732567
4-1/2	40	30	0	360	1.580224	\$5.066853
4-1/2	35	25	0	300	2.169990	\$5.558325
4-1/2	25	20	0	240	3.091793	\$6.326494
4-1/2	20	15	0	180	4.679920	\$7.649933
4-1/4%	50	40	0	480	.953442	\$4.336202
4-1/4	45	35	0	420	1.244728	\$4.578940
4-1/4	40	30	0	360	1.653279	\$4.919399
4-1/4	35	25	0	300	2.250857	\$5.417381
4-1/4	25	20	0	240	3.180814	\$6.192345
4-1/4	20	15	0	180	4.777341	\$7.522784
4 %	50	40	0	480	1.015262	\$4.179385
4	45	35	0	420	1.313296	\$4.427747
4	40	30	0	360	1.728984	\$4.774153
4	35	25	0	300	2.334042	\$5.278368
4	25	20	0	240	3.271764	\$6.059803
4	20	15	0	180	4.876255	\$7.396879

*The monthly payment for a loan on the Level Annuity Monthly Payment basis is calculated by dividing the mortgage amount by 1,000, multiplying the result by the applicable figure in the "Monthly Payment to Principal and Interest" column and rounding off the total to the next higher whole cent.

If the mortgagor and the mortgagee so desire, amortization may be by the COMBINATION DECLINING ANNUITY PLAN, the ACCELERATING CURTAIL DECLINING ANNUITY PLAN shown in Forms 3010-1, 3010-4 or 3010-5 or by the LEVEL PRINCIPAL PAYMENT PLAN provided that the maximum allowable terms shown above are not exceeded.

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BASIC MULTIFAMILY AMORTIZATION PLANS
SECTION 220 - URBAN REDEVELOPMENT

The amortization plan specifically authorized for Multifamily Housing mortgages under Section 220 of the National Housing Act is set forth hereinafter.

The principal payment rates for the Combination Declining Annuity Plan follow. Since no mortgage may have an amortization period appreciably in excess of 75% of the Commissioner's estimate of the remaining economic life of the project, the maximum mortgage amortization periods are also shown for each finding of economic life.

COMBINATION DECLINING ANNUITY PLAN

Remaining Economic Life	Maximum Mortgage Term		Initial Curtail Rate	Rate for First Principal Payment *	AMORTIZATION PERIODS		
	Years	Months			First Period** Payment Numbers	Second Period	
						Payment Numbers	Accelerators
50 years	39	0	1.50%	\$1.250000	2 - 120	121 - 468	100.10%
	39	8	1.40	1.166667	2 - 120	121 - 476	100.13
	39	11	1.30	1.083333	2 - 120	121 - 479	100.17
	39	10	1.20	1.000000	2 - 120	121 - 478	100.22
	39	10	1.10	.916667	2 - 120	121 - 478	100.27
	39	11	1.00	.833333	2 - 120	121 - 479	100.32
45 years	35	4	1.75%	\$1.458333	2 - 108	109 - 424	100.10%
	35	4	1.68	1.400000	2 - 108	109 - 424	100.13
	35	3	1.59	1.325000	2 - 108	109 - 423	100.17
	35	3	1.48	1.233333	2 - 108	109 - 423	100.22
	35	4	1.37	1.141667	2 - 108	109 - 424	100.27
	35	3	1.27	1.058333	2 - 108	109 - 423	100.32
40 years	30	1	2.25%	\$1.875000	2 - 84	85 - 361	100.10%
	30	1	2.17	1.808333	2 - 84	85 - 361	100.13
	30	1	2.07	1.725000	2 - 84	85 - 361	100.17
	30	0	1.95	1.625000	2 - 84	85 - 360	100.22
	30	1	1.82	1.516667	2 - 84	85 - 361	100.27
	30	1	1.70	1.416667	2 - 84	85 - 361	100.32
35 years	26	0	2.75%	\$2.291667	2 - 72	73 - 312	100.10%
	26	0	2.67	2.225000	2 - 72	73 - 312	100.13
	25	11	2.57	2.141667	2 - 72	73 - 311	100.17
	26	0	2.43	2.025000	2 - 72	73 - 312	100.22
	26	0	2.30	1.916667	2 - 72	73 - 312	100.27
	25	11	2.18	1.816667	2 - 72	73 - 311	100.32
30 years	23	1	3.25%	\$2.708330	2 - 60	61 - 277	100.10%
	23	1	3.17	2.641667	2 - 60	61 - 277	100.13
	23	1	3.05	2.541667	2 - 60	61 - 277	100.17
	23	1	2.91	2.425000	2 - 60	61 - 277	100.22
	23	1	2.77	2.308333	2 - 60	61 - 277	100.27
	23	1	2.63	2.191667	2 - 60	61 - 277	100.32
25 years	18	9	4.25%	\$3.541667	2 - 48	49 - 225	100.10%
	18	9	4.14	3.450000	2 - 48	49 - 225	100.13
	18	9	4.02	3.350000	2 - 48	49 - 225	100.17
	18	9	3.87	3.225000	2 - 48	49 - 225	100.22
	18	9	3.72	3.100000	2 - 48	49 - 225	100.27
	18	9	3.57	2.975000	2 - 48	49 - 225	100.32
20 years	15	3	5.50%	\$4.583333	2 - 36	37 - 183	100.10%
	15	3	5.39	4.491667	2 - 36	37 - 183	100.13
	15	3	5.25	4.375000	2 - 36	37 - 183	100.17
	15	3	5.09	4.241667	2 - 36	37 - 183	100.22
	15	3	4.93	4.108333	2 - 36	37 - 183	100.27
	15	3	4.77	3.975000	2 - 36	37 - 183	100.32

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* The amount of the first payment to principal is determined by dividing the mortgage amount by 1,000, multiplying the result by the amount shown in the "Rate" column, and rounding off the total to the next higher whole cent.

** Regardless of the maximum mortgage term, the accelerator for the first amortization period is always 100.375%. The accelerator for the second amortization period is applied to the amount of the last payment to principal in the first amortization period to determine the next and all subsequent payments to principal.

Initial curtail rates below the highest shown rate for each finding of economic life may be used only if the prescribed percentage of net income available for debt service is insufficient to produce a mortgage equal to the applicable percentage of value or replacement cost, as the case may be.

For example, the rate of initial curtail in a project with an estimated replacement cost of \$1,000,000, a maximum insurable mortgage of \$900,000, an interest rate of 5-1/4% and assuming various levels of net income, would be determined as follows:

<u>Estimated Net Income</u>	<u>Net Income Available for Debt Service</u>	<u>Mortgage Amount Sought</u>	<u>Ratio of Funds Available For Debt Service To Mortgage</u>	<u>Initial Curtail Required</u>
\$72,600	\$65,340	\$900,000	7.26	1.50%
71,700	64,530	900,000	7.17	1.40%
69,600	62,640	900,000	6.96	1.20%
67,600	60,840	900,000	6.76	1.00%

The appropriate "Initial Curtail Required" in each project is determined by subtracting the interest rate and the mortgage insurance premium rate from the "Ratio of Funds Available for Debt Service to Mortgage" calculated in each case. The same, or next lower, initial curtail shown above when compared with the figure thus obtained is the initial curtail rate to be used.

The Level Annuity Monthly Payment plan of amortization is NOT permitted under Section 220, but if the mortgagee and mortgagor so desire, the Level Principal Payment plan or the Accelerating Curtail Declining Annuity plan set forth below may be used so long as the maximum mortgage terms are not exceeded and provided the initial curtail rate is determined on the basis of the principles set forth above.

ACCELERATING CURTAIL DECLINING ANNUITY PLAN

<u>Terms of Remaining Economic Life</u>	<u>Initial Curtail Rate</u>	<u>Term</u>		<u>Acceleration Factor</u>	<u>Rate per \$1,000 1st Monthly Payment</u>
		<u>Years</u>	<u>Months</u>		
50	1.50%	39	11	100.20%	\$1.250000
	1.40	39	7	100.23	1.166667
	1.30	39	4	100.26	1.083333
45	1.81%	35	3	100.20 %	\$1.508333
	1.68	35	4	100.23	1.400000
	1.56	35	4	100.26	1.300000
40	2.28 %	30	0	100.20 %	\$1.900000
	2.15	30	0	100.23	1.791667
	2.02	30	0	100.26	1.683333
35	2.78 %	26	0	100.20 %	\$2.316667
	2.64	26	0	100.23	2.200000
	2.50	26	0	100.26	2.083333
30	3.25%	23	1	100.20 %	\$2.708333
	3.11	23	1	100.23	2.591667
	2.97	23	1	100.26	2.475000
25	4.23%	18	9	100.20%	\$3.525000
	4.08	18	9	100.23	3.400000
	3.94	18	9	100.26	3.283333
20	5.44%	15	3	100.20%	\$4.533333
	5.29	15	3	100.23	4.408333
	5.13	15	3	100.26	4.275000

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BASIC MULTIFAMILY AMORTIZATION PLANS
Section 220 h - Insured Improvement Loans
OVER \$40,000.00 ONLY

<u>Interest Rate</u>	<u>Maximum Term</u>		<u>Number of Payments</u>	<u>Initial Curtail Rates</u>	<u>Monthly Payment to Principal and Interest Rate per \$1,000 *</u>
	<u>Years</u>	<u>Months</u>			
6%	20	0	240	2.597173 %	\$7.1643106
6	15	0	180	4.126282	8.4385683
6	10	0	120	7.322460	11.1020502
6	5	0	60	17.199362	19.3328015
5-3/4%	20	0	240	2.675002	7.0208351
5-3/4	15	0	180	4.214921	8.3041009
5-3/4	10	0	120	7.422306	10.9769220
5-3/4	5	0	60	17.310122	19.2167682
5-1/2 %	20	0	240	2.754648	6.8788731
5-1/2	15	0	180	4.305001	8.1708345
5-1/2	10	0	120	7.523153	10.8526278
5-1/2	5	0	60	17.421395	19.1011622
5-1/4%	20	0	240	2.836130	6.7384417
5-1/4	15	0	180	4.396533	8.0367772
5-1/4	10	0	120	7.625004	10.7291701
5-1/4	5	0	60	17.533181	18.9859838
5%	20	0	240	2.919469	6.5995574
5	15	0	180	4.489524	7.9079363
5	10	0	120	7.727862	10.6065515
5	5	0	60	17.645480	18.8712336

* The monthly payment for a loan on the Level Annuity Monthly Payment basis is calculated by dividing the mortgage amount by 1,000, multiplying the result by the applicable figure in the "Monthly Payment to Principal and Interest" column and rounding off the total to the next higher whole cent.

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BASIC MULTIFAMILY AMORTIZATION PLANS

Section 221(d)(4) - Low and Moderate Income Housing

The amortization plan specifically authorized for multifamily housing mortgages under Section 221(d)(4) of the National Housing Act is set forth hereinafter.

The principal payment rates for the Combination Declining Annuity Plan follow. While the amortization plan for Section 221(d)(4) multifamily housing is substantially the same as that for Section 220, the requirement that no amortization period may exceed the lower of forty years or 75% of the estimated remaining economic life of the project necessarily reduces the amortization periods slightly and requires slightly higher rates and factors. Therefore, the rates for Section 220 are not applicable to Section 221(d)(4). The maximum mortgage amortization periods shown for each finding of economic life may under no circumstances be increased.

COMBINATION DECLINING ANNUITY PLAN

Remaining Economic Life	Maximum Mortgage Term		Initial Curtail Rate	Rate for First Principal Payment *	AMORTIZATION PERIODS		
	Years	Months			First	Second Period	
					Period **	Payment Numbers	Accelerators
55 years	39	0	1.50%	\$1.250000	2 - 120	121 - 468	100.10%
	39	8	1.40	1.166667	2 - 120	121 - 476	100.13
	39	11	1.30	1.083333	2 - 120	121 - 479	100.17
	39	10	1.20	1.000000	2 - 120	121 - 478	100.22
	39	10	1.10	.916667	2 - 120	121 - 478	100.27
39	11	1.00	.833333	2 - 120	121 - 479	100.32	
50 years	37	5	1.58%	\$1.316667	2 - 120	121 - 449	100.10%
	37	6	1.51	1.258333	2 - 120	121 - 450	100.13
	37	5	1.43	1.191667	2 - 120	121 - 449	100.17
	37	4	1.33	1.108333	2 - 120	121 - 448	100.22
	37	5	1.23	1.025000	2 - 120	121 - 449	100.27
37	6	1.13	.941667	2 - 120	121 - 450	100.32	
45 years	33	9	1.85%	\$1.541667	2 - 108	109 - 405	100.10%
	33	9	1.78	1.483333	2 - 108	109 - 405	100.13
	33	8	1.70	1.416667	2 - 108	109 - 404	100.17
	33	8	1.59	1.325000	2 - 108	109 - 404	100.22
	33	9	1.48	1.233333	2 - 108	109 - 405	100.27
33	8	1.38	1.150000	2 - 108	109 - 404	100.32	
40 years	30	0	2.26%	\$1.883333	2 - 84	85 - 360	100.10%
	30	0	2.18	1.816667	2 - 84	85 - 360	100.13
	29	11	2.08	1.733333	2 - 84	85 - 359	100.17
	30	0	1.95	1.625000	2 - 84	85 - 360	100.22
	30	0	1.83	1.525000	2 - 84	85 - 360	100.27
30	0	1.71	1.425000	2 - 84	85 - 360	100.32	
35 years	26	3	2.72%	\$2.266667	2 - 72	73 - 315	100.10%
	26	3	2.64	2.200000	2 - 72	73 - 315	100.13
	26	3	2.53	2.108333	2 - 72	73 - 315	100.17
	26	3	2.40	2.000000	2 - 72	73 - 315	100.22
	26	3	2.27	1.891667	2 - 72	73 - 315	100.27
26	3	2.14	1.783333	2 - 72	73 - 315	100.32	
30 years	22	6	3.35%	\$2.791667	2 - 60	61 - 270	100.10%
	22	6	3.26	2.716667	2 - 60	61 - 270	100.13
	22	6	3.15	2.625000	2 - 60	61 - 270	100.17
	22	6	3.00	2.500000	2 - 60	61 - 270	100.22
	22	6	2.86	2.383333	2 - 60	61 - 270	100.27
22	6	2.73	2.275000	2 - 60	61 - 270	100.32	
25 years	18	9	4.25%	\$3.541667	2 - 48	49 - 225	100.10%
	18	9	4.14	3.450000	2 - 48	49 - 225	100.13
	18	9	4.02	3.350000	2 - 48	49 - 225	100.17
	18	9	3.87	3.225000	2 - 48	49 - 225	100.22
	18	9	3.72	3.100000	2 - 48	49 - 225	100.27
18	9	3.57	2.975000	2 - 48	49 - 225	100.32	
20 years	15	0	5.58%	\$4.650000	2 - 36	37 - 180	100.10%
	15	0	5.48	4.566667	2 - 36	37 - 180	100.13
	15	0	5.35	4.458333	2 - 36	37 - 180	100.17
	15	0	5.18	4.316667	2 - 36	37 - 180	100.22
	15	0	5.02	4.183333	2 - 36	37 - 180	100.27
15	0	4.86	4.050000	2 - 36	37 - 180	100.32	

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* The amount of the first payment to principal is determined by dividing the mortgage amount by 1,000, multiplying the result by the amount shown in the "Rate" column, and rounding off the total to the next higher whole cent.

** Regardless of the maximum mortgage term, the accelerator for the first amortization period is always 100.375%. The accelerator for the second amortization period is applied to the amount of the last payment to principal in the first amortization period to determine the next and all subsequent payments to principal.

Initial curtail rates below the highest shown rate for each finding of economic life may be used only if (1) the proposed project would not be feasible under Section 207, and (2) the prescribed percentage of net income available for debt service is insufficient to produce a mortgage equal to the applicable percentage of value or replacement cost, as the case may be.

For example, the rate of initial curtail in a project transaction with an estimated replacement cost of \$1,000,000, a maximum insurable mortgage of \$900,000, an interest rate of 5¼% and assuming various levels of net income, would be determined as follows:

<u>Estimated Net Income</u>	<u>Net Income Available for Debt Service</u>	<u>Mortgage Amount Sought</u>	<u>Ratio of Funds Available for Debt Service to Mortgage</u>	<u>Initial Curtail Required</u>
\$72,600	\$65,340	\$900,000	7.26	1.50%
71,700	64,530	900,000	7.17	1.40%
69,600	62,640	900,000	6.96	1.20%
67,600	60,840	900,000	6.76	1.00%

The appropriate "Initial Curtail Required" in each project is determined by subtracting the interest rate and the mortgage insurance premium rate from the "Ratio of Funds Available for Debt Service to Mortgage" calculated in each case. The same or next lower initial curtail shown above when compared with the figure thus obtained is the initial curtail rate to be used.

The Level Annuity Monthly Payment plan of amortization is NOT permitted under Section 221(d)(4) but, if the mortgagee and mortgagor so desire, the Accelerating Curtail Declining Annuity plan shown below or the Level Principal Payment plan may be used so long as the maximum allowable mortgage terms are not exceeded and provided that the Initial Curtail rate is determined in accordance with the principles set forth above.

ACCELERATING CURTAIL DECLINING ANNUITY PLAN

<u>Years of Remaining Economic Life</u>	<u>Initial Curtail Rate</u>	<u>Term</u>		<u>Acceleration Factor</u>	<u>Rate Per \$1,000 1st Monthly Payment</u>
		<u>Years</u>	<u>Months</u>		
55	1.50%	39	11	100.20%	\$1.250
	1.40	39	7	100.23	1.166667
	1.30	39	4	100.26	1.083334
50	1.65%	37	6	100.20%	\$1.375
	1.53	37	5	100.23	1.275
	1.41	37	6	100.26	1.175
45	1.93%	33	9	100.20%	\$1.608334
	1.80	33	9	100.23	1.500
	1.68	33	9	100.26	1.400
40	2.28%	30	0	100.20%	\$1.900
	2.15	30	0	100.23	1.791667
	2.02	30	0	100.26	1.683334
35	2.74%	26	3	100.20%	\$2.283334
	2.60	26	3	100.23	2.166667
	2.47	26	3	100.26	2.058334
30	3.36%	22	6	100.20%	\$2.800
	3.22	22	6	100.23	2.683334
	3.08	22	6	100.26	2.566667
25	4.23%	18	9	100.20%	\$3.525
	4.08	18	9	100.23	3.400
	3.94	18	9	100.26	3.283334
20	5.55%	15	0	100.20%	\$4.625
	5.39	15	0	100.23	4.491667
	5.24	15	0	100.26	4.366667

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BASIC MULTIFAMILY AMORTIZATION PLANS
 Section 221(d)(3) - Below-Market Interest Rate Program
 Level Annuity Monthly Payment Plan

The Level Annuity Monthly Payment plan specifically authorized for mortgages under Section 221(d)(3), below-market interest rate, of the National Housing Act is hereinafter set forth. The mortgage amortization period is limited to a period not appreciably in excess of 75% of the estimated remaining economic life of the project but in no event in excess of 40 years.

ALLOCATIONS PRIOR TO JULY 1, 1963 (3010-5A)

Interest Rate	Remaining Economic Life	Maximum Term		Number of Payments	Initial Curtail Rate	Monthly Payment to Principal and Interest Rate per \$1,000
		Years	Months			
3-1/8%	55	40	0	480	1.257708%	\$3.652257
3-1/8%	50	37	6	450	1.405678	3.775565
3-1/8%	45	33	9	405	1.673679	3.998899
3-1/8%	40	30	0	360	2.015506	4.283755
3-1/8%	35	26	3	315	2.462979	4.656649
3-1/8%	30	22	6	270	3.069111	5.161759
3-1/8%	25	18	9	225	3.929302	5.878585
3-1/8%	20	15	0	180	5.234312	6.966093

ALLOCATIONS ON OR AFTER JULY 1, 1963 (3010-5B)

Interest Rate	Remaining Economic Life	Maximum Term		Number of Payments	Initial Curtail Rate	Monthly Payment to Principal and Interest Rate per \$1,000
		Years	Months			
3-3/8%	55	40	0	480	1.184159%	\$3.799299
3-3/8%	50	37	6	450	1.329256	3.920213
3-3/8%	45	33	9	405	1.592846	4.139872
3-3/8%	40	30	0	360	1.930154	4.420962
3-3/8%	35	26	3	315	2.373012	4.790019
3-3/8%	30	22	6	270	2.974450	5.291208
3-3/8%	25	18	9	225	3.829886	6.004072
3-3/8%	20	15	0	180	5.130119	7.087599

ALLOCATIONS ON OR AFTER JULY 1, 1964 (3010-5C)

Interest Rate	Remaining Economic Life	Maximum Term		Number of Payments	Initial Curtail Rate	Monthly Payment to Principal and Interest Rate per \$1,000
		Years	Months			
3-7/8%	55	40	0	480	1.047377%	\$4.101981
3-7/8%	50	37	6	450	1.186300	4.217750
3-7/8%	45	33	9	405	1.440364	4.429470
3-7/8%	40	30	0	360	1.767845	4.702371
3-7/8%	35	26	3	315	2.200607	5.063006
3-7/8%	30	22	6	270	2.791719	5.555599
3-7/8%	25	18	9	225	3.636652	6.259710
3-7/8%	20	15	0	180	4.926274	7.334395

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BASIC MULTIFAMILY AMORTIZATION PLANS
SECTION 231 - NON-PROFIT - HOUSING FOR THE ELDERLY

The amortization of mortgages covering NON-PROFIT Multifamily Housing Projects for elderly persons may be by the LEVEL ANNUITY MONTHLY PAYMENT PLAN.

The monthly payments to principal and interest for the different findings of economic life and different interest rates follow. Since no mortgage may have an amortization period appreciably in excess of 75% of the estimated remaining economic life of the project, the maximum amortization period for each finding of economic life is also given.

LEVEL ANNUITY MONTHLY PAYMENT PLAN

<u>Interest Rate</u>	<u>Remaining Economic Life</u>	<u>Maximum Term</u>		<u>Number of Payments</u>	<u>Monthly Payment to Principal and Interest Rate per \$1,000*</u>
		<u>Years</u>	<u>Months</u>		
5-1/4%	50	40	0	480	\$4.988703
5-1/4%	45	35	0	420	\$5.207430
5-1/4%	40	30	0	360	\$5.522037
5-1/4%	35	25	0	300	\$5.992477
5-1/4%	30	20	0	240	\$6.738442
5-1/4%	25	15	0	180	\$8.038777
5	50	40	0	480	\$4.821966
5	45	35	0	420	\$5.046877
5	40	30	0	360	\$5.368216
5	35	25	0	300	\$5.845900
5	30	20	0	240	\$6.599557
5	25	15	0	180	\$7.907936
4-3/4	50	40	0	480	\$4.657579
4-3/4	45	35	0	420	\$4.888567
4-3/4	40	30	0	360	\$5.216473
4-3/4	35	25	0	300	\$5.701174
4-3/4	30	20	0	240	\$6.462236
4-3/4	25	15	0	180	\$7.778319
4-1/2	50	40	0	480	\$4.495628
4-1/2	45	35	0	420	\$4.732567
4-1/2	40	30	0	360	\$5.066853
4-1/2	35	25	0	300	\$5.558325
4-1/2	30	20	0	240	\$6.326494
4-1/2	25	15	0	180	\$7.649933
4-1/4	50	40	0	480	\$4.336202
4-1/4	45	35	0	420	\$4.578940
4-1/4	40	30	0	360	\$4.919399
4-1/4	35	25	0	300	\$5.417381
4-1/4	30	20	0	240	\$6.192345
4-1/4	25	15	0	180	\$7.522784
4	50	40	0	480	\$4.179385
4	45	35	0	420	\$4.427747
4	40	30	0	360	\$4.774153
4	35	25	0	300	\$5.278368
4	30	20	0	240	\$6.059803
4	25	15	0	180	\$7.396879

*The monthly payment for a loan on the Level Annuity Monthly Payment basis is calculated by dividing the mortgage amount by 1,000, multiplying the result by the applicable figure in the "Monthly Payment to Principal and Interest" column and rounding off the total to the next higher whole cent.

If the mortgagor and mortgagee so desire, amortization may be by the COMBINATION DECLINING ANNUITY PLAN, the ACCELERATING CURTAIL DECLINING ANNUITY PLAN shown in Forms 3010-1, 3010-4 or 3010-5 or by the LEVEL PRINCIPAL PAYMENT PLAN provided that the maximum allowable terms shown above are not exceeded.

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BASIC MULTIFAMILY AMORTIZATION PLANS
SECTION 231 - PROFIT MOTIVATED HOUSING FOR THE ELDERLY

The amortization plan specifically authorized for PROFIT MOTIVATED Multifamily Housing Projects for Elderly Persons under Section 231 of the National Housing Act is set forth on this page.

The principal payment rates for the Combination Declining Annuity Plan and the Accelerating Curtail Declining Annuity Plan follow. Since no mortgage may have an amortization period appreciably in excess of 75% of the Commissioner's estimate of the remaining economic life of the project, the maximum mortgage amortization periods are also shown for each finding of economic life.

COMBINATION DECLINING ANNUITY PLAN

Remaining Economic Life in Years	Maximum Term		Initial Curtail Rate	First Principal Payment Rate *	Principal Payment Accelerators	
	Years	Months			100.375% Payment Numbers	100.1% Payment Numbers
50	39	0	1.50%	\$1.250000	2 - 120	121 - 468
45	35	4	1.75%	\$1.458333	2 - 108	109 - 424
40	30	1	2.25%	\$1.875000	2 - 84	85 - 361
35	26	0	2.75%	\$2.291667	2 - 72	73 - 312
30	23	1	3.25%	\$2.708333	2 - 60	61 - 277
25	18	9	4.25%	\$3.541667	2 - 48	49 - 225
20	15	3	5.50%	\$4.583333	2 - 36	37 - 183

ACCELERATING CURTAIL DECLINING ANNUITY PLAN

Remaining Economic Life in Years	Maximum Term		Initial Curtail Rate	First Principal Payment Rate *	Accelerators 100.1%	Payment Numbers
	Years	Months				
50	39	3	2.00%	\$1.666667		2 - 471
45	35	8	2.25%	\$1.875000		2 - 428
40	30	3	2.75%	\$2.291667		2 - 363
35	26	3	3.25%	\$2.708334		2 - 315
30	23	2	3.75%	\$3.125000		2 - 278
25	18	10	4.75%	\$3.958334		2 - 226
20	15	3	6.00%	\$5.000000		2 - 183

* Under both plans, the amount of the first payment to principal is determined by dividing the mortgage amount by 1,000, multiplying the result by the amount shown in the "Rate" column, and rounding off the total to the next higher whole cent.

The Level Annuity Monthly Payment Plan of amortization is NOT permitted in PROFIT MOTIVATED Housing for the Elderly cases but, if the mortgagee and mortgagor so desire, the Level Principal Payment Plan may be used.

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BASIC MULTIFAMILY AMORTIZATION PLANS
SECTION 232 - NURSING HOMES

The amortization of mortgages covering Nursing Homes may be by the LEVEL ANNUITY MONTHLY PAYMENT plan. Since the maximum amortization period is limited by law to twenty years, the principal payment rates for that period at six different interest rates are set forth below.

LEVEL ANNUITY MONTHLY PAYMENT PLAN

<u>Interest Rate</u>	<u>Term</u>		<u>Number of Payments</u>	<u>Monthly Payment to Principal and Interest Rate per \$1,000 *</u>
	<u>Years</u>	<u>Months</u>		
5-3/4%	20	0	240	\$7.020835
5-1/2%	20	0	240	\$6.878873
5-1/4%	20	0	240	\$6.738442
5 %	20	0	240	\$6.599557
4-3/4%	20	0	240	\$6.462236
4-1/2%	20	0	240	\$6.326494
4-1/4%	20	0	240	\$6.192345
4%	20	0	240	\$6.059803

* To calculate the monthly payment for a loan on the Level Annuity basis, divide the mortgage amount by 1,000 and multiply the result by the applicable figure in the "Monthly Payment to Principal and Interest" column. The resulting figure is rounded up to the next higher whole cent.

If the mortgagor and mortgagee so desire, amortization may be by the COMBINATION DECLINING ANNUITY PLAN, the ACCELERATING CURTAIL DECLINING ANNUITY PLAN shown in Forms 3010 - 1 or 3010 - 4 or 3010 - 5 or by the LEVEL PRINCIPAL PAYMENT PLAN provided that the maximum allowable terms shown above are not exceeded.

J.

BASIC MULTIFAMILY AMORTIZATION PLANS
SECTION 810 - HOUSING FOR ESSENTIAL EMPLOYEES

The amortization plan specifically authorized for use under Section 810 of the National Housing Act is set forth on this page.

The principal payment rates for the Combination Declining Annuity Plan and the Accelerating Curtail Declining Annuity Plan follow. Since no mortgage may have an amortization period appreciably in excess of 75% of the Commissioner's estimate of the remaining economic life of the project, the maximum mortgage amortization periods are also shown for each finding of economic life.

COMBINATION DECLINING ANNUITY PLAN

Remaining Economic Life in Years	Maximum Term		Initial Curtail Rate	First Principal Payment Rate*	Principal Payment Accelerators	
	Years	Months			100.375% Payment Numbers	100.1% Payment Numbers
50	39	0	1.50%	\$1.250000	2 - 120	121 - 468
45	35	4	1.75%	\$1.458333	2 - 108	109 - 424
40	30	1	2.25%	\$1.875000	2 - 84	85 - 361
35	26	0	2.75%	\$2.291667	2 - 72	73 - 312
30	23	1	3.25%	\$2.708333	2 - 60	61 - 277
25	18	9	4.25%	\$3.541667	2 - 48	49 - 225
20	15	3	5.50%	\$4.583333	2 - 36	37 - 183

ACCELERATING CURTAIL DECLINING ANNUITY PLAN

Remaining Economic Life in Years	Maximum Term		Initial Curtail Rate	First Principal Payment Rate*	Principal Payment Acceleration Rates	
	Years	Months			Accelerator	For Payment Numbers
50	39	3	2.00%	\$1.666667	100.1%	2 - 471
45	35	8	2.25%	\$1.875000	100.1%	2 - 428
40	30	3	2.75%	\$2.291667	100.1%	2 - 363
35	26	3	3.25%	\$2.708334	100.1%	2 - 315
30	23	2	3.75%	\$3.125000	100.1%	2 - 278
25	18	10	4.75%	\$3.958334	100.1%	2 - 226
20	15	3	6.00%	\$5.000000	100.1%	2 - 183

*Under both plans, the amount of the first payment to principal is determined by dividing the mortgage amount by 1,000, multiplying the result by the amount shown in the "Rate" column and rounding off the total to the next higher whole cent.

The Level Annuity Monthly Payment plan of amortization is NOT permitted under Section 810 except in cases insured under Subsection G (dwellings to be constructed for eventual sale). See 3010-3 for the Level Annuity Monthly Payment Plan.

PART L.
MULTIFAMILY PROGRAMS

The insurance of mortgages under this section is intended to facilitate particularly the production of rental accommodations, at reasonable rents of design and size suitable for family living.

Projects financed through this program must be economically sound. They must contain 8 or more living units and may include commercial facilities adequate to serve the needs of the occupants.

Projects may be either new projects to be constructed or existing projects to be rehabilitated. They may consist of detached, semi-detached, row or elevator type construction.

Applicable Minimum Property Standards: FHA Form 2600.

Eligible Mortgagors: Public, as defined by statute, or any private mortgagor (trust, partnership, individual, corporation, or association) acceptable to the Commissioner.

FHA Controls Over Mortgagor: FHA controls the rents or sales, charges, capital structure, rate of return, and methods of operation to provide reasonable rentals to tenants and reasonable return on investment.

Maximum Term of Mortgage: Any term acceptable to the Commissioner. The usual maximum terms are 39 years for proposed new projects and 30 years for rehabilitation projects.

Mortgage Limitation per Unit:

Walk-up or Garden-Type Structure:

\$ 9,000 without a bedroom
12,500 with one bedroom
15,000 with two bedrooms
18,500 with three or more
bedrooms

Elevator Type Structure:

\$10,500 without a bedroom
15,000 with one bedroom
18,000 with two bedrooms
22,500 with three or more
bedrooms

Eligible for Increase in High Cost Areas: The above per unit mortgage limitations may be increased by not to exceed 45% where local cost levels require.

For Alaska, Guam or Hawaii, the maximum principal obligations of mortgages may be increased by the Commissioner as necessary to compensate for high costs, but not to exceed the maximum, including the regular high cost area increases otherwise applicable by more than 50%.

Maximum Mortgage Amount: \$20,000,000 to private mortgagor; \$50,000,000 to a public mortgagor.

Maximum Ratio of Loan: For new projects, 90% of estimated completed value (replacement cost in Alaska, Guam, or Hawaii).

For rehabilitated projects, the following additional mortgage limitation factors are applicable:

If the mortgagor owns the project, the mortgage may not exceed the cost of repair or rehabilitation, plus the lesser of (1) the amount of the existing mortgage, or (2) 90% of the fair market value prior to repair or rehabilitation.

If the property is being purchased by the mortgagor, the mortgage may not exceed the total of 90% of the cost of rehabilitation, plus the lesser of 90% of the actual purchase price of the property, or (b) 90% of the FHA estimate of the fair market value of the property before repair or rehabilitation.

Also, whether the project is owned or is being acquired by the mortgagor, the mortgage may not exceed 5 times the cost of the new improvements.

Maximum Mortgage Interest Rate: 5½%.

Amortization Plans: As set forth on FHA Form 3010-1.

Labor Standards and Prevailing Wages: Required.

Cost Certification: Required.

Insurance Claims Payable: Debentures.

The insurance of mortgages is intended to facilitate financing for mobile home courts. They must have at least 50 spaces designed to be used for mobile homes and there may be included commercial facilities adequate to serve the needs of the occupants. Economic soundness is required.

Applicable Minimum Property Standards: FHA Form 2424.

Eligible Mortgagors: Public, as defined by statute, or any private mortgagor (trust, partnership, individual, corporation, or association) acceptable to the Commissioner.

FHA Controls over Mortgagor: FHA controls the rents or sales, charges, capital structure, rate of return, and methods of operation to provide reasonable rentals to tenants and reasonable return on investment.

Maximum Term of Mortgage: 15 years.

Mortgage Limitation per Space: \$1,800.

Eligible for Increase in High Cost Areas: No.

Maximum Mortgage Amount: \$500,000 per project.

Maximum Ratio of Loan: For new courts, 75% of estimated value of property after improvements are completed.

For existing courts, the following additional limitations apply:

Property owned by mortgagor, cost of rehabilitation, plus the lesser of (a) principal amount of existing indebtedness secured by the property, if any, or (b) 75% of the fair market value before rehabilitation.

Property being purchased by mortgagor, the mortgage amount may not exceed 75% of the FHA cost of the rehabilitation, plus the lesser of (a) 75% of purchase price of the property or (b) 75% of the fair market value before rehabilitation.

Also, whether the property is owned or is being purchased, the mortgage amount may not exceed 2 times the cost of the new improvements.

Maximum Mortgage Interest Rate: 5½%.

Amortization Plan: As set forth on FHA Form 3010-2.

Labor Standards and Prevailing Wages: Required.

Cost Certification: Required.

Insurance Claims Payable: Debentures.

Section 213(a)(1) - Management Type Multifamily
Cooperative Projects.

Under this program, a management type cooperative nonprofit corporation owns the project and is the mortgagor. Members purchase and own stock or membership certificates and execute Occupancy Agreements with the corporation. Each member has one vote. A Board of Directors is elected and a management agent is selected to run the project.

Corporations may be created by either consumer or non-consumer (builders, landowners, etc.) groups, but non-consumer members are required to resign after the consumer members have been obtained.

Projects must include 5 or more living units and may include commercial and community facilities adequate to serve the needs of the occupants.

Construction of a proposed new project or rehabilitation of an existing project may not commence until the FHA required percentages of consumer members has been obtained.

Applicable Minimum Property Standards: FHA Form 2600.

FHA Controls over Mortgagor: FHA controls the capital structure, method of operation, charges,

Maximum Term of Mortgage: 40 years.

Mortgage Limitation per Unit:

Walk-up or Garden Type Structure:

\$ 9,000 without a bedroom
12,500 with one bedroom
15,000 with two bedrooms
18,500 with three or more
bedrooms

Elevator Type Structure:

\$10,500 without a bedroom
15,000 with one bedroom
18,000 with two bedrooms
22,500 with three or more
bedrooms

Eligible for Increase in High Cost Areas: The above per unit mortgage limitations may be increased by not to exceed 45% where local cost levels require.

Maximum Mortgage Amount: \$20,000,000 to a private mortgagor; \$25,000,000 to a public mortgagor.

Maximum Ratio of Loan: 97% of Estimated replacement cost.

Maximum Mortgage Interest Rate: 5½%.

Amortization Plans: As set forth on FHA Form 3010-3.

Labor Standards and Prevailing Wages: Required.

Cost Certification: Required.

Insurance Claims Payable: Debentures.

Section 213(a)(2) and 213(d) - Sales Type Cooperatives

Under this program, the mortgagor is a nonprofit sales type corporation consisting of members who have agreed to purchase their individual dwelling units from the corporation upon completion. Construction is financed with subscription down payments of the members and proceeds of a blanket covering a project consisting of 5 or more dwelling units which are capable of individual ownership. Highrise construction is not eligible. Upon completion of the project, individual units are released and the blanket mortgage is paid in full from the proceeds of the individual mortgages insured under 213(d). Usually, the cooperative corporation continues to function only if there is a community facility involved. The mortgage may cover new construction or existing structures.

Applicable Minimum Property Standards: FHA Form 300.

Maximum Term of Mortgage: 35 years.

Limitation on Blanket Project Mortgage:

97% of the estimated replacement cost, subject to reduction by the mortgage limitations per unit, or an amount equal to the sum of the individual mortgages for each unit constructed on the same basis as Section 203(b) individual homes, whichever of these amounts is the larger.

Mortgage Limitation per Unit:

\$ 9,000 without a bedroom
12,500 with one bedroom
15,000 with two bedrooms
18,500 with three or more bedrooms

Eligible for Increase in High Cost Areas:

The above per unit limitations may be increased by not to exceed 45% where local cost levels require.

Limitation on Individual Mortgage:

The unpaid balance to the individual property.

Maximum Mortgage Amount:

\$12,500,000.

Maximum Mortgage Interest Rate:

5¼%

Amortization Plans:

As set forth on FHA Form 3010-3.

Labor Standards and Prevailing Wages:

Required.

Cost Certification:

Not required.

Insurance Claims Payable:

Debentures

Section 213(a)(3) - Investor-Sponsor Multifamily Cooperative Projects.

This program permits construction or rehabilitation of a project for cooperative purposes prior to the formation of a cooperative corporation. An investor-sponsor corporation or other approved profit-motivated mortgagor constructs or rehabilitates a project of 5 or more living units after certifying its intent to sell the project within 2 years after completion to a purchasing management type cooperative. The project may include commercial and community facilities adequate to serve the needs of the occupants.

Sales of cooperative memberships are usually made during the course of construction, thus permitting individual members to see what the cooperative corporation will be buying. However, the sale of the project to the cooperative may not take place until sufficient members have been obtained to purchase and carry the project. Membership in the cooperative is the same as in 213(a)(1).

Applicable Minimum Property Standards: FHA Form 2600.

FHA Controls over Mortgagor: FHA controls the capital structure, method of operation, charges.

Maximum Term of Mortgage: 40 years.

Mortgage Limitation per Unit:

Walk-up or Garden Type Structure:

\$ 9,000 without a bedroom
12,500 with one bedroom
15,000 with two bedrooms
18,500 with three or more
bedrooms

Elevator Type Structure:

\$10,500 without a bedroom
15,000 with one bedroom
18,000 with two bedrooms
22,500 with three or more bedrooms

Eligible for Increase in High Cost Areas: The above per unit mortgage limitations may be increased by not to exceed 45% where local cost levels require.

Maximum Mortgage Amount: \$20,000,000 to a private mortgagor; \$25,000,000 to a public mortgagor.

Maximum Ratio of Loan: For proposed new construction, 90% of estimated replacement cost for investor-sponsor mortgagor and 97% for the purchasing cooperative mortgagor.

For rehabilitation projects,

90% of the estimated value of the property on completion of rehabilitation, subject to the following limitations: (1) property to be acquired: 90% of estimated rehabilitation cost plus 90% of the lesser of purchase price or estimated value before rehabilitation; (2) property owner: estimated rehabilitation cost plus the lesser of existing indebtedness or 90% of estimated value before rehabilitation; (3) four times the cost of rehabilitation.

Maximum Mortgage Interest Rate: 5¼%.

L.2 SECTION 213 - COOPERATIVE HOUSING

Amortization Plan: As set forth on FHA Form 3010-3.

Labor Standards and Prevailing Wages: Required.

Cost Certification: Required.

Insurance Claims Payable: Debentures.

Section 213(i) - Existing Construction (Management Type Cooperative only).

This program enables tenants in an existing rental project and others to group together and purchase and operate the project on a cooperative nonprofit basis. FHA approved additions, alterations, or repair, not amounting to "rehabilitation", may be included. The project must consist of 5 or more living units and may include commercial and community facilities adequate to serve the needs of the occupants.

Applicable Minimum Property Standards: FHA Form 2600.

FHA Controls over Mortgagor: FHA controls the capital structure, methods of operation, charges.

Maximum Term of Mortgage: 40 years or not to exceed three-fourths of the remaining economic life, whichever is less.

Mortgage Limitation per Unit: No limit.

Eligible for Increase in High Cost Areas: Not applicable.

Maximum Mortgage Amount: \$20,000,000.

Maximum Ratio of Loan: 97% of FHA appraised value for continuous use as a cooperative, with the following further limitation:

The mortgage may involve a principal obligation not in excess of the approved

percentage of the Commissioner's appraised value for continued use as a cooperative, including such required repairs, improvements, alterations or additions, if any, as do not constitute rehabilitation, and subject to the following further limitations:

- (a) If the insured mortgage is to include the cost of refinancing an existing mortgage or mortgages, the amount of the insured mortgage may not exceed the amount of the existing indebtedness, plus the cost of repairs, improvements, alterations, and additions, if any.
- (b) If the existing project is to be acquired, the amount of the insured mortgage may not exceed the purchase price and costs related thereto, plus the cost of repairs, improvements, alterations and additions, if any.

Maximum Mortgage Interest Rate: 5¼%.

Amortization Plan: As set forth on FHA Form 3010-3.

Labor Standards and Prevailing Wages: Required in all cases except where the construction of the project commenced prior to September 23, 1959. As to projects commencing prior to September 23, 1959, prevailing wages and cost certifications are not required except as to projects involving FHA approved alterations, additions, and repairs.

Insurance Claims Payable: Debentures.

L.2 SECTION 213 - COOPERATIVE HOUSING

Cost Certification: A special simlified form of cost certification is used when the construction involves only FHA approved alterations, additions and repairs.

Section 213(j) - Supplementary Loans for Existing Management Type 213 Cooperatives.

This program enables existing management type 213 cooperatives to finance improvements, repairs, or the acquisition of community facilities; also, to refinance repurchases and resales of memberships.

Maximum Term of Mortgage: Remaining term of mortgage covering the project.

Mortgage Limitation per Unit: Not applicable.

Elibible for Increase in High Cost Areas: Not applicable.

Maximum Mortgage Amount and Maximum Ratio of Loan: Estimated cost, or actual cost, or an amount which when added to the balance due does not exceed the original principal amount of the mortgage, whichever is less.

Maximum Mortgage Interest Rate: 6%.

Amortization Plan: As set forth on FHA Form 3010-3.

Labor Standards and Prevailing Wages: Required.

Cost Certification: A special form of cost certification is required so that the loan may not exceed the actual cost of the improvements.

Insurance Claims Payable: Debentures.

SECTION 220 - MULTIFAMILY HOUSING IN URBAN RENEWAL AREAS

Under this program, insurance is available for mortgages on properties located within urban renewal areas certified to the FHA by the HHFA Administrator. An area is eligible for certification only if the community has a workable program, an approved Urban Renewal Plan, and is eligible under state laws.

Projects may be either new projects to be constructed or existing projects. They must consist of 5 or more living units and may include nondwelling facilities adequate to serve the needs of the occupants of the property and of other housing in the neighborhood.

Applicable Minimum Property Standards: FHA Form 2600.

Eligible Mortgagors: Public, as defined by statute, or any private mortgagor (trust, partnership, individual, corporation, or association) acceptable to the Commissioner.

FHA Controls over Mortgagor: Except for rehabilitation projects involving mortgages of \$200,000 or less, FHA controls the rents or sales, charges, capital structure, rate of return, and methods of operation to provide reasonable rentals to tenants and reasonable return on investment.

Maximum Term of Mortgage: Any term acceptable to the Commissioner. The usual maximum terms are 40 years for proposed new construction and 30 years for existing projects.

SECTION 220 - MULTIFAMILY HOUSING IN URBAN RENEWAL AREAS

Mortgage Limitation per Unit:

Walk-up or Garden Type Structure:

\$ 9,000 without a bedroom
12,500 with one bedroom
15,000 with two bedrooms
18,500 with three or more
bedrooms

Elevator Type Structure:

\$10,500 without a bedroom
15,000 with one bedroom
18,000 with two bedrooms
22,500 with three or more
bedrooms

Eligible for Increase in High Cost Areas: The above per unit mortgage limitations may be increased by not to exceed 45% where local cost levels require.

Maximum Mortgage Amount: \$30,000,000 if executed by a private mortgagor;
\$50,000,000 if executed by a public mortgagor.

Maximum Ratio of Loan: 90% of estimated replacement cost for new construction.

For new projects, the mortgage may not exceed 90% of the cost of the project.

For existing projects -

- (1) If the property is owned by the mortgagor, the mortgage amount may not exceed the estimated

SECTION 220 - MULTIFAMILY HOUSING IN URBAN RENEWAL AREAS

rehabilitation cost, plus the lesser of existing indebtedness or 90% of estimated market value before rehabilitation.

- (2) If the property is being purchased by the mortgagor, the mortgage amount may not exceed 90% of the estimated rehabilitation cost plus the lesser of 90% of the purchase price, or 90% of the estimated market value before rehabilitation.

Maximum Mortgage Amount: \$12,500,000.

Maximum Mortgage Interest Rate: 5½%.

Amortization Plans: As set forth on FHA Form 3010-5.

Labor Standards and Prevailing Wages: Required.

Cost Certification: Required.

Insurance Claims Payable: Debentures or payment in cash, at the mortgagee's option.

SECTION 220(h) - IMPROVEMENT LOANS

Section 220(h) authorized by the Housing Act of 1961 is an aid in the elimination of slums and blighted conditions and the prevention of deterioration of residential property. The Housing Act of 1964 amended this Section to include mortgage insurance up to \$10,000 per structure for the cost of the construction or installation of sidewalks, curbs, gutters, street paving, street lights, sewers, or other public improvements adjacent to or in the vicinity of the property.

The property shall be primarily residential, located in an urban renewal area and may include such commercial and special facilities as the Commissioner deems adequate to serve the occupants of the property and the neighborhood. The property must be at least ten years old; or if less than ten years old, the loan proceeds shall be used for major structural improvements, or to correct defects not known at the time of completion of the structure, or repair damage caused by fire, flood, windstorm or other casualty. Also, to pay for public improvements assessable against the property.

Security for the loan will be a note and security instrument on a form approved by the Commissioner which is valid and enforceable against the borrower.

Applicable Minimum Property Standards: FHA Form 950.

Eligible Mortgagors: All types of mortgagors.

Maximum Ratio of Loan: One to eleven family units (home improvement loans).
Loan plus outstanding debt related to property cannot exceed the loan-value ratio for home mortgage insurable under Section 220.

Five or more family units
(multifamily: Loan plus out-
standing debt related to prop-
erty cannot exceed ratio for
multifamily housing mortgage
insurable under Section 220.

Term of Mortgage: 20 years.

Mortgage Limitation per Unit:

Multifamily Improvement Loans

\$10,000 per unit
(5 or more units)

Home Improvement Loans

1 family: \$10,000
2 family: 20,000
3 family: 30,000
4 family: 35,000
5-11 family: 40,000

Maximum Mortgage Interest Rate: 6%.

Amortization Plan: Maturity satisfactory to the Com-
missioner, not less than five or
more than twenty years from date
of beginning of amortization, or
3/4 of the remaining economic life
of the property. The amortization
period shall be 5, 10, 15 or 20
years by providing either 60, 120,
180 or 240 monthly amortization
payments. Interest payable in
monthly installments on outstand-
ing balance.

Labor Standards and Prevailing Wages: Not required for properties having less than 12 family units. Required for all projects of 12 or more family units.

Cost Certification: An application involving five or more units requires cost certification. Cost certification is simplified for mortgages under \$40,000.

Insurance Claims Payable: Debentures or payment in cash, at the mortgagee's option.

This program is designed to assist private industry in providing multifamily housing for low and moderate income families with preference in occupancy to families displaced by governmental action who meet income requirement. Within prescribed income limitations, a single person 62 years of age or over, or a handicapped person, qualifies as a "family". Economic soundness is not required but a community where the project is to be located must have a current Workable Program Certification. Five or more units involving new construction, or rehabilitation of existing structures, are required. Projects may contain commercial and community facilities adequate to serve the occupants. The mortgage interest may be either market rate or below market interest rate and, if the former, family income limits are not applicable but are mandatory with respect to the latter. The FHA $\frac{1}{2}$ % mortgage insurance premium is waived under the below market interest rate program and FNMA purchases the mortgage after final endorsement. Eligible mortgagors include a public body or agency, a private nonprofit corporation or association, a cooperative (including an investor-sponsor), a limited dividend corporation, a trust, a partnership, an association, an individual, or other entity restricted in the distribution of income. Also eligible as a mortgagor is a builder-seller entity meeting the special requirements of Section 221(e)(1). A mortgage of up to 100% is available only to public body, nonprofit or cooperative entities. Profit motivated entities are limited to a cumulative return of 6% on 11.11% of finally endorsed mortgage amount.

Applicable Minimum Property Standards: FHA Form 2600.

Eligible Mortgagors: Any mortgagor approved by the Commissioner which is regulated as to rents, charges and methods of operation.

FHA Controls over Mortgagor: FHA controls the rents or sales, charges, capital structure, rate of return, and methods of operation.

Maximum Term of Mortgage: 40 years.

Mortgage Limitation per Unit:

\$ 8,000 without a bedroom
11,200 with one bedroom
13,500 with two bedrooms
17,000 with three or more
bedrooms

Eligible for Increase in High Cost Areas: The above per unit mortgage limitations may be increased by not to exceed 45% where local cost levels require.

For Alaska, Guam, or Hawaii the maximum principal obligations of mortgages may be increased by the Commissioner as necessary to compensate for high costs, but not to exceed the maximum, including the regular high cost area increases otherwise applicable by more than 50%.

Maximum Ratio of Loan: For new projects, the mortgage may not exceed 90% of replacement cost of the project for private profit-motivated mortgagors, and 100% for public, private nonprofit cooperative and investor-sponsor.

For existing projects owned by the mortgagor -

If a profit-motivated mortgagor, the mortgage may not exceed the cost of rehabilitation, plus the lesser of (a) the outstanding indebtedness, or (b) 90% of the fair market value before rehabilitation.

If a public, private nonprofit or cooperative mortgagor, the mortgage may not exceed the cost of rehabilitation, plus the lesser of (a) the outstanding indebtedness, or (b) the fair market value before rehabilitation.

For projects being purchased by the mortgagor with the proceeds of the insured mortgage, if a private profit-motivated mortgagor, the mortgage amount may not exceed 90% of the cost of rehabilitation, plus 90% of the lesser of (a) the actual purchase price, or (b) the fair market value.

If a public, private nonprofit, or cooperative mortgagor, the mortgage amount may not exceed 100% of the cost of rehabilitation, plus 100% of the lesser of (a) the actual purchase price, or (b) the fair market value.

Also, whether the project is owned or is being purchased, and regardless of type of mortgagor, the amount of the mortgage may not exceed 5 times the cost of the new improvements. The only exception to this limitation is an existing project located in an urban renewal area.

Maximum Mortgage Interest Rate: Market rate program, 5¼%. Below market, 5¼% during construction and 3-7/8% permanent rate at final endorsement of loan. The below market permanent interest rate is subject to change on determination by the Secretary of the Treasury.

Amortization Plans: As set forth on FHA Form 3010-5.

Labor Standards and Prevailing Wages: Applicable to all eligible mortgagors except public body or private non-profit corporation or association.

Cost Certification: Required.

Insurance Claims Payable: Market rate program, cash or debentures. Below market rate program, debentures only.

Definition of Terms: "Family means not less than two persons related by blood, marriage or operation of law, who occupy the same unit, a handicapped person, or a person 62 years of age or over meeting the prescribed income limitations.

A "handicapped person" is defined as an individual who, pursuant to regulations issued by the HHFA Administrator, is determined to have a physical impairment which (a) is expected to be of long-continued duration, (b) substantially impedes his ability to live independently and (c) is of such a nature that such ability could be improved by more suitable housing conditions.

"Builder-Seller" mortgagor is one which, as a condition of obtaining insurance of the mortgage and prior to the submission of its application for insurance, has entered into a sales contract (in form and substance approved by the Commissioner) with a private nonprofit corporation eligible for an insured mortgage that it will sell the project when completed to the nonprofit corporation at the actual certifiable cost of such project.

"Income" means all gross income, before taxes and other deductions, received by all members of the family, except a dependent child or children, as the latter is defined by the Internal Revenue Service. FHA will supply for each community where a project is proposed the maximum income limitations for occupancy based on family composition.

"Workable Program" is an official plan of action, as it exists from time to time, for utilizing appropriate private and public resources to eliminate and prevent the development and spread of slums and urban blight, to encourage needed urban rehabilitation, or provide for the redevelopment of blighted, deteriorated or slum areas, or to undertake such of the aforesaid activities or other feasible community activities as may be suitably employed to achieve the objectives of such a program. Based on the submission of such program, and its implementation, the HHFA Administrator certifies to FHA federal assistance may be made available in such community.

L.4 SECTION 221(d)(4) - RENTAL HOUSING PROGRAM

This program is designed to assist private industry in providing rental housing for low and moderate income families and families displaced from urban renewal areas or as a result of other governmental action. For the purposes of this section, included in the definition of families are single persons 62 years of age or over, and handicapped persons.

Projects may be built in a community where there is no evidence of displaced families. However, if there are displaced families in the community, preference or priority of occupancy must be given to such displaced.

This program differs from the Section 221(d)(3) below market interest rate program in that no family income limitations have been set as a requirement of occupancy. Rental rates are limited only by the market and by the FHA rental formula. It is not necessary under Section 221(d)(4) that the community in which the project is located have a workable program. The mortgage limitations are expected to produce housing adequate for and attractive to moderate income families.

The program is not limited to new construction. It is considered particularly appropriate for the rehabilitation of projects.

Projects should be designed and located so that they best serve the needs of displaced families and families of moderate income. This permits the consideration of some locations that might be considered unsuitable for higher cost Section 207 projects.

Projects must contain 5 or more living units and may include commercial and community facilities adequate to serve the occupants.

Applicable Minimum Property Standards: FHA Form 2600.

Eligible Mortgagors: General mortgagors (profit-motivated). A mortgagor may be any corporation, trust, partnership, association, or individual acceptable to the Commissioner.

FHA controls over Mortgagor: FHA controls rents or sales, charges, capital structure, rate of return, and methods of operation to provide reasonable return on investment.

Maximum Term of Mortgage: 40 years.

Mortgage Limitation per Unit:

Walk-up - \$ 8,000 without bedroom
11,250 with one bedroom
13,500 with two bedrooms
17,000 with three or more
bedrooms

Elevator - \$ 9,500 without bedroom
13,500 with one bedroom
16,000 with two bedrooms
20,000 with three or more
bedrooms

Eligible for Increase in High Cost Areas: Up to 45% of the statutory unit limitations.

For Alaska, Guam, or Hawaii, the maximum principal obligations of mortgages may be increased by the Commissioner as necessary to compensate for high

L.4 SECTION 221(d)(4) - RENTAL HOUSING PROGRAM

costs, but not to exceed the maximum, including the regular high cost area increases otherwise applicable by more than 50%.

Maximum Ratio of Loan: For new projects, the mortgage may not exceed 90% of the cost of the project.

For existing projects -

- (1) If the property is owned by the mortgagor, the mortgage amount may not exceed the estimated rehabilitation cost, plus the lesser of existing indebtedness or 90% of estimated market value before rehabilitation.
- (2) If the property is being purchased by the mortgagor, the mortgage amount may not exceed 90% of the estimated rehabilitation cost plus the lesser of 90% of the purchase price, or 90% of the estimated market value before rehabilitation.

Maximum Mortgage Amount: \$12,500,000.

Maximum Mortgage Interest Rate: 5½%.

Amortization Plans: As set forth on FHA Form 3010-5.

L.4 SECTION 221(d)(4) - RENTAL HOUSING PROGRAM

Labor Standards and Prevailing Wages: Required.

Cost Certification: Required.

Insurance Claims Payable: Debentures or payment in cash, at the mortgagee's option.

L.5 SECTION 223 - MISCELLANEOUS HOUSING INSURANCE

Section 223(a)(1) through (a)(6)

Under the provisions of parts (a)(1) through (a)(6) of Section 223, the Commissioner is authorized to insure mortgages under the appropriate Section of Title II (depending on type of housing), incident to the sale of housing owned by the Government, the Public Housing Administration, a local Public Housing Authority, or public housing constructed by a State or local government, including housing for occupancy by World War II or Korean veterans. The economic soundness or acceptable risk requirements are not applicable.

Applicable Minimum Property Standards: Must meet the objectives of the minimum property standards applicable to the Section involved. Usually, FHA Form 2600. Must meet health and safety requirements.

Eligible Mortgagors: Any person or legal entity acceptable to the FHA Commissioner.

FHA Controls over Mortgagor: Controlled by Regulatory Agreement consistent with provisions of Section involved.

Maximum Term of Mortgage: Governed by Section under which mortgage is to be insured.

Mortgage Limitation per Unit: Governed by Section under which mortgage is insured.

Eligible for Increase in High Cost Area: Not applicable.

L.5 SECTION 223 - MISCELLANEOUS HOUSING INSURANCE

Maximum Mortgage Amount: Governed by Section under which mortgage is insured.

Maximum Ratio of Loan: Governed by Section under which mortgage is to be insured, except that it may not exceed 90% of appraised value where mortgage is to finance sale of housing constructed by a State or local government including housing for occupancy by World War II or Korean veterans.

Interest Rate: Not to exceed 5½%.

Amortization Plans: As set forth on that portion of FHA Form 3010 applicable to the Section under which mortgage is insured.

Acceptable Commercial Facilities: Such as are adequate to serve occupants.

Cost Certification: Required if rehabilitation is involved.

Insurance Claims Payable: Governed by Section under which mortgage is insured.

L.5 SECTION 223 - MISCELLANEOUS HOUSING INSURANCE

Section 223(a)(7) authorizes the Commissioner to insure mortgages given to refinance existing mortgages insured under Sections 220, 221, 608, 903 or 908 of the National Housing Act. Depending upon the type of housing, the refinancing mortgage may be under any of the Title II Sections except Section 234.

Applicable Minimum Property Standards: Governed by Section under which mortgage is to be insured.

Eligible Mortgagors: Governed by Section under which mortgage is to be insured.

FHA Controls over Mortgagor: FHA controls applicable to the Section under which mortgage is to be insured.

Maximum Mortgage Term: The term of the refinancing mortgage may not extend beyond the term of the existing mortgage, except that such refinancing mortgage may have a term of not more than twelve years in excess of the unexpired term of the existing mortgage if the Commissioner determines that the insurance of a mortgage for a longer term will inure to the benefit of the applicable insurance fund, taking into consideration the outstanding insurance liability under the existing insured mortgage.

Mortgage Limitation per Unit: Not applicable.

Eligible for Increase in High Cost Areas: Not applicable.

L.5 SECTION 223 - MISCELLANEOUS HOUSING INSURANCE

Maximum Mortgage Amount: The principal amount of the refinancing mortgage shall not exceed the original principal amount of the existing mortgage.

Maximum Ratio of Loan: 90% of estimate of value.

Maximum Mortgage Interest Rate: 5½%.

Amortization Plans: See FHA Form 3010 for particular Section.

Labor Standards and Prevailing Wages: Required, if modernization is required incident to refinancing.

Cost Certification: Required, if modernization is required incident to the refinancing.

Insurance Claims Payable: Governed by Section under which mortgage is to be insured.

L.5 SECTION 223 - MISCELLANEOUS HOUSING INSURANCE

Section 223(b) authorizes the Commissioner to insure under Section 221(d)(3) mortgages given to refinance existing mortgages covering projects located in urban renewal areas. For a project to be eligible under this refinancing provision, the Commissioner must determine that the refinancing will facilitate the occupancy of the dwelling units in the project by low or moderate income families or displaced families.

Maximum Mortgage Interest Rate: 5½%, if insured under the market rate program. 3-7/8% if insured under the below market rate program.

The provisions of Section 221(d)(3) are applicable.

Section 231 authorized by the Housing Act of 1959 was originally for the purpose of assisting in relieving the shortage of housing for elderly persons and increasing their supply of rental housing. With the Housing Act of 1964, this Section was amended to include handicapped persons. An elderly person is defined as any person, married or single, 62 years of age or over, and a handicapped person is defined as a person who has a physical impairment which (a) is expected to be of a long-continued and indefinite duration, (b) substantially impedes his ability to live independently and (c) is of such nature that his ability to live independently could be improved by more suitable housing conditions. Projects must include 8 or more living units and may include commercial and community facilities adequate to serve the occupants.

Auxiliary facilities such as central dining, hobby rooms, workshops, infirmary rooms, etc., for the use of occupants are allowed and, in fact, are encouraged.

Applicable Minimum Property Standards: FHA Form 2600.

Eligible Mortgagors: Public, private nonprofit corporation or association, or any type profit-motivated private mortgagor (trust, partnership, individual, corporation, or association) acceptable to the Commissioner.

FHA Controls over Mortgagor: FHA controls the rents or sales, charges, capital structure, rate of return, and methods of operation to provide reasonable rentals to tenants.

Maximum Term of Mortgage: Any term acceptable to the Commissioner. The usual maximum terms are 40 years for proposed new construction and 30 years for existing projects.

Mortgage Limitation per Unit:

Walk-up or Garden Type Structure

\$ 8,000 without a bedroom
11,250 with one bedroom
13,500 with two bedrooms
17,000 with three or more
bedrooms

Elevator Type Structure

\$ 9,500 without a bedroom
13,500 with one bedroom
16,000 with two bedrooms
20,000 with three or more
bedrooms

Eligible for Increase in High Cost Areas: The above per unit mortgage limitations may be increased by not to exceed 45% where local cost levels require.

For Alaska, Guam, or Hawaii the maximum principal obligations of mortgages may be increased by the Commissioner as necessary to compensate for high costs, but not to exceed the maximum, including the regular high cost area increases otherwise applicable by more than 50%.

Maximum Insurable Mortgage: \$12,500,000 (\$50,000,000 if the mortgagor is a public mortgagor).

Maximum Ratio of Loan: For new construction the mortgage may not exceed 100% of estimated replacement cost for nonprofit mortgagors, and 90% for profit-motivated mortgagors.

For existing construction: Projects owned by the mortgagor - if a profit-motivated mortgagor, the mortgage amount may not exceed the cost of rehabilitation, plus the lesser of (a) the outstanding indebtedness or (b) 90% of the fair market value before rehabilitation.

If a public or a private nonprofit mortgagor, the mortgage amount may not exceed the cost of rehabilitation, plus the lesser of (a) the outstanding indebtedness or (b) the fair market value before rehabilitation.

For projects being purchased by the mortgagor with the proceeds of the insured mortgage - if a profit-motivated mortgagor, the mortgage amount may not exceed 90% of the cost of rehabilitation, plus 90% of the lesser of (a) the actual purchase price or (b) the fair market value.

If a public or private nonprofit mortgagor, the mortgage amount may not exceed the cost of rehabilitation, plus the lesser of (a) the actual purchase price or (b) the fair market value.

Maximum Mortgage Interest Rate: 5½%.

Amortization Plans: As set forth on FHA Forms 3010-6 and 3010-7.

Labor Standards and Prevailing Wages: Required unless labor is donated to a public or private nonprofit mortgagor.

Cost Certification: Required.

Insurance Claims Payable: Debentures.

Special Certifications: FHA Form 3433, Request for Preliminary Determination of Eligibility as Nonprofit Sponsor and Mortgagor. This form, properly executed, must be furnished FHA and the sponsor and mortgagor approved under FHA standards before an application for mortgage insurance can be considered.

FHA Form 3434, Certificate of Relationships and Nonprofit Motives, and FHA Form 3435, Certification. These forms, properly executed, must be presented to, and approved by FHA before a mortgage will be initially endorsed for insurance.

FHA Form 3437, Certification. This form, properly executed, must be presented to FHA at initial endorsement.

Definition of Terms: Founder's Fees - A funding device often used by nonprofit corporations interested in housing for the elderly. Also called entrance fee, life care fee, etc., it is a contribution or donation by an occupant for which he is entitled to anything from lifetime use of a unit to lifetime care, including nursing and medical care.

In order to safeguard the rights of the donor and to avoid creating any impression that FHA is in any way obligated to provide any services or accommodations to donor, no mortgagor corporation will be approved if it collects any type of fee on the promise of furnishing future accommodations or services. The sponsoring organization may collect such fees provided it assumes the obligation to give the donor the agreed upon service and accommodations in the FHA project or other projects. The obligation may not be limited exclusively to the FHA project.

The Housing Act of 1959 added Section 232 to the National Housing Act authorizing FHA to insure mortgages to assist in providing urgently needed nursing homes for the care and treatment of convalescents and other persons who are not seriously ill and do not need medical care, but who require skilled nursing care and related medical services. Homes may be either new or existing construction to be rehabilitated. There must be accommodations for at least 20 patients, commercial facilities must be limited to needs of patients such as doctors' offices, and beauty, barber and gift shops.

Applicable Minimum Property Standards: FHA Form 334,
Minimum Property Standards for
Nursing Homes.

Eligible Mortgagors: Private nonprofit mortgagor and
private profit-motivated mortgagor acceptable to the
Commissioner.

FHA Controls over Mortgagor: By Regulatory Agreement.
Form 2466-e is used for
nonprofit mortgagors and
form 2466 for profit-
motivated mortgagor. If
a nursing home is leased
in its entirety, with
the prior approval of
the Commissioner, the
lessee must execute FHA
Form 2466-NHL.

Maximum Term of Mortgage: 20 years.

Mortgage Limitations per Unit: Not applicable.

Eligible for Increase in High Cost Areas: Not applic-
able.

Maximum Insurable Mortgage: \$12,500,000.

Maximum Ratio of Loan: 90% of FHA estimated value for new or existing construction. For existing construction there is the further limitation that the mortgage may not exceed (a) if home is owned by mortgagor - the estimated cost of rehabilitation, plus such portion of the outstanding indebtedness as does not exceed 90% of value before rehabilitation, or (b) if to be acquired by mortgagor - 90% of the estimated cost of rehabilitation, plus 90% of the actual purchase price, but not in excess of 90% of value before rehabilitation.

Maximum Mortgage Interest Rate: 5¼%.

Amortization Plans: As set forth in FHA Form 3010-8.

Labor Standards and Prevailing Wages: Required unless labor is donated to a non-profit mortgagor.

Cost Certification: Required.

Insurance Claims Payable: Debentures.

Special Certifications: Certificate of Need, FHA Form 2576. This form must be obtained from the applicable State agency that handles Hill-Burton funds and certifies that:

1. There is a need for the nursing home.

2. There are in force in the State (or its political subdivision) reasonable minimum standards for licensing and operating nursing homes.
3. Such standards will be applied and enforced with respect to any nursing home in the State on which FHA provides mortgage insurance.

FHA Form 3433, Request for Preliminary Determination of Eligibility as Nonprofit Sponsor and Mortgagor. This form, properly executed, must be furnished FHA and the sponsors and mortgagor approved before an application for mortgage insurance can be considered.

FHA Form 3434, Certificate of Relationships and Nonprofit Motives, and FHA Form 3435, Certification. These forms, properly executed, must be presented to and approved by FHA before a mortgage will be initially endorsed for insurance.

FHA Form 3437, Sponsor's Certification. This form, properly executed, must be presented to FHA at initial endorsement.

Definition of Terms: Founders' fees - A funding device often used by nonprofit corporations interested in housing for the elderly. Also called entrance fee, life care fee, etc., it is a contribution

or donation by an occupant for which he is entitled to anything from lifetime use of a unit to lifetime care including nursing and medical care.

In order to safeguard the rights of the donor and to avoid creating any impression that FHA is in any way obligated to provide any services or accommodations to donor, no mortgagor corporation will be approved if it collects any type of fee on the promise of furnishing future accommodations or services. The sponsoring organization may collect such fees provided it assumes the obligation to give the donor the agreed upon service and accommodation in the FHA project or other project. The obligation may not be limited exclusively to the FHA project.

Condominium (Project Mortgages and Unit Mortgages). This program provides FHA insurance of blanket mortgages (including advances during construction) on multi-family projects after the sponsor certifies his intent to convert the project to a plan of family-unit ownership. Also, this program provides FHA mortgage insurance to purchase a family unit in a condominium. Upon the sales of individual units, the blanket insured mortgage is paid in full. Prior to insurance of the individual units, units equal to 80% of value of the total project must be sold. An undivided interest in the common areas is owned by each unit owner, and the common areas are operated by an association of all the unit owners in a cooperative manner. The occupant has real estate title to his unit. The condominium has a financing flexibility which permits the individual to either pay cash for his unit, obtain a conventional loan or an FHA-insured loan. In condominiums, the voting power is related to the value of the property owned, and individuals are taxed separately on their units. FHA does not require that a state have specific enabling legislation as a prerequisite of mortgage insurance, but the jurisdiction must recognize the division of ownership on a condominium basis, and must provide for taxes to be levied against the individual unit, together with its undivided interest in the common elements in the condominium rather than against the structure as a whole.

The project must contain at least five family units and may include commercial and community facilities adequate to serve the occupants.

If the conversion does not materialize, the project will be operated on a rental basis.

Applicable Minimum Property Standards: FHA Form 2600.

Eligible Mortgagors: Any trust, partnership, individual, corporation, or

association acceptable to the Commissioner.

FHA Controls over Mortgage: The FHA regulates the project mortgage with respect to rents or sales, charges, capital structure, rate of return, and methods of operation.

Maximum Term of Mortgage: 40 years for the blanket mortgage. 35 years for the mortgage on an individual unit.

Mortgage Limitation per Unit:

Project

Non-elevator - \$ 9,000 without a bedroom
 12,500 with one bedroom
 15,000 with two bedrooms
 18,500 with three or more bedrooms

Elevator - \$10,500 without a bedroom
 15,000 with one bedroom
 18,000 with two bedrooms
 22,500 with three or more bedrooms

Individual Unit

\$30,000

Eligible for Increase in High Cost Areas: The above project unit mortgage limitations may be increased by not to exceed 45% where local cost levels require.

L.8 SECTION 234 - CONDOMINIUM HOUSING

Maximum Mortgage Amount: \$20,000,000 to private mortgagor.

\$25,000,000 to public mortgagor.

Maximum Ratio of Loan: Project: 90% of estimated replacement cost.

Individual Unit: For occupant mortgagor, 97% of \$15,000 of appraised value, plus 90% of value above \$15,000 but not over \$20,000 plus 75% of such value over \$20,000. For non-occupant mortgagor, 85% of amount computed under above formula, or same as occupant mortgagor subject to 15% of mortgage proceeds being placed in escrow pending sale to an acceptable occupant mortgagor within 18 months.

Maximum Mortgage Interest Rate: 5½%.

Amortization Plans: As set forth on FHA Form 3010-3.

Labor Standards and Prevailing Wages: Required.

Cost Certification: Required.

Insurance Claims Payable: Debentures.

The Housing Act of 1956, Public Law 86-372 approved September 23, 1959, added Section 810 to the National Housing Act. The purpose of Section 810 is to provide a program of FHA insurance for privately financed housing for military personnel and essential civilian personnel serving or employed at an installation of one of the armed services, the National Aeronautics and Space Administration or the Atomic Energy Commission. Employees of contractors of such agencies are included and are entitled to benefits of the program. The definition of armed services is held to include the Coast Guard.

There are two separate housing programs authorized by Section 810:

- a. Section 810(f) provides for the insurance of mortgages on multifamily rental projects, and
- b. Section 810(g) provides for the insurance of mortgages on properties constructed for eventual sale as single family dwellings.

Properties constructed under either 810(f) or 810(g) will be rented to preferred personnel. If such preferred personnel do not take advantage of their rental priority, the units may be rented to others. Properties constructed under 810(g) must be held for rental and not released for sale for a period of five years or for a shorter period at the discretion of the Commissioner.

The aggregate number of dwelling units (including all units in multifamily projects or individual dwellings) covered by outstanding commitments to insure, and mortgages insured under this section shall not exceed 5,000.

Pursuant to Section 510 of the Military Construction Authorization Act, 1964, Public Law 88-174, November 7, 1963, the Departments of the Army, Navy, and Air

Force may participate in future 810 projects only in an annual Military Construction Authorization bill. Those 810 projects which were in (or beyond) the pre-application stage as of November 7, 1963, may proceed to completion. This prohibition against participation in 810 projects originated subsequent to November 7, 1963, does not apply to NASA, AEC or the Coast Guard.

The Section 810 program is intended to be utilized in areas where the impact of military or defense installations is such as to create a substantial demand which may not be permanent but which is in excess of that created by normal economic growth. The use of Section 810 would thus be encouraged in areas where sudden expansion due to economic factors other than normal growth casts doubt on the desirability of using programs such as Section 207.

Projects must include at least 8 living units and may include commercial and community facilities adequate to serve the occupants.

Applicable Minimum Property Standards: FHA's minimum property standards are applicable. FHA Forms 300 or 2600 are applicable depending upon type of structure. In addition, projects and units must be suitable and acceptable to the military services (AEC and NASA) so far as location, rents and general acceptability of units.

Eligible Mortgagors: A private corporation, association, or trust entity formed or created with the approval of the Commissioner for the purpose of providing housing for rent or sale, and possessing powers necessary therefor and incidental thereto, which is

regulated or restricted by the Commissioner as to rents, sales, charges, capital structure, rate of return and method of operation.

FHA Controls over Mortgagor: Standard FHA controls over mortgagor as in 207 are required. In addition, owners must agree to give occupancy priority to preference persons. Owners shall furnish rent schedules, monthly reports of occupancy and vacancies to the using agency. The sponsor is advised:

1. The Government does not guarantee the level of occupancy or rate of return of project insured under Section 810 and that no decision by the Commissioner or any information furnished by the Secretary of Defense shall be the basis for any claim or any other action against the Government.
2. Section 810(d) of the National Housing Act provides that individual units shall not be released for sale within five years from the date of initial occupancy unless the Commissioner finds "that the housing may be released from such rental conditions" at an earlier date.
3. Paragraph 6(a) of the Regulatory Agreement prohibits the conveyance of any of the mortgaged property without the Commissioner's approval.

4. It will be the responsibility of the sponsor to make provision for the installation of the utilities and the services such as police and fire protection. In remote locations negotiations and leasing of these utilities and services from the defense establishment may be necessary.

Maximum Term of Mortgage: The maximum term of the mortgage is determined by the amortization plan selected for the individual project. As outlined on FHA Form 3010-10, the following amortization plans are available:

For 810(f) Multifamily Rental Projects

<u>Plan</u>	<u>Maximum Term</u>
CDAP	39 yrs.
ACDAP	39 yrs. 3 mos.

For 810(g) Multifamily Sales Projects, the above two plans plus:

<u>Plan</u>	<u>Maximum Term</u>
LAMP	40 yrs.

Mortgage Limitation per Unit: \$ 9,000 without bedroom
12,500 with 1 bedroom
15,000 with 2 bedrooms
18,500 with 3 or more bedrooms

Eligible for Increase in High Cost Areas: The above per unit mortgage limitations may be increased by not to exceed 45% where local cost levels require.

L.9 SECTION 810 - ARMED SERVICES HOUSING

Maximum Mortgage Amount: \$5,000,000.

Maximum Ratio of Loan: 90% of the estimated value.

Maximum Mortgage Interest Rate: 5½%.

Amortization Plans: As set forth on FHA Form 3010-10.

Labor Standards and Prevailing Wages: Required.

Cost Certification: Required for rental projects
insured under Section 810(f). Not
required under 810(g).

Insurance Claims Payable: Debentures.

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