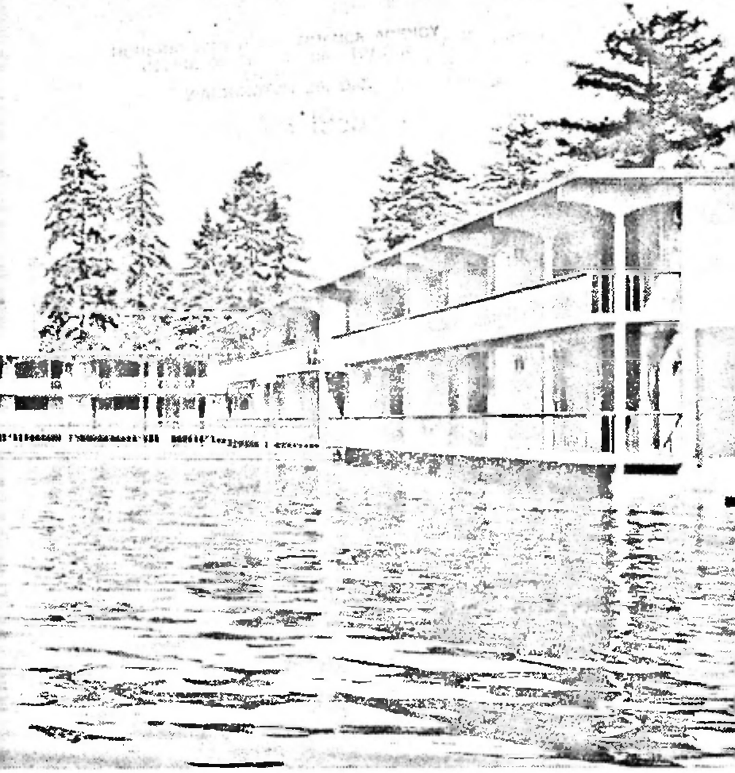
HA'S RENTAL HOUSING PROGRAM

CONSUMER BULLETIN



PREPARED BY THE OFFICE OF PUBLIC INFORMATION
FEDERAL HOUSING ADMINISTRATION
Washington, D. C. 20411
A constituent of the Housing and Home Finance Agency

FHA No. 415
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INTRODUCTION

There is a constant demand for good rental housing fitted to the needs of the vast number of Americans who, for one reason or another, prefer to live in rental units.

One of FHA's major programs--its multifamily rental housing program, operated under Section 207 of the National Housing Act--has for many years been instrumental in meeting this demand.

The purpose of this program is to facilitate particularly the production of rental accommodations suitable in design and in size for family living, and available at reasonable rents. In line with this purpose, FHA requires mortgagors to certify that, in selecting tenants, they will not discriminate against families with children, and that they will not permit transient or hotel use of the housing.

The program is administered to serve a broad segment of the rental housing market and to recognize variations in the needs of different types of families, with and without children, in both urban and suburban areas.

The Section 207 program has been revamped from time to time, in accordance with legislative authority Congress has given FHA, in order to increase its effectiveness as an aid to private enterprise in providing more and better rental dwellings.

Philip N. Brownstein

Philip N. Brownstein, Commissioner
Federal Housing Administration

WHAT THE PROGRAM COVERS

The Federal Housing Administration, under Section 207 of the National Housing Act, insures mortgages on rental housing projects of 8 or more dwelling units.

Projects financed through this program must be economically sound. They may consist of new housing to be constructed or of existing housing to be improved in conformance with standards satisfactory to the FHA.

FHA is authorized to issue commitments to insure advances made during construction or to insure the mortgage upon completion. In either case, for the protection of FHA, during the course of construction of new projects, inspections are completed by designated FHA staff members to assure compliance with specified requirements.

The Section 207 program is not just for the big builder who constructs high-rise structures and large-scale rental projects. It is equally available to the builder who wishes to operate on a small scale. Projects may vary widely in type as well as in size. The dwelling units comprising the project may be in detached, semi-detached, or row houses; in walk-up, garden-type apartments; or in elevator-type structures.

HOW SPONSORS SHOULD PROCEED

FHA, without charge to the sponsor, will make tentative determinations regarding market demand at the proposed rents and suitability of location of a proposed project. To obtain these tentative determinations, the sponsor must submit to the local FHA insuring office a Request for Preapplication Analysis of Multifamily Housing Proposal, FHA Form 2012, which identifies the site, the number of units, and the rental ranges proposed. The Form 2012 must be accompanied by the following supporting exhibits:

1. A location map or sketch postively identifying the site.
2. A sketch plot plan indicating dimensions of the site. (This exhibit may also serve as a location sketch if street intersections, distances and compass points are shown.)
3. Evidence of title to the land, option to purchase, or owner's authorization to inspect the site for the purpose requested.

After analyzing the proposal, FHA advises the sponsor as to whether or not the proposal warrants the filing of an application. If the proposal is disapproved, explanation of the reasons is given. If the findings are favorable, the sponsor is advised that FHA will accept an application, FHA Form 2013, with fee, provided it is filed within a specified period and the submission is consistent with the proposal analyzed.

Although the Form 2012 is submitted directly to the FHA insuring office by the sponsor, the Form 2013, with fee, must be filed through an approved mortgagee.

When advised by FHA that an application with fee will be accepted, the sponsor should:

1. Obtain appropriate FHA application form (No. 2013) from an approved mortgagee.
2. Fill in all information and supply the exhibits called for by the form.
3. File the completed application form and exhibits with the mortgagee for submission to FHA, and pay the mortgagee an application fee amounting to $1.50 per thousand dollars of the face amount of the mortgage loan applied for. The application fee will be earned by FHA when the application is accepted for processing.

When FHA has completed the first phase of precommitment processing, the sponsor will be informed of the estimated market price of the site after completion of off-site improvements, the estimated replacement cost of the project, and the tentative maximum mortgage amount.

The sponsor is allowed a specified period for submitting preliminary working drawings and specifications. When these have been accepted by FHA, the sponsor will be requested to submit quantity surveys and cost estimates.

If the mortgage is to be insured upon completion of the project, the sponsor will be requested to submit working drawings and specifications for the project, and when these are approved by FHA the commitment to insure will be issued and construction can then begin.

If advances during construction are to be insured, the commitment will be issued on the basis of the preliminary working drawings and specifications. The working drawings and specifications are required before initial endorsement of the note for insurance. Following initial endorsement and upon approval of FHA, construction can start.

If FHA issues a commitment, a commitment fee of $1.50 per thousand dollars of the face amount of the mortgage loan set forth in the commitment is due within 30 days from the date of the commitment.

The mortgagee may collect from the mortgagor the amount of the application and commitment fees and may charge the mortgagor an initial service charge not in excess of 1½ percent of the original principal amount of the mortgage.

At the time of initial closing of the loan, the mortgagor also pays an inspection fee of $5.00 per thousand dollars of the face amount of the commitment, as provided for in the commitment, and a mortgage insurance premium equal to ½ of 1 percent of the original face amount of the mortgage. If the commitment is for insurance upon completion, the inspection fee is payable before the beginning of construction. FHA makes compliance inspections to determine whether construction complies with the work required by the contract documents and approved changes.

HOW THE MORTGAGE TERMS ARE FIGURED

The maximum mortgage that the FHA will insure is an amount equivalent to the least of the following ceilings:

1. New Projects to be Constructed:
   a. $20 million in the name of a private mortgagor; $50 million in the name of a public mortgagor.
   b. 90 percent of the FHA-estimated value (replacement cost if the project is located in Alaska or in Guam) of the completed project.
   c. For a walk-up — $9,000 per family unit without a bedroom, $12,500 with 1 bedroom, $15,000 with 2 bedrooms, $18,500 with 3 or more bedrooms. For an elevator structure — $10,500 per family unit without a bedroom, $15,000 with 1 bedroom, $18,000 with 2 bedrooms, $22,500 with 3 or more bedrooms. Up to a 45 percent increase may be permitted in areas where cost levels so require.
   d. An amount entailing a debt service of not over 90 per cent of the estimated net income.
2. Existing Projects to be Improved:
   a. The amounts set forth above for new projects to be constructed.
   b. Property owned by mortgagor--FHA-estimated cost of rehabilitation plus the lesser of (1) principal amount of existing indebtedness, if any, secured by the property or (2) 90% of the FHA estimate of the fair market value of the property before rehabilitation.
   c. Property to be acquired by mortgagor — 90% of the FHA-estimated cost of rehabilitation plus the lesser of (1) 90% of the actual purchase price of property or (2) 90% of the FHA estimate of fair market value of property before rehabilitation.
   d. Five times the cost of new improvements.

The maximum mortgage maturity is 39 years. For existing projects the term generally is 30 years or less, as it is limited to approximately three-fourths of FHA's estimate of the remaining economic life of the property. The maximum interest rate at the present time is 5¼ percent, and the FHA mortgage insurance premium is ½ of 1 percent on outstanding balances of principal.

The mortgagor must be either of the following:

1. A private mortgagor (corporation, trust, partnership or individual) 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, capital structure, rate of return, and methods of operation.

2. A Federal or State instrumentality (agency), a municipal corporate instrumentality of one or more States, or a limited dividend 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, and methods of operation.

WHAT EVERYONE SHOULD KNOW ABOUT THE PROGRAM

All housing projects financed with mortgages insured under Section 207 must meet FHA's minimum property standards for multifamily housing.

All sponsors of such projects must comply with FHA regulations governing Section 207 multifamily housing. These regulations, among other things, include:

1. Requirements for adherence to applicable Labor Standards and prevailing wage requirements on all construction work.

2. Requirements for specific covenants in the mortgage--a covenant against liens, a covenant for hazard insurance (fire, etc.), a covenant regarding racial restrictions and use of the property.

3. Requirements for certification of actual costs as well as the sponsor's original estimate of costs.

All housing provided through this program is rental housing developed, owned, and managed by private-enterprise concerns — not by the FHA.

Rental units involved in FHA programs are separate and distinct from public housing units and should not be confused with them. The Federal Housing Administration, which operates mortgage insurance programs, and the Public Housing Administration, which operates the public housing program, are two completely different Government agencies.

THE FHA IN BRIEF

Since its establishment in 1934, the Federal Housing Administration has written mortgage and loan insurance aggregating over $96 billion, covering over 7½ million homes, more than a million living units in multifamily projects, and over 27 million property improvement loans. FHA has helped more than 35 million families improve their housing standards and conditions.

Congress provided the FHA mortgage and loan insurance system to encourage improvement in housing standards, to promote sound financing practices in the housing field, and to act as a stabilizing force in the mortgage market. The FHA is self-supporting through income derived from fees, insurance premiums, and investments, and its insurance reserves are well over a billion dollars.

The Agency does not build houses or lend money. It acts only as an insurer of privately made loans from approved lenders.

In addition to its original programs of insurance for home improvement loans, home mortgages, and multifamily rental housing mortgages, FHA now insures mortgages through its 76 field offices on housing for families of low and moderate income; housing in urban renewal areas; housing for the elderly or handicapped; nursing homes; cooperative housing; condominiums; experimental housing; housing at military installations; and long-term loans for major home improvements.

In over 30 years of operation, FHA has significantly influenced the location, volume, and kind of housing built in the United States. The agency has helped to make the low-downpayment, long-term, fully amortized mortgage the standard in mortgage lending.

The soundness of the FHA concept has been demonstrated over the years, and millions of mortgage and property improvement loans insured by FHA have been made by banks, building and loan associations, mortgage companies, and other FHA-approved lending institutions. By protecting these lenders against loss, FHA insurance enables them to advance credit on more liberal terms than might otherwise be available to families with moderate means.

The FHA-insured mortgage also is marketable on a national scale. This fact helps to keep localities supplied with mortgage money by enabling lenders to sell mortgages in return for new supplies of cash.

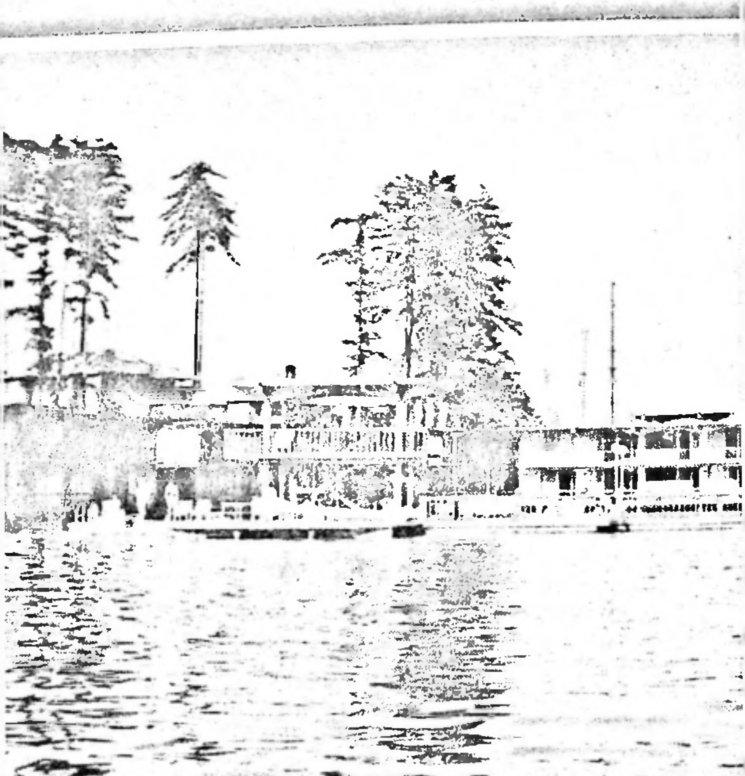
Since 1947, the Federal Housing Administration has been a constituent agency of the Housing and Home Finance Agency. Its sister agencies are the Public Housing Administration, the Urban Renewal Administration, the Community Facilities Administration, and the Federal National Mortgage Association.

OTHER FHA CONSUMER BULLETINS

- *FHA No. 206* *FHA Insured Loans for Major Home Improvement*
- *FHA No. 208* *FHA Home Mortgage Insurance*
- *FHA No. 221* *FHA Mortgage Insurance for Rental and Cooperative Housing for Persons of Low and Moderate Income*
- *FHA No. 246* *FHA Experimental Housing Program*
- *FHA No. 247* *FHA Mortgage Insurance on Housing For The Elderly*
- *FHA No. 428* *FHA Financing for Home Purchases and Home Improvements*
- *FHA No. 428-A* *An FHA "Quick Guide" to Buying a Home*
- *FHA No. 467* *FHA Forbearance Provisions*
- *FHA No. 491* *FHA Mortgage Insurance on Condominiums*
- *FHA No. 512* *Title I Property Improvement Loans*
- *FHA No. 528* *FHA Mortgage Insurance for Urban Renewal*
- *FHA No. 770* *A Comparison of FHA Home Improvement Programs*
- *FHA No. 793* *FHA Assistance for Home Trade-Ins*
- *FHA No. 895* *FHA and the Home-Buying Serviceman*
- *FHA No. 2575* *Digest of Insurable Loans*
- *FHA No. 3239* *Summary Statement on Cooperative Housing*

FEDERAL HOUSING ★ ADMINISTRATION ★

Information contained in this publication is subject to regulatory and statutory changes.



The picture on the cover is an interesting view of Bay Roc Apartments, one of three Honor Award winners in the multifamily category in FHA's 1964 Awards for Residential Design. The property is located at McVey Avenue and Pacific Highway in Lake Oswego, Oregon.

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FHA-Wash., D. C.