728.1
:333.63
F22h

HOW TO TEST FINANCIAL SOUNDNESS OF RENTAL HOUSING PROPERTIES

Federal Housing Administration
Library

U.S. Federal Housing Administration

FHA Form No. 2484

HD
7293
.A3A24
1951 copy 1

728.1
:333.63
F22h

WHAT AN INVESTOR MUST KNOW TO DEVELOP A SOUND RENTAL HOUSING PROJECT...

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.

Purpose of The Booklet

This booklet 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 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.

undoc

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 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 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. 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.

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

Chart 1 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.

Through use of Chart 1, where the expense ratio is known you can determine the monthly gross rentals required to produce a first year net income of either $6\frac{1}{2}$ or 7%. For example, where the expense ratio is 40% follow the line upward from the figure 40% to the point where it crosses the line marked "7% Net Return". Lay a ruler horizontally across this point and it will cross the outer lines of the chart at a point slightly under $1,050, 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% net return where the expense ratio is 40% is 1.05% of the cost of the property. Conversion to decimals permits the determination of the monthly gross rent required to produce a $6\frac{1}{2}$ or 7% 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% on a cost of $100,000 is strikingly illustrated by this chart. A gross rent of a trifle under $900 per month will return 7% net on $100,000 with an expense ratio of 30%. A gross monthly rental of a little less than $1,150 will be required to produce a 7% net income on $100,000 if the expense ratio is 45%, and between $1,550 and $1,600 gross will be required to produce the same net return on $100,000 if the expenses run 60%.

The financial impact of failing to design a building with an eye to economy of operation and maintenance is clearly presented by Chart 1. 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.

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

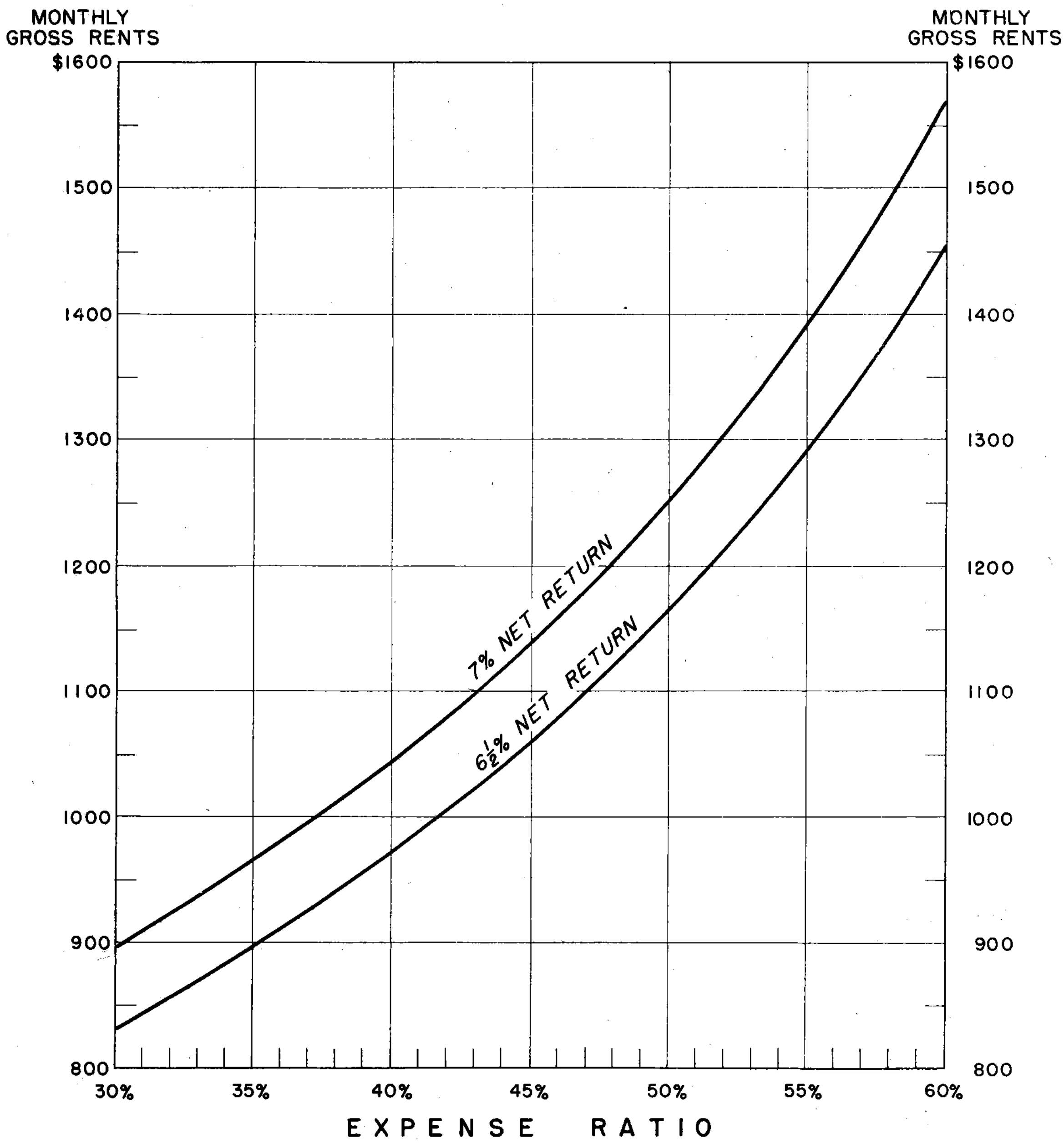


CHART 1

FEDERAL HOUSING ADMINISTRATION
DIVISION OF RESEARCH AND STATISTICS
ACTUARIAL AND FINANCIAL SECTION

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

Chart 2A is more versatile in its use than Chart 1 because 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 7% net return on the unit cost assumed, at the expense assumed. Chart 2B provides the same information on the assumption of a 6½% return.

For example, a unit costing $7,000 having an expense ratio of 30% will require a gross monthly rental of $63 to return 7% net on the cost. But if the expense ratio was 60% a gross monthly rental of a little more than $110 would be needed.

Chart 2A also can be used to determine the maximum cost per family unit on which a given monthly gross rental will net a 7% return at various expense ratios.

By placing a ruler on the $70 gross rental line and across the 30% expense ratio line it will be found that the cost per family unit cannot exceed $7,800 if a 7% net return is to be received.

Using the same gross rental and a 60% expense ratio it will be seen that the unit cost cannot exceed a figure of just under $4,500 and provide a net return of 7%.

A third use of Chart 2A 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 7% 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 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. Charts 2A and 2B 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 7% or 6½% on the total investment.

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

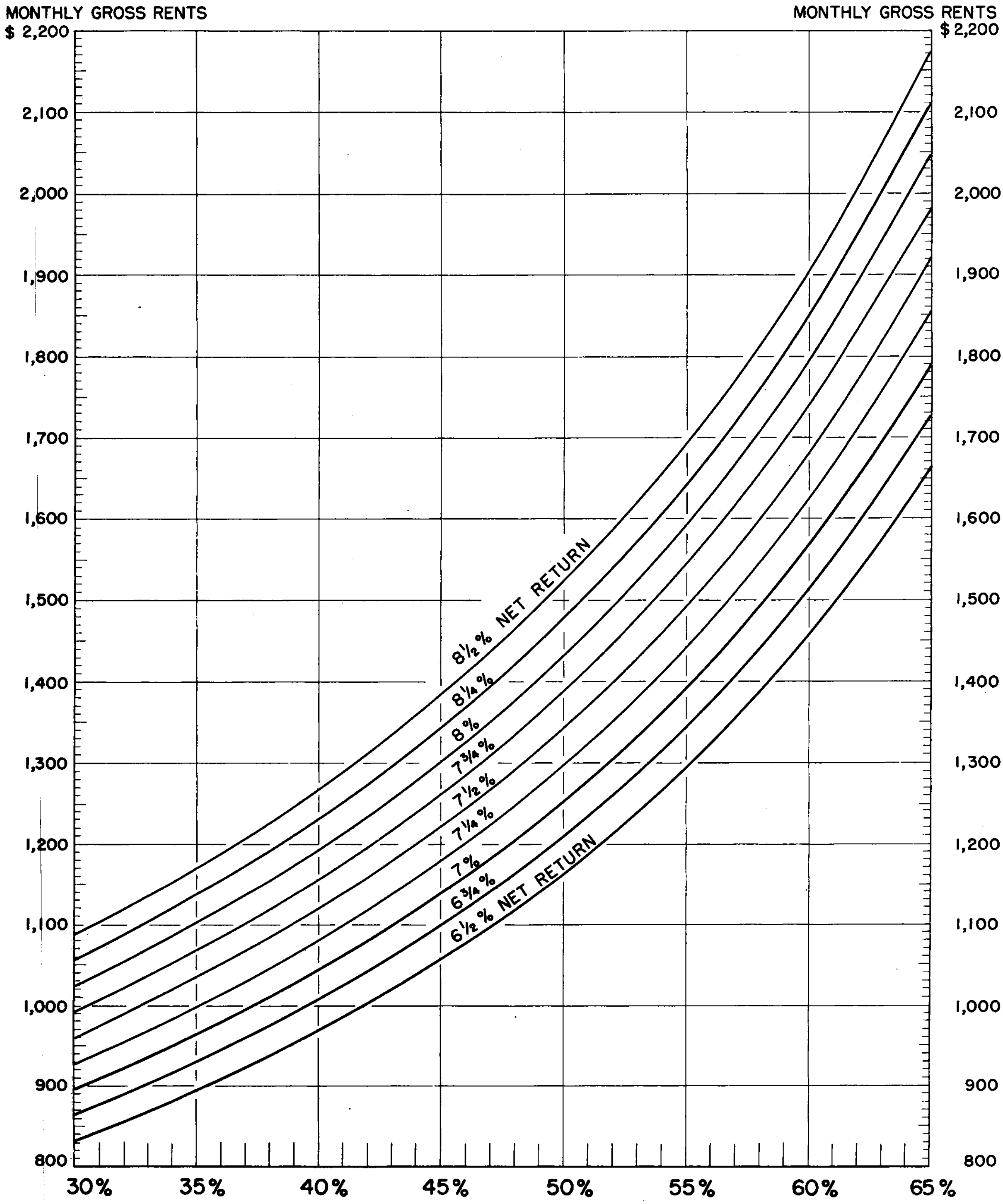


CHART 1

REV. MAR. 1955

FEDERAL HOUSING ADMINISTRATION
DIVISION OF RESEARCH AND STATISTICS
ACTUARIAL AND FINANCIAL SECTION

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

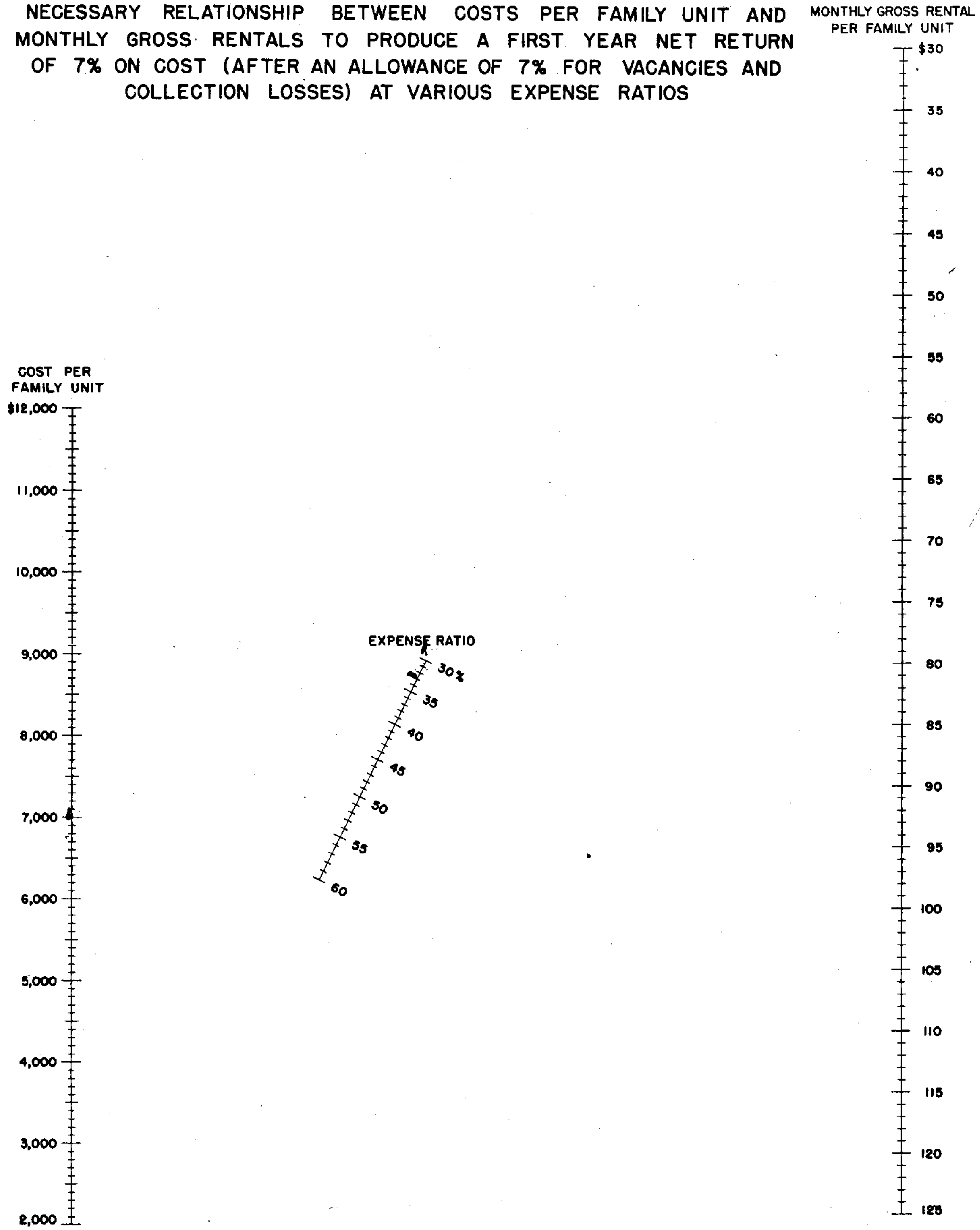


CHART 2A

FEDERAL HOUSING ADMINISTRATION
DIVISION OF RESEARCH AND STATISTICS
ACTUARIAL AND FINANCIAL SECTION

NECESSARY RELATIONSHIP BETWEEN COSTS PER FAMILY UNIT AND MONTHLY GROSS RENTALS TO PRODUCE A FIRST YEAR NET RETURN OF $6\frac{1}{2}$% ON COST (AFTER AN ALLOWANCE OF 7% FOR VACANCIES AND COLLECTION LOSSES) AT VARIOUS EXPENSE RATIOS

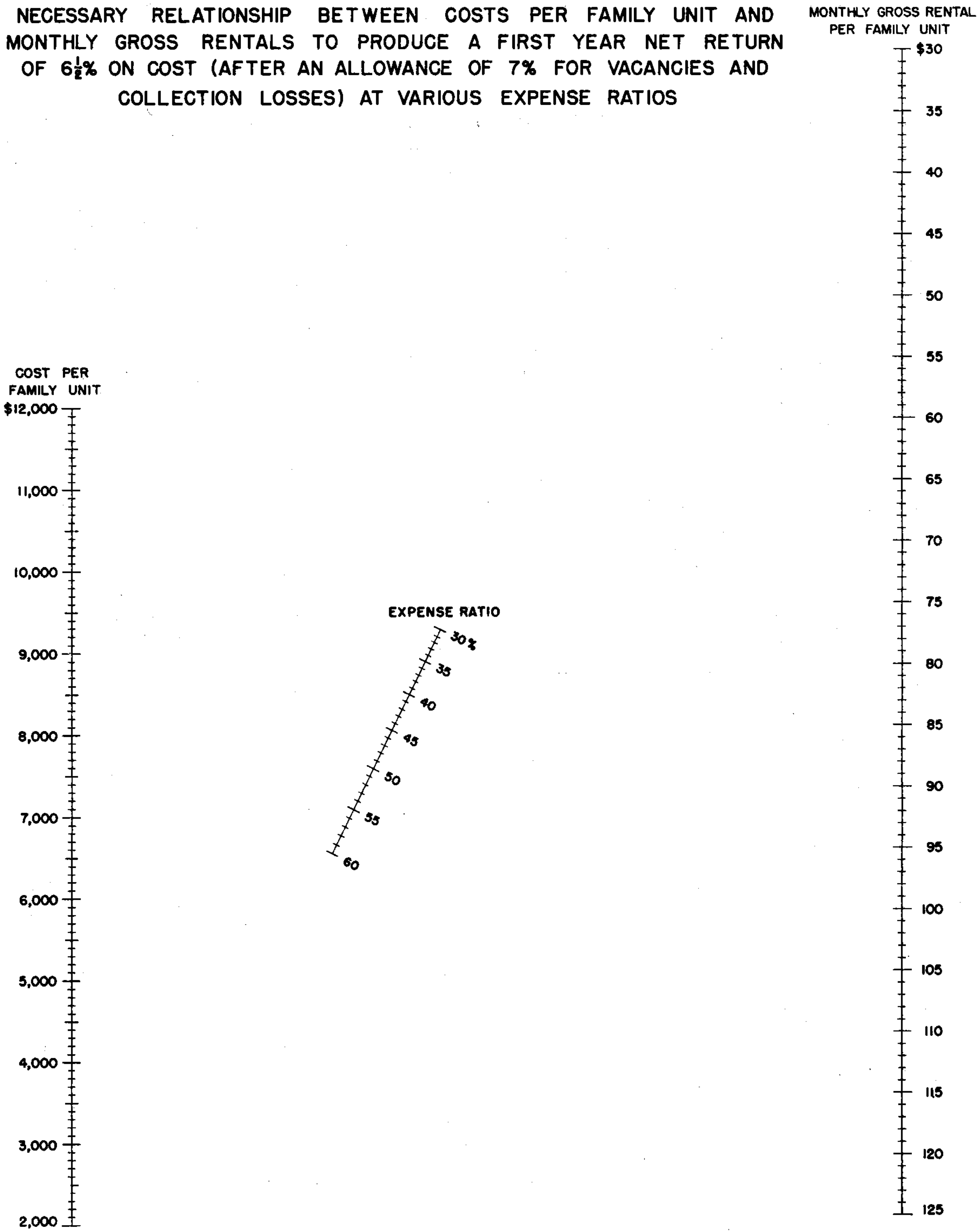


CHART 2B

FEDERAL HOUSING ADMINISTRATION
DIVISION OF RESEARCH AND STATISTICS
ACTUARIAL AND FINANCIAL SECTION

RELATIONSHIP BETWEEN ESTIMATES OF VALUE AND CAPITALIZATION RATES

Another relationship that has a most important bearing on producing a project having a value equal to, or closely approximating, cost is the capitalization rate expressing the rate of return on capital demanded by the market.

Chart 3 illustrates the fact that the same net income (7% on cost for first year of investment) produces different amounts of capitalized value when different capitalization rates are used and when the period for which the income is capitalized varies.

Assume a capitalization rate of $6\frac{1}{4}$%, follow up Chart 3 along the line marked $6\frac{1}{4}$% to the point where it crosses the line marked "50 years". Place a ruler horizontally across the line at this point, and it will cross the columns headed "Capitalized Value" at a point slightly in excess of $100,000. This indicates that the capitalized value of the returns from a property costing $100,000 is slightly in excess of the cost under the conditions assumed.

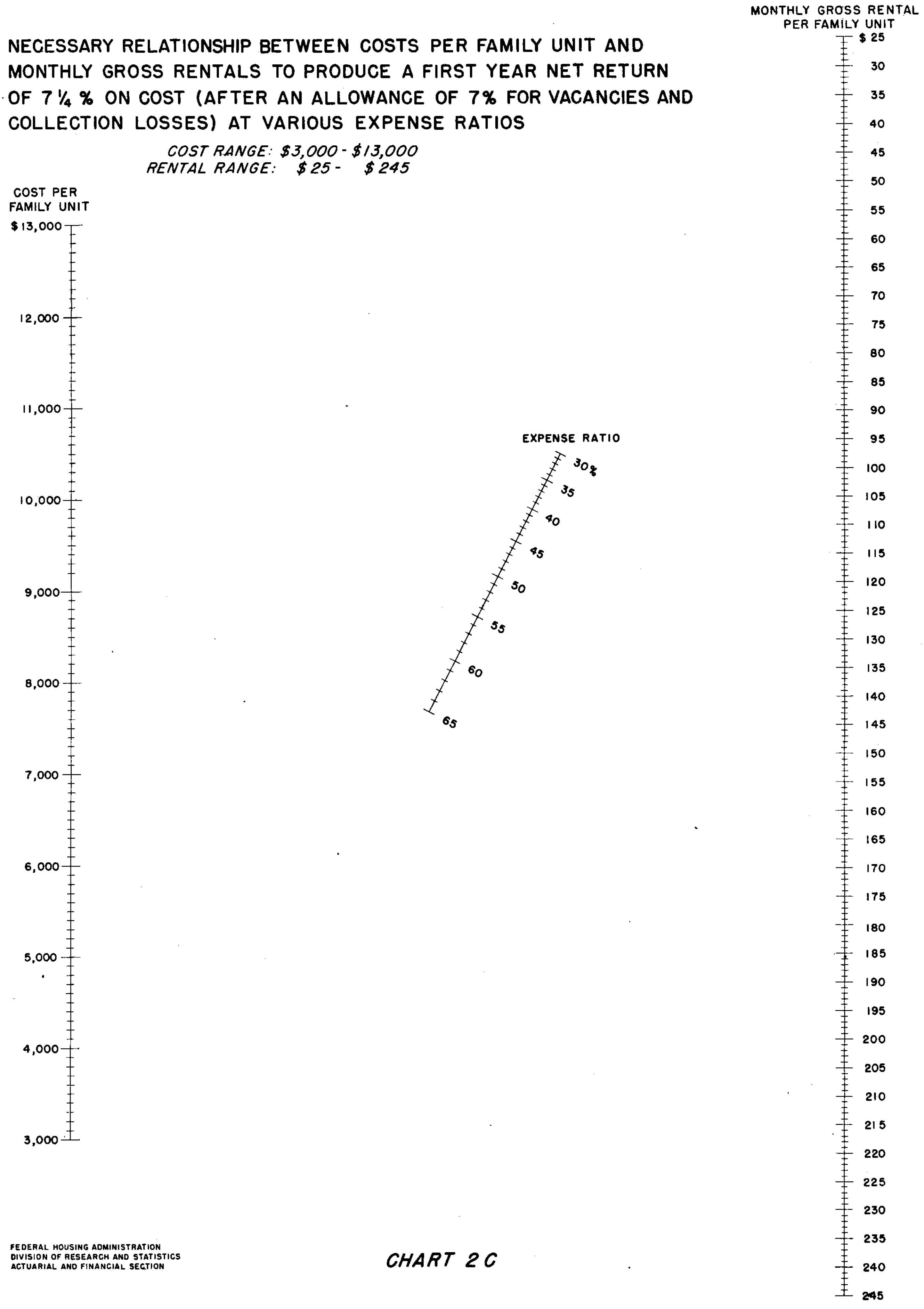
If, however, because of greater risk, a net return of 8% would be demanded by investors, the capitalized value of the returns would be between 80 and 85 thousand dollars, or 15 to 20 thousand dollars less than the cost of $100,000 under the assumed conditions.

By moving the decimal point 3 places to the left in the column headed "Capitalized Value" they become percentages. In the two illustrations above, the capitalized values are slightly in excess of 100% of replacement cost in the first instance, and in the second instance something between 80% and 85% of replacement cost.

The appropriate capitalization rate to be used in appraising is the rate at which capital in the market seeks investments in rental housing projects of the type contemplated.

NECESSARY RELATIONSHIP BETWEEN COSTS PER FAMILY UNIT AND MONTHLY GROSS RENTALS TO PRODUCE A FIRST YEAR NET RETURN OF 7¼ % ON COST (AFTER AN ALLOWANCE OF 7% FOR VACANCIES AND COLLECTION LOSSES) AT VARIOUS EXPENSE RATIOS

COST RANGE: $3,000 - $13,000
RENTAL RANGE: $25 - $245

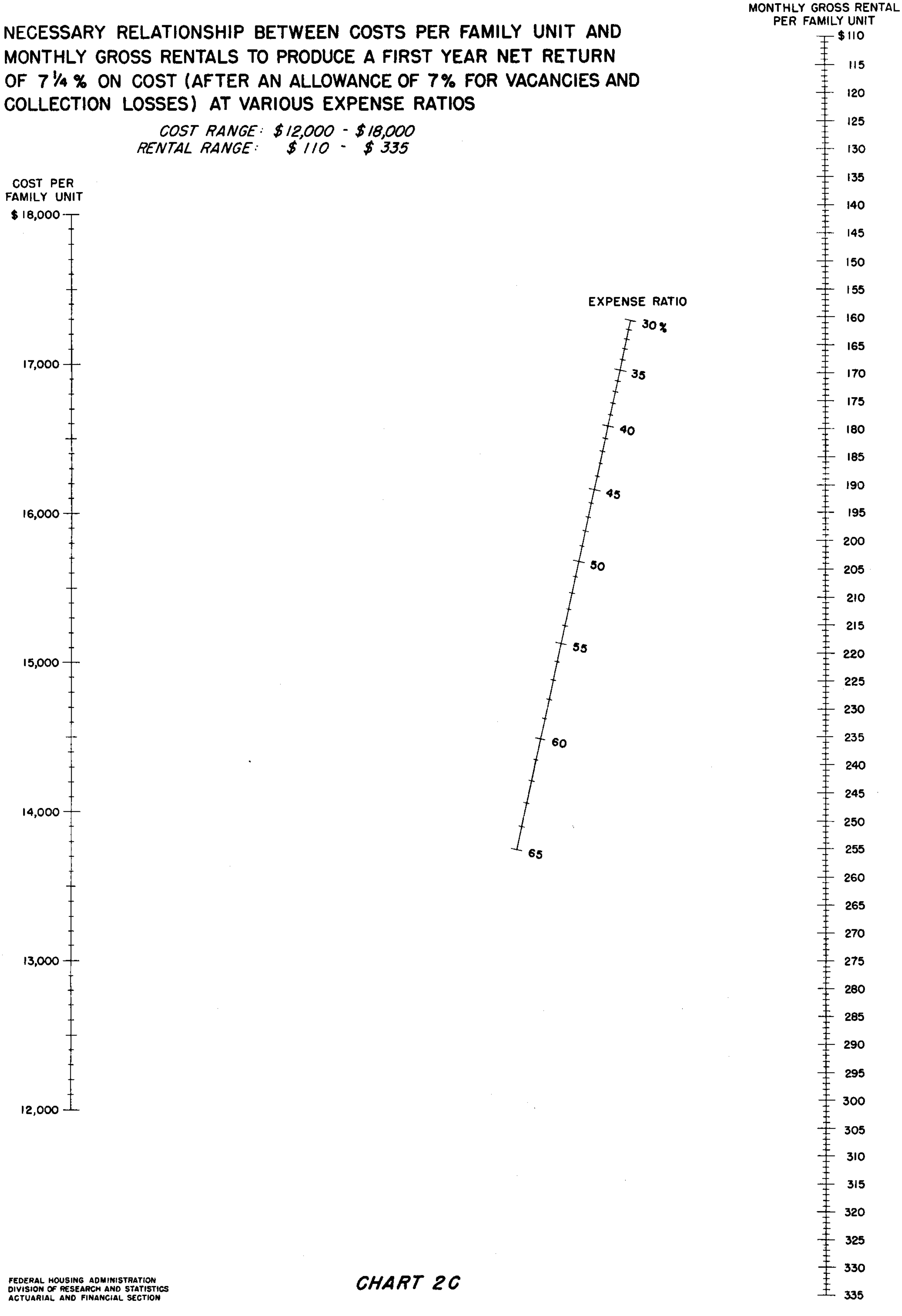


FEDERAL HOUSING ADMINISTRATION
DIVISION OF RESEARCH AND STATISTICS
ACTUARIAL AND FINANCIAL SECTION

CHART 2 C

NECESSARY RELATIONSHIP BETWEEN COSTS PER FAMILY UNIT AND MONTHLY GROSS RENTALS TO PRODUCE A FIRST YEAR NET RETURN OF 7¼ % ON COST (AFTER AN ALLOWANCE OF 7% FOR VACANCIES AND COLLECTION LOSSES) AT VARIOUS EXPENSE RATIOS

COST RANGE: $12,000 - $18,000
RENTAL RANGE: $ 110 - $ 335

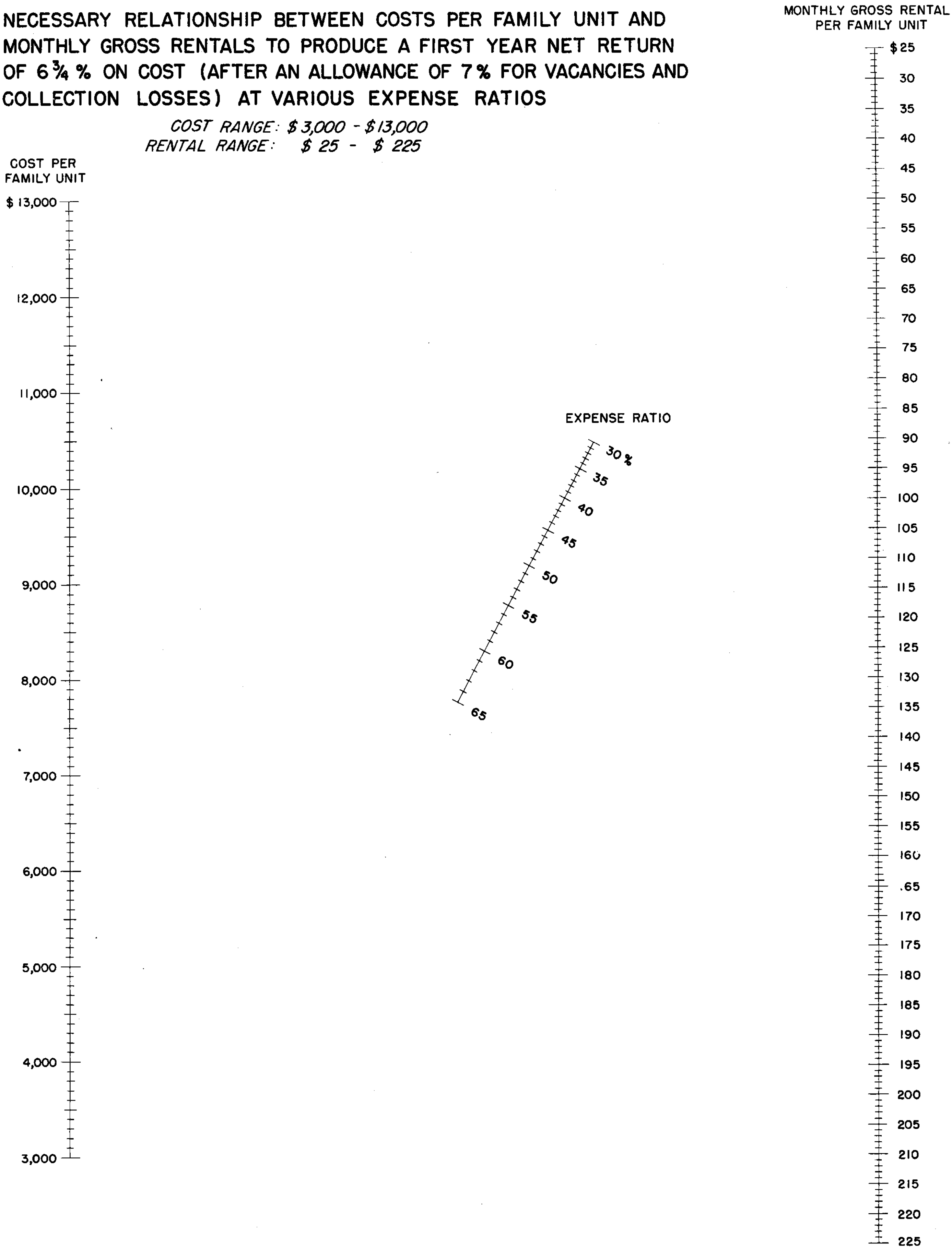


FEDERAL HOUSING ADMINISTRATION
DIVISION OF RESEARCH AND STATISTICS
ACTUARIAL AND FINANCIAL SECTION

CHART 2C

NECESSARY RELATIONSHIP BETWEEN COSTS PER FAMILY UNIT AND MONTHLY GROSS RENTALS TO PRODUCE A FIRST YEAR NET RETURN OF 6¾ % ON COST (AFTER AN ALLOWANCE OF 7 % FOR VACANCIES AND COLLECTION LOSSES) AT VARIOUS EXPENSE RATIOS

COST RANGE: $3,000 - $13,000
RENTAL RANGE: $ 25 - $ 225

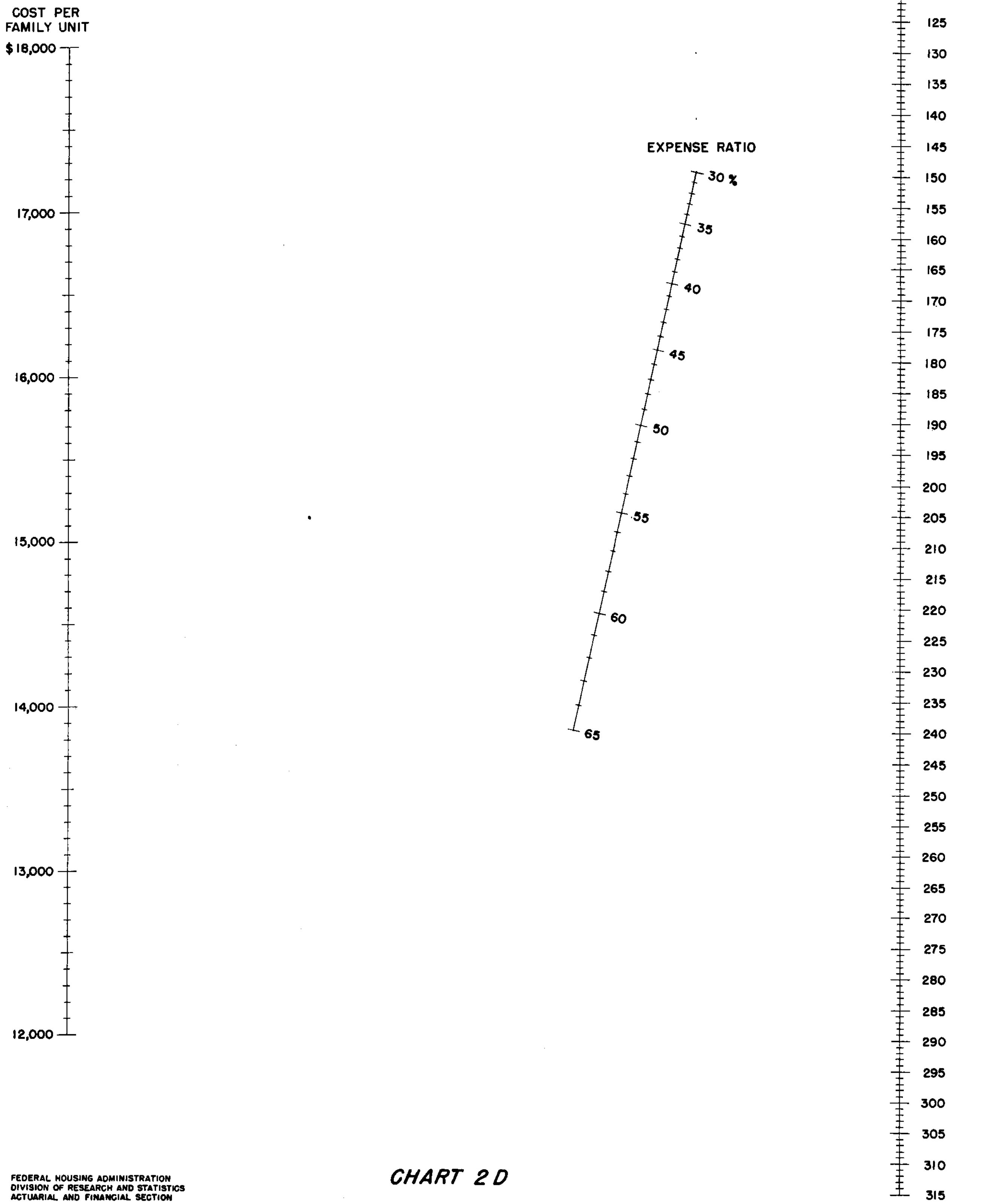


FEDERAL HOUSING ADMINISTRATION
DIVISION OF RESEARCH AND STATISTICS
ACTUARIAL AND FINANCIAL SECTION

CHART 2 D

NECESSARY RELATIONSHIP BETWEEN COSTS PER FAMILY UNIT AND MONTHLY GROSS RENTALS TO PRODUCE A FIRST YEAR NET RETURN OF 6¾ % ON COST (AFTER AN ALLOWANCE OF 7 % FOR VACANCIES AND COLLECTION LOSSES) AT VARIOUS EXPENSE RATIOS

COST RANGE: $12,000 - $18,000
RENTAL RANGE: $100 - $315



FEDERAL HOUSING ADMINISTRATION
DIVISION OF RESEARCH AND STATISTICS
ACTUARIAL AND FINANCIAL SECTION

CHART 2 D

CAPITALIZED VALUE OF NET INCOME FROM A PROPERTY COSTING $ 100,000

ASSUMPTIONS:

(1) AVAILABLE MARKET PRICE OF SITE EQUAL TO 10% OF COST OF PROPERTY
(2) REMAINING ECONOMIC LIFE OF BUILDING AT INDICATED PERIODS
(3) NET RETURN ON COST FOR FIRST YEAR OF INVESTMENT AT 7%
(4) NET INCOME DECLINING IN ACCORDANCE WITH TABLE II PREMISE, FHA UNDERWRITING MANUAL
(5) NET INCOME CAPITALIZED AT INDICATED RATES

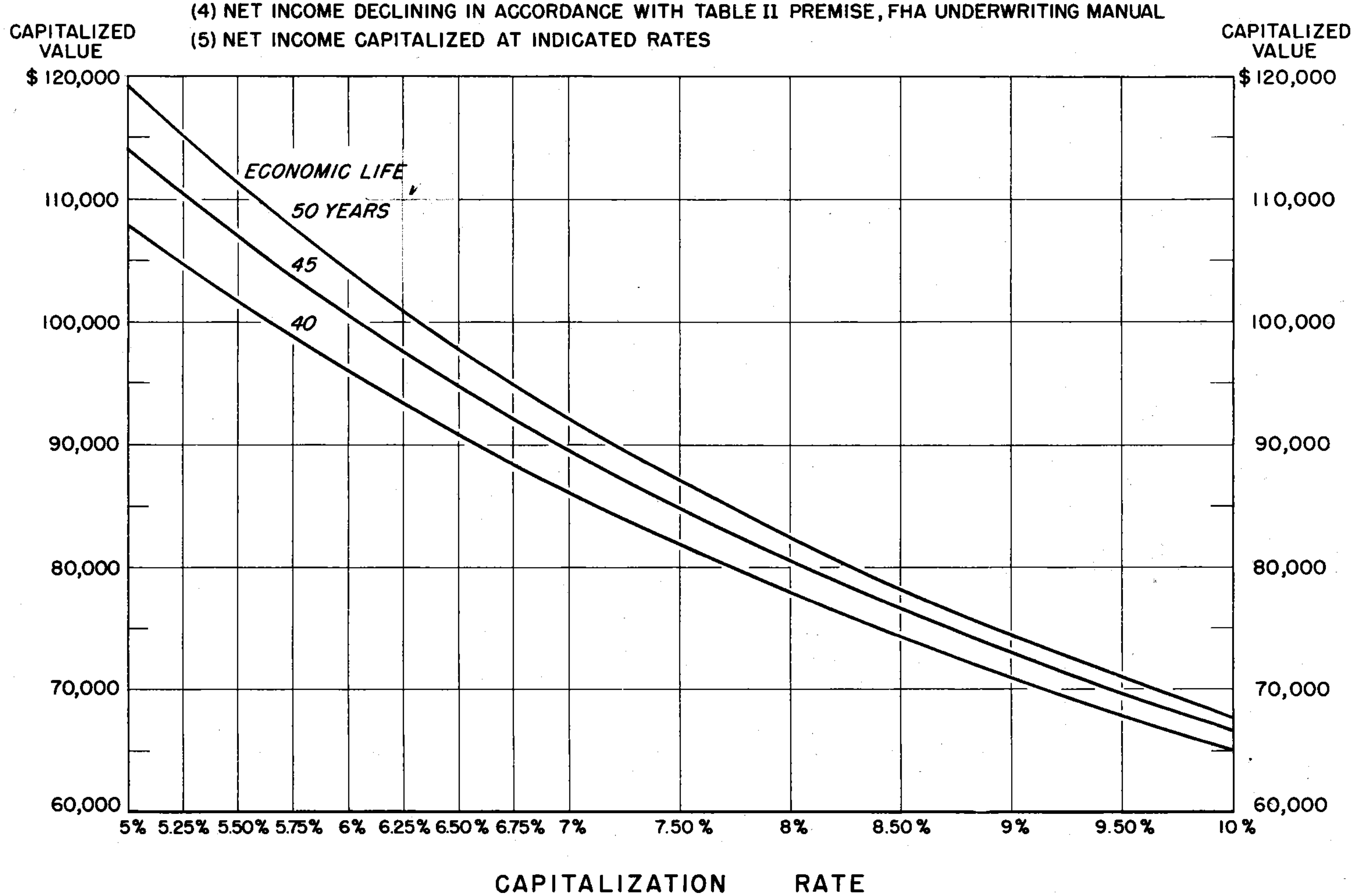


CHART 3

FEDERAL HOUSING ADMINISTRATION
DIVISION OF RESEARCH AND STATISTICS
ACTUARIAL AND FINANCIAL SECTION

RELATIONSHIP BETWEEN FIRST YEAR NET RETURNS, VALUE AND COST OF PROPERTY

Chart 4 is used to determine the first year net income required to produce a value equal to cost at capitalization rates from 5% to 8%.

For example, assume a capitalization rate of 6.25%. Follow the line upward from 6.25 to where it crosses the line "Economic Life 50 Years". Lay a ruler horizontally across this point, and it will cross the lines at the edge of the chart at just under 7%. This shows that a first year net return of just under 7% of the cost of the property is required if value is to equal cost where the capitalization rate is 6.25% and the economic life of the property is estimated to be 50 years.

Conversely, where the first year net return is known, capitalization rates necessary to produce a capitalized value equal to cost can be determined. For example, assume a first year net return of 6.75%. Lay a ruler across the chart at 6.75% at the point where it crosses the line "Economic Life 50 Years", follow the line down and it is found that a capitalization rate of 6% would be required to produce a capitalized value equal to cost. Obviously, if the market were not satisfied with a return of 6% a higher capitalization rate would have to be used, and a value less than cost would be obtained when the first year net returns are only 6.75%.

It is evident from Chart 4 that where the first year net return is 7% the property must be so desirable in all respects that a capitalization rate of not more than 6.25% is warranted in order for value to equal cost. A rate this low for residential income property is not likely to be found acceptable to capital seeking this type of investment unless the rentals obtainable give promise of continuing over a long period. Excellence of location is highly important toward maintaining long term demand.

CAPITALIZED VALUE OF NET INCOME FROM A PROPERTY COSTING $100,000

ASSUMPTIONS:

(1) AVAILABLE MARKET PRICE OF SITE EQUAL TO 10% OF COST OF PROPERTY

(2) REMAINING ECONOMIC LIFE OF BUILDING AT INDICATED PERIODS

(3) NET RETURN ON COST FOR FIRST YEAR OF INVESTMENT AT 7 1/4 %

(4) NET INCOME DECLINING IN ACCORDANCE WITH TABLE II PREMISE, FHA UNDERWRITING MANUAL

(5) NET INCOME CAPITALIZED AT INDICATED RATES

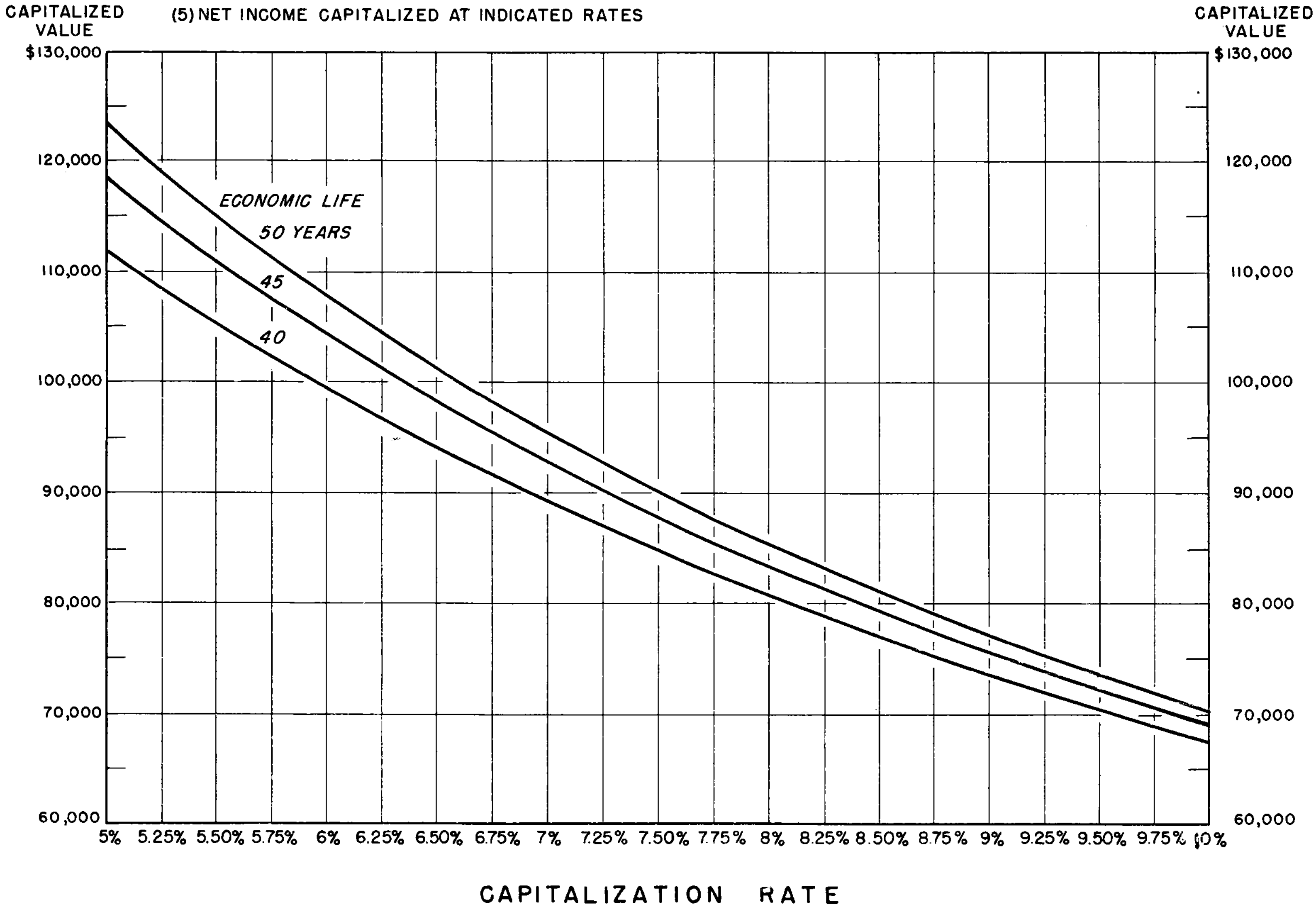


CHART 3A

FEDERAL HOUSING ADMINISTRATION
DIVISION OF RESEARCH AND STATISTICS
ACTUARIAL AND FINANCIAL SECTION

NET RETURNS REQUIRED ON COST OF PROPERTY DURING FIRST YEAR OF INVESTMENT IN ORDER FOR VALUE TO EQUAL COST TO OWNER

ASSUMPTIONS:

(1) AVAILABLE MARKET PRICE OF SITE EQUAL TO 10% OF COST OF PROPERTY
(2) REMAINING ECONOMIC LIFE OF BUILDING AT INDICATED PERIODS
(3) NET INCOME DECLINING IN ACCORDANCE WITH TABLE II PREMISE, FHA UNDERWRITING MANUAL
(4) NET INCOME CAPITALIZED AT INDICATED RATES

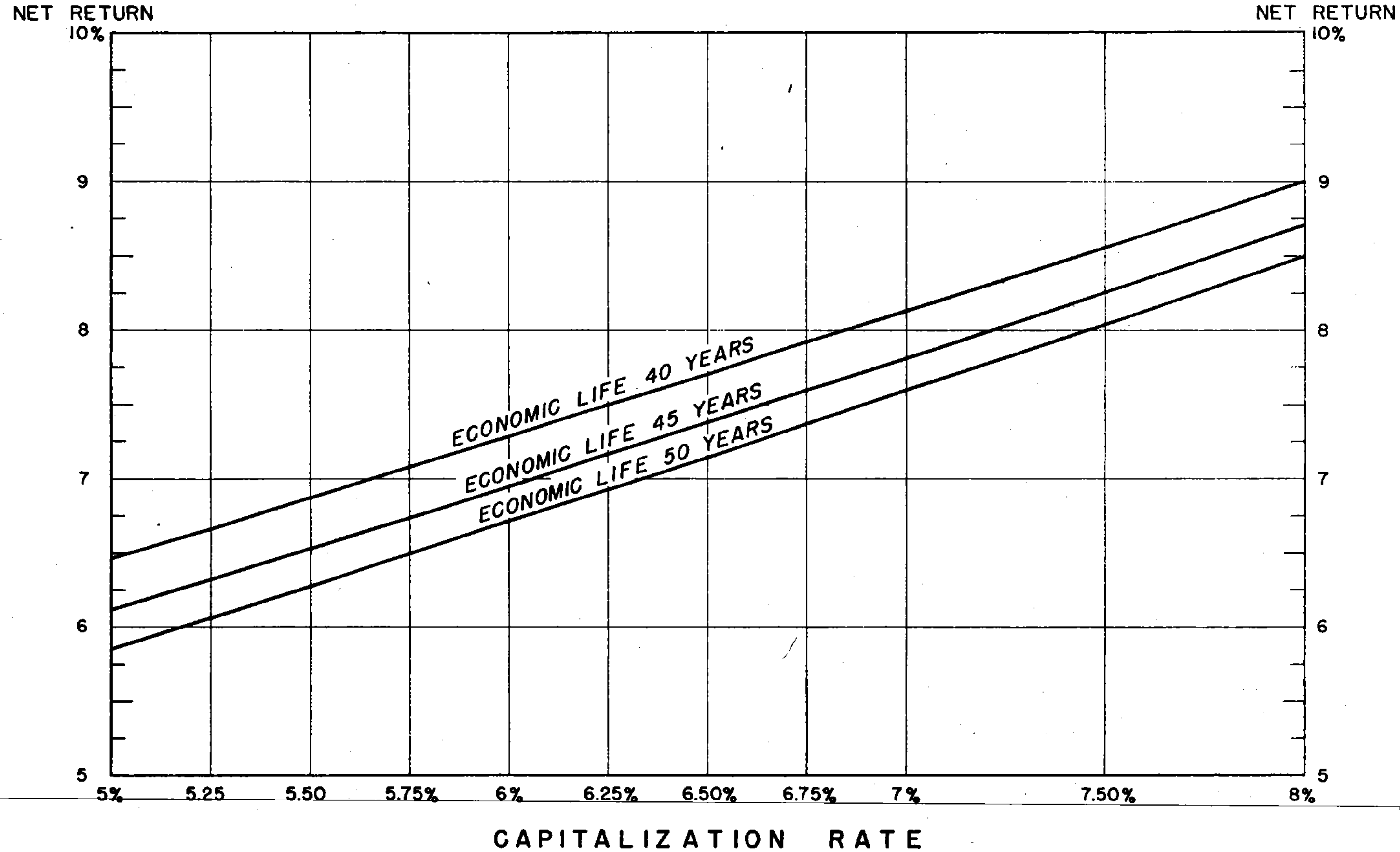


CHART 4

FEDERAL HOUSING ADMINISTRATION
DIVISION OF RESEARCH AND STATISTICS
ACTUARIAL AND FINANCIAL SECTION

QUALITY OF LOCATION MORE IMPORTANT THAN COST OF SITE

Investors frequently 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. Chart 5 illustrates this principle.

Chart 5 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 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.

REV. MAR. 1955

NET RETURNS REQUIRED ON COST OF PROPERTY DURING FIRST YEAR OF INVESTMENT IN ORDER FOR VALUE TO EQUAL COST TO OWNER

ASSUMPTIONS:

(1) AVAILABLE MARKET PRICE OF SITE EQUAL TO 10% OF COST OF PROPERTY
(2) REMAINING ECONOMIC LIFE OF BUILDING AT INDICATED PERIODS
(3) NET INCOME DECLINING IN ACCORDANCE WITH TABLE II PREMISE, FHA UNDERWRITING MANUAL
(4) NET INCOME CAPITALIZED AT INDICATED RATES

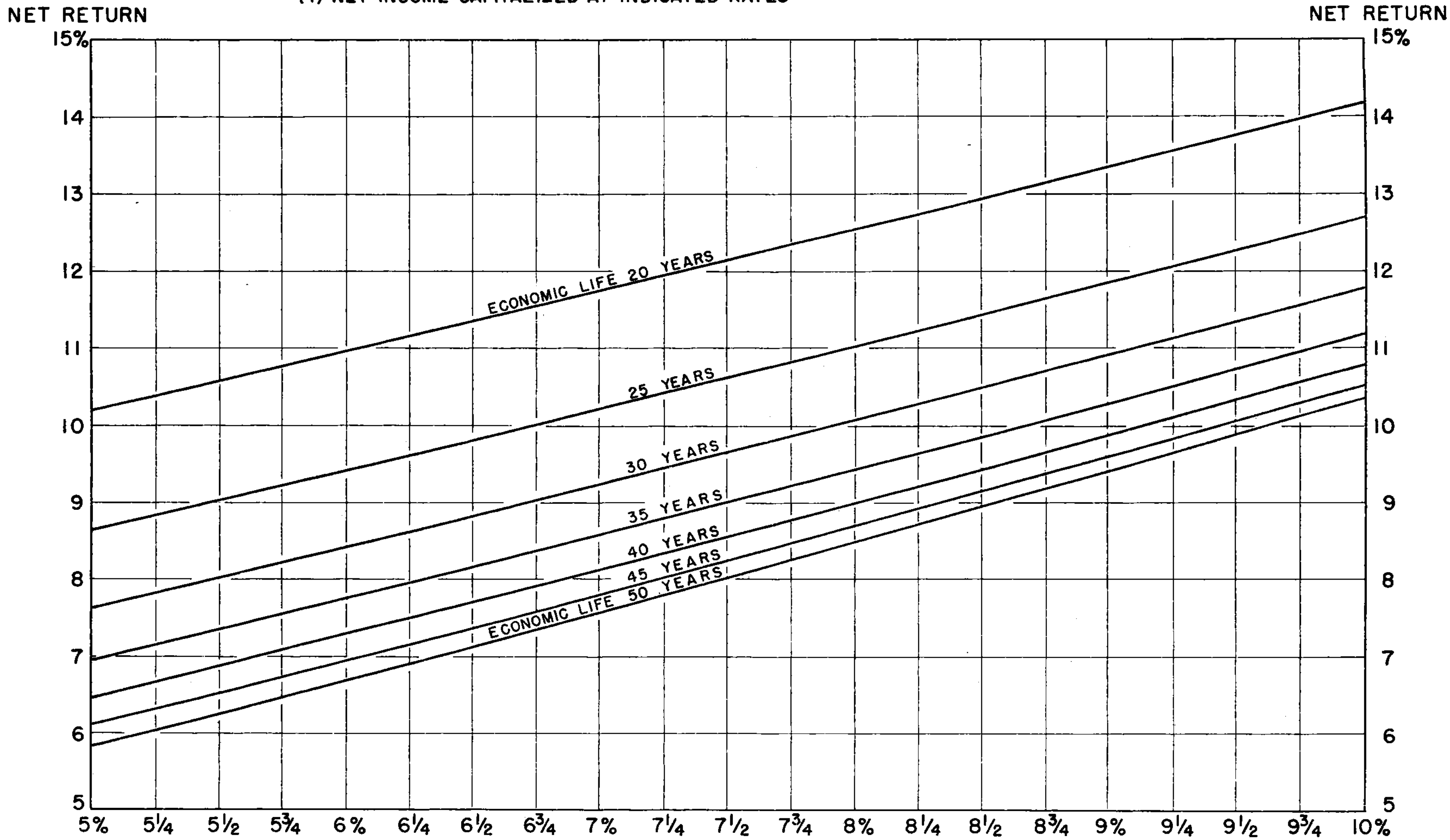
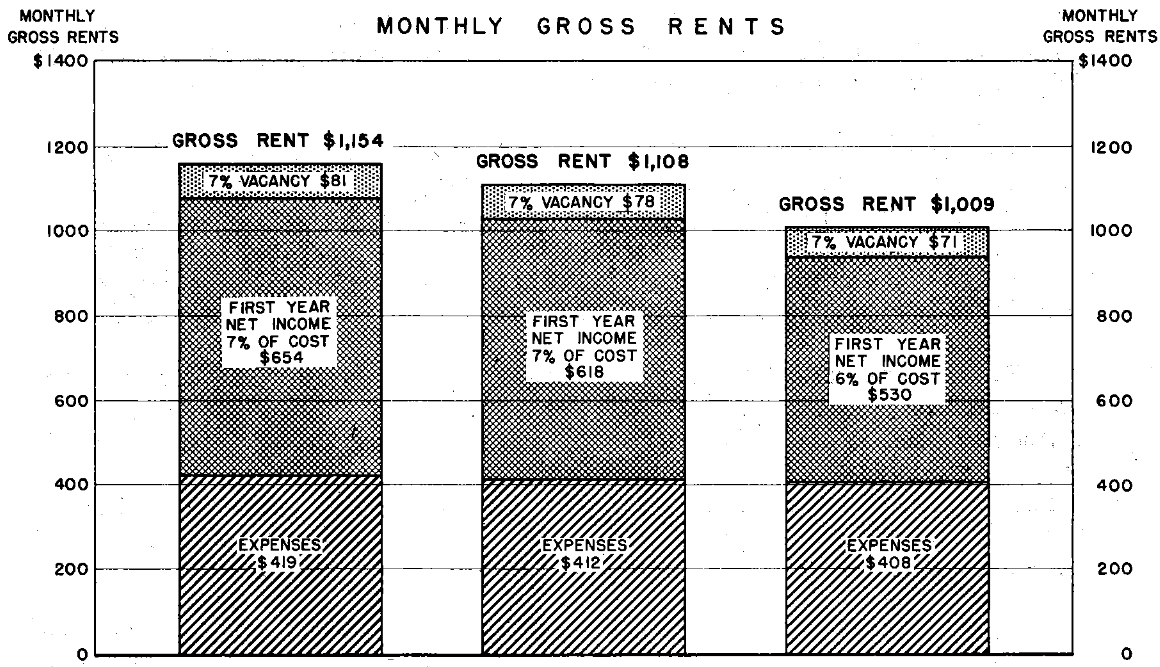


CHART 4

FEDERAL HOUSING ADMINISTRATION
DIVISION OF RESEARCH AND STATISTICS
ACTUARIAL AND FINANCIAL SECTION

123054

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



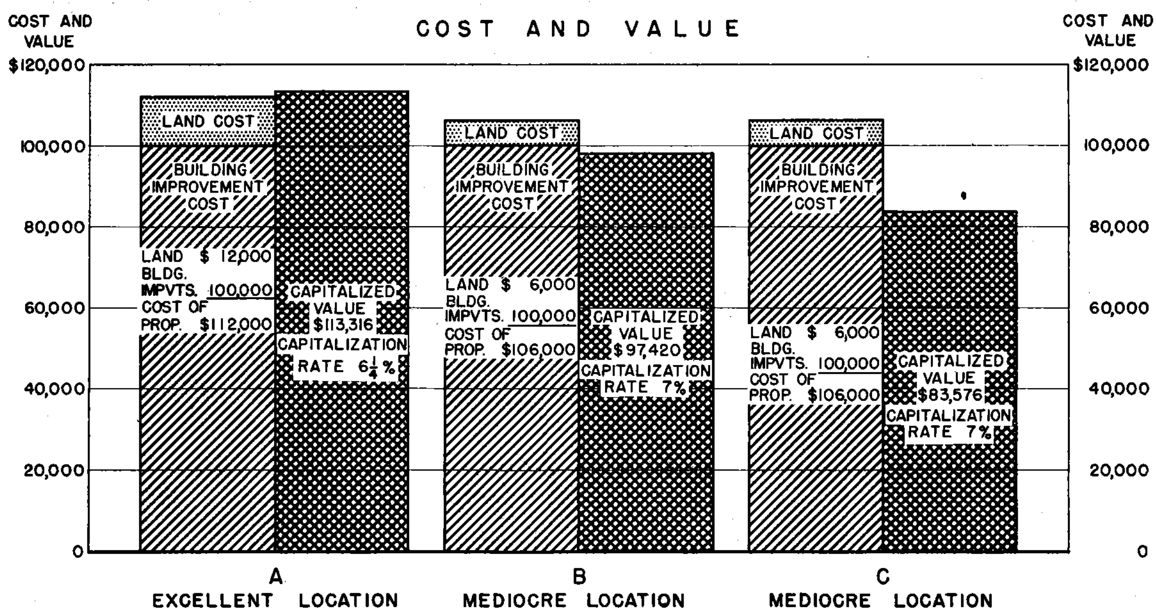


CHART 5

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 Chart 5. 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 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.

HOW INVESTORS MAY ESTIMATE POSSIBLE AMOUNT OF MAXIMUM INSURED MORTGAGE

The amount of the maximum mortgage which will be insured in any case is determined by the Federal Housing Administration, and is based on its estimates of value, cost, rentals, expenses, and other factors. However, investors can, if they wish, apply the FHA criteria to their estimates, as set forth on their application, and in that manner estimate the maximum insurable mortgage loan obtainable based on their own estimates.

The first determination to be made is to find whether or not the estimate of net income from the property during the first year exceeds 7% on the cost of the property. If it does, the project is not insurable by the Federal Housing Administration, and it would be necessary to reduce the rentals to an amount which would produce a first year net return on the estimated cost of 7% or less.

The second point to be checked is the appropriateness of the capitalization rate selected in capitalizing net income, which will be not less than 6%.

Under the National Housing Act, as amended, $5,000,000 is the maximum permissible mortgage loan which can be insured for a private corporation on any rental project. Therefore, if application is made for a higher amount, the application will not be eligible. On this same point of the amount applied for, the Federal Housing Administration will not insure a mortgage for more than the amount applied for, even though it would be eligible for a larger amount under all the other limitations. The National Housing Act, as amended, limits the maximum amount of an insurable mortgage to $8,100 per family unit, or $7,200 per family unit, depending upon the average number of rooms in each family unit.

The Act also limits the maximum insurable mortgage to a sum not in excess of 90% of the first $7,000 of value per family unit, plus 60% of the value in excess of $7,000 per family unit.

Credit controls (as of April 1951) limit the maximum insurable mortgage to a sum not in excess of 83% of the first $7,000 of value per family unit, plus 53% of the value in excess of $7,000 per family unit.

The lowest figure found through the application of the criteria stated will be the maximum insurable mortgage obtainable based on the investor's estimates as set forth in the application. The criteria stated apply only to transactions involving fee simple titles and to projects where income is solely from dwelling units.

A local FHA insuring office should be consulted where rental income other than that obtainable from residential use is involved, or where the mortgage will be on a leasehold or will be subject to special assessments.

COMPLETING AN APPLICATION FOR INSURANCE OF A MORTGAGE UNDER SECTION 207 OF THE NATIONAL HOUSING ACT, AS AMENDED

An application for mortgage insurance under Section 207 of the National Housing Act is a formal presentation of the pertinent facts relative to a proposed transaction on which it is desired to obtain an insured mortgage loan.

The application presents details, which are essential to be presented to mortgagees and in turn to the Federal Housing Administration, relative to the location of the proposed project; the number, type, and size of the units to be built; description of the services to be furnished; and detailed estimates of income and expenses.

Sponsors have the information and estimates called for in the application on hand prior to completing an application, since these items were used by them in testing the soundness of their proposal in the manner described in this booklet. With this information at hand, it is a relatively simple matter to prepare a formal application.

Various estimates of income, expenses, cost and so forth are covered in detail in the application, which thus provides a useful and desirable check list which may bring any important omissions to the sponsor's attention. As a matter of fact, many sponsors use copies of the application form in making estimates for the purposes of their own initial analyses of the proposal, and this use of the application form is recommended.

The illustrated FHA Application Form 2013 includes comments on certain portions of it. Generally speaking, answers sought to questions on the application form are self-evident. However, questions that may arise in completing the form can be discussed with Federal Housing Administration insuring office personnel, who are ready at all times to lend whatever assistance may be needed or desired.

FHA Form No. 2013 (Rev. June 1950)

FEDERAL HOUSING ADMINISTRATION

Form approved. Budget Bureau No. 63-R676.1.

APPLICATION FOR MORTGAGE INSURANCE

Under Section 207 of the National Housing Act

(To Be Submitted in Duplicate)

Date ....

No. .... (Project number to be inserted by FHA)

MORTGAGEE'S APPLICATION

I.

Mortgagee will complete this section of application or provide information required.

To the Federal Housing Commissioner:

Pursuant to the Provisions of Section 207 of the National Housing Act, and Administrative Rules and Regulations applicable thereto, application is hereby made for the insurance of the mortgage described in Mortgagor's Application below. After examination of the application and the proposed security, the undersigned Proposed Mortgagee considers the project to be desirable and is interested in making the loan in the principal amount of $........................ which will bear interest at ....% per annum, payable

by .... equal monthly installments of $................ covering principal and interest.
[——————Strike——————out——————if——————inapplicable——————]

by .... monthly installments of $.................. each of principal, plus interest on balances of principal.
[——————Strike——————out——————if——————inapplicable——————]

This application by the undersigned Proposed Mortgagee is subject to your commitment, its own final action, and payment of its charges as set forth under "Financing Expense" at the rate of ....% in the amount of $..............

Herewith is check for $.................. which is in payment of the fee required by Section I of Administrative Rules, now effective, to be paid at the time of submitting application.

Two types of FHA commitment are available, (a) Commitment for Insurance, under which FHA insures advances of mortgage proceeds during the course of construction, and (b) Commitment to Insure Upon Completion, under which FHA insures total mortgage proceeds at the time of completion of the project. Check below the type of commitment desired.

(a) ☐ Commitment for Insurance.
(b) ☐ Commitment to Insure Upon Completion.

(Signed) .... (Proposed Mortgagee)

By .... (Name and title of officer)

.... (Address of Mortgagee)

MORTGAGOR'S APPLICATION

II.

To the Federal Housing Commissioner:

The undersigned hereby applies for insurance of a first mortgage in the principal amount of $.................. under the provisions of Section 207 of the National Housing Act.

Sponsors:

1. Name of proposed mortgagor ....
   (a) Names and addresses of sponsors ....
   ....
   (b) Name and address to which correspondence should be addressed ....
   ....
2. Names and addresses of—
   (a) Architect ....
   (b) Attorney ....

EXPLANATORY NOTES—NEW CONSTRUCTION

(For rehabilitation projects, see explanatory notes at top of page 2)

III.

Consult local FHA office for exhibits required.

Required exhibits may vary with size of project and site conditions.

1. **General information.**—The following notes should be studied in completing this application form and preparing the supporting exhibits. The examination of the proposed project will be expedited by early and full compliance with the requirements set forth. Discussion with the local FHA insuring office prior to making out this application is recommended. The requirements of the following notes shall be observed carefully in completing this application, and in preparing the exhibits described.

2. **Required exhibits.**—(a) **Site information** as follows shall be submitted in duplicate:

(1) **Legal description** by which the site of the proposed project can be identified.

(2) **Ownership.**—A statement as to the ownership of the proposed project site must accompany this application. If the land is to be acquired by the sponsoring group, copies of a valid option shall be submitted.

(3) **Photographs** shall be of sufficient size to afford clear views of the proposed site and its surrounding neighborhood. There should be sufficient descriptive matter typed upon such photographs to make it evident from what point and in what direction they were taken.

(4) **City map** shall be marked to indicate proposed site, schools, churches, shopping and business districts, industrial, commercial, and recreational centers, together with main traffic arteries and available means of transit to and from proposed site to such centers.

(5) **Zoning map** and copy of zoning ordinance, if existing, must be furnished. In the absence of zoning maps the topographical survey must indicate the character of zoning restrictions on the proposed site and immediate neighborhood with respect to height, coverage, and use permitted. The sponsor must submit definite assurance that the proposed project will not be contrary to existing zoning regulations or restrictions.

(b) Form FH-21a (Department of Labor Form) Request for determination of prevailing wages.

(c) Personal, Financial and Credit Statement, FHA Form 2417, of each sponsor who is investing a substantial portion of the cash or other equity to complete the project.

(d) **Architectural exhibits.**—This application must be accompanied by a topographical survey of the site, preliminary drawings and outline specifications prepared on FHA Form No. 2435. These shall be prepared in duplicate and shall provide sufficient information to show the following:

(1) A comprehensive delineation of the project design, planning, materials, and construction;

(2) Compliance with all applicable FHA requirements and governing laws, ordinances, and deed restrictions;

(3) Sufficient detail for the preparation of an accurate cost estimate.

Information concerning the number and character of required exhibits and applicable requirements is available at all FHA Insuring Offices.

3. **Supplementary schedules** (pages 2 and 4). Schedules A, B, C, D, and E must be completed for all applications, in detail and accurately.

4. **Statement of resources and estimated requirements** (page 3): (a) "Construction." In the estimated cost, (*i. e.*, bare field cost, or sum of all trades or subcontracts) include the general contractor's public liability, workmen's compensation and other insurance, and job overhead.

(b) "Interest." Amount estimated to cover interest on disbursements from mortgage during construction only.

(c) "Taxes." On land, or land and buildings, during construction only.

(d) "Insurance." An amount sufficient only to cover premium for fire and extended coverage, and other hazard insurance during construction only.

(e) "Title and recording expense." Include the actual cost of title search and title insurance, surveys, mortgage taxes of all kinds, and recording fees.

(f) "Organization expense." Include only reasonable expenses not otherwise classified, and properly incurred during the organization of the project.

5. **Estimated annual operating statement** (page 3): (a) "Income." Complete Schedule E on page 4. This must be sufficiently detailed to show the composition of family units and the expected rents by family unit types.

(b) "Vacancies." The assumed vacancy will depend on local conditions but must not be less than 7%.

(c) "Operating expenses." These should be estimated on the basis of local experience and must include an allowance for replacement of equipment which usually has a shorter useful life than the structures themselves. Complete Schedule D on page 2.

(d) "Taxes." Probable taxes on the completed property should be estimated in conformity with local rates and assessment practice, or by comparison with similar properties on a per room or other basis. Both methods should check, and a statement showing this check should accompany the exhibits.

6. **Room count.**—The maximum insurable mortgage may be limited by the average number of rooms per family unit. See allowable room count (page 4). In no event may the insured mortgage exceed $8,100 per family unit for such part of the project as may be attributable to dwelling use, and in the event the average number of rooms per family unit is less than 4½ the insured mortgage cannot exceed $7,200 per family unit for such part of the project as may be attributable to dwelling use.

16—48133-5

EXPLANATORY NOTES—REHABILITATION

NOTE.—Data shown in italics refers to rehabilitation projects and shall not apply to new construction projects

Consult local FHA office for information on rehabilitation projects.

Information in this booklet is limited to proposed new projects.

1. *GENERAL INFORMATION.—The following notes should be studied in completing this application form and preparing the supporting exhibits. The examination of the proposed project will be expedited by early and full compliance with the requirements set forth. The requirements of the following notes shall be observed carefully in completing this application, and in preparing the exhibits described.*

2. *REQUIRED EXHIBITS.*—(a) *In order to permit an adequate examination of the project the following exhibits shall be presented in duplicate.*

(1) *Legal description by which the site of the proposed project can be identified.*

(2) *Ownership. A statement as to the ownership of the property comprising the project. If property is to be acquired by the sponsoring group, copies of a valid option shall be submitted.*

(3) *Photographs of front, rear, sides, and typical interiors of buildings to show physical condition; street view of subject and contiguous properties. There should be sufficient descriptive matter typed upon such photographs to make it evident from what point and in what direction they were taken.*

(4) *City map shall be marked to indicate the subject property, schools, churches, shopping and business districts, industrial, commercial, and recreational centers, together with main traffic arteries and available means of transit to and from the property to such centers.*

(5) *Zoning map and copy of zoning ordinance, if existing. Definite assurance must be submitted that the proposed project will not be contrary to existing zoning regulations or restrictions.*

(6) *Survey plat by registered surveyor showing size, location and dimensions of buildings including encroachments, easements, deed restrictions, if any, and location, and size of public utilities, including depths of sewers, location, width, material and condition of adjacent streets and sidewalks; location and height of nearest walls of adjacent buildings.*

(b) *Form FH-81a (Department of Labor Form) request for determination of prevailing wages.*

(c) *Personal, Financial and Credit Statement, FHA Form 2417, of each sponsor who is investing a substantial portion of the cash or other equity to complete the project.*

(d) *Architectural exhibits.—This application must be accompanied by preliminary drawings and outline specifications prepared on FHA Form No. 2435. These shall be prepared in duplicate and shall provide sufficient information to show the following:*

(1) *A comprehensive delineation of the project design, planning, materials, and construction of all buildings both before and after alterations.*

(2) *Compliance with all applicable FHA requirements and governing laws, ordinances, and deed restrictions;*

(3) *Sufficient detail for the preparation of an accurate cost estimate. Information concerning the number and character of required exhibits and applicable requirements is available at all FHA Insuring Offices.*

3. *SUPPLEMENTARY SCHEDULES* (pp. 2 and 4). *Schedules A, B, C, D, and E must be completed for all applications, in detail and accurately.*

4. *STATEMENT OF RESOURCES AND ESTIMATED REQUIREMENTS* (p. 3): (a) *"Construction." In the estimated construction cost (i. e., bare field cost, or sum of all trades or subcontracts) include the general contractor's public liability, workmen's compensation and other insurance, and job overhead.*

(b) *"Interest." Amount estimated to cover interest on disbursements from mortgage during construction only.*

(c) *"Taxes." On land, or land and buildings, during construction only.*

(d) *"Insurance." An amount sufficient only to cover premium for fire and extended coverage, and other hazard insurance during construction only.*

(e) *"Title and recording expense." Include the actual cost of title search and title insurance, surveys, mortgage taxes of all kinds, and recording fees.*

(f) *"Organization expense." Include only reasonable expenses not otherwise classified, and properly incurred during the organization of the project.*

5. *ESTIMATED ANNUAL OPERATING STATEMENT* (p. 3): (a) *"Income." Complete Schedule E on page 4. This must be sufficiently detailed to show the composition of family units and the expected rents by family unit types.*

(b) *"Vacancies." The assumed vacancy will depend on local conditions but must not be less than 7%.*

(c) *"Operating expenses." These should be estimated on the basis of local experience and must include an allowance for replacement of equipment which usually has a shorter usefull life than the structures themselves.*

(d) *"Taxes." Probable taxes on the completed property should be estimated in conformity with local rates and assessment practice, or by comparison with similar properties on a per room or other basis. Both methods should check, and a statement showing this check should accompany the exhibits.*

6. *ROOM COUNT. See allowable room count on page 4.*

IV. SUPPLEMENTARY SCHEDULES

SCHEDULE A

Sources of Equity

NOTE.—Amounts of equity represented in "Land" and "Cash" will be entered in the respective columns opposite the name and address of the equity participant. Amounts of "Other Equity" will be entered under "Amount." Under "Nature" will be indicated the source of the amount such as "Builder's fee," "Architect's fee." *If rehabilitation, the salvage as set forth under "Estimated Requirements" on page 3 may be claimed as "Other Equity." In filling out Schedule A, the equity claimed for Salvage must be specifically designated. This must be in an amount equal to the item of "Salvage" under "Estimated Requirements." The amount set forth at the item "Land" shall consider land without buildings.*

NAME AND ADDRESS	LAND	CASH (Exclusive of working capital)	OTHER EQUITY		TOTAL
			Amount	Nature	
	$	$	$	*Salvage*	$
TOTAL (amount which must equal "Total equity" set forth under "Resources" on p. 3)					$

Accurate information on these questions is essential.

SCHEDULE B

Information Concerning Land—*Or Property, If Rehabilitation*

Parcel or lot	Present owner	Total mortgages now a lien	Interest due and unpaid	Unpaid taxes and assessments	Assessed valuation date	Current tax rate

These items have important bearing on income obtainable, costs and operating expenses.

SCHEDULE C

Equipment and Services Included in Rent

Use of Schedule C recommended for making estimates in early stage of project development.

Equipment Furnished Tenants	Services Included in Rent
Ranges (gas or electric)	Water (hot and cold)
Refrigerators (gas or electric)	Space heat
Kitchen exhaust fans	Janitor service
Attic vent fan	Grounds maintenance
Laundry facilities	Other (specify)
Venetian blinds	
Other (specify)	

SCHEDULE D

Estimate of Annual Operating Expense

Accurate preparation of detailed estimate may modify operating expense ratio used in testing proposal.

Administrative expense:		Gas	$	Furniture and furnishings	$
Advertising	$	Garbage and ash removal		Other operating expense	
Management		Payroll for ...... (Number) employees		Total	
Operating expense:		Maintenance expense:		Replacement reserve	
Elevator power (if any)		Decorating		Total operating expense	
Elevator maintenance		Repairs		Total operating expense per room per annum	
Fuel (heating and domestic hot water)		Exterminating			
Janitor's supplies		Insurance			
Lighting and miscellaneous power		Grounds expense (materials only)			
Water					

16—48133-5

FHA Application Form 2013 - Page 2

Basic elements of the proposal used in testing soundness at inception of project are detailed on this page.

Consult local FHA office if questions arise in completing this page of the application. Every possible assistance will be given by FHA insuring office.

Use of this page of application is often helpful in making preliminary estimates during early stage of project development.

The detailing of items included in total estimated requirements provides a desirable check list to avoid omission of items.

V. PROPOSED SET-UP

Project name .... Number of family units .... Number of rooms ....
Location .... Average number of rooms per family unit ....
.... Average monthly rent: Per family unit, $........; per room, $........
Type of building ....
(Apartment, detached, semidetached or row houses. Number of stories, type of construction, walk-up or elevator, etc.)

RESOURCES

Land .... $........
Cash (exclusive of working capital) ....
Other equity ....
Total equity .... $........
Mortgage-loan proceeds ....
TOTAL RESOURCES (exclusive of working capital) .... $........

Cash working capital .... $........

NOTE.—WORKING CAPITAL shall be not less than 1½% of the amount of the proposed mortgage. It is not part of the mortgage security. It shall be deposited with the mortgagee or, in a depository satisfactory to the mortgagee and under control of the mortgagee for the purpose of meeting the cost of equipping and renting the project subsequent to the completion of construction of the entire project or units thereof and, during construction for allocation by the mortgagee to the accruals for taxes, mortgage insurance premium, hazard insurance premiums and assessments required by the terms of the insured mortgage. Any balance not used for the above purposes shall be returned to the mortgagor upon completion of the project to the satisfaction of the Commissioner.

ESTIMATED REQUIREMENTS

LAND IMPROVEMENT: (within property lines only)
New utilities .... $........
Landscape work ....
....
TOTAL FOR LAND IMPROVEMENTS .... $........

CONSTRUCTION:
Dwellings .... $........
Garages ....
Stores ....
*Salvage** (as below) ....
Taxes (Social Security, sales, etc.) ....
....

FEES:
Bld'r, $........ @ ....% ....
Arch't, $........ @ ....% ....
TOTAL .... $........
TOTAL FOR ALL IMPROVEMENTS .... $........

CARRYING CHARGES AND FINANCING:
Interest .... mos. @ ....%
on $........ $........
Taxes (on real estate during construction) ....
Insurance ....
FHA mtg. ins. premium (0.5%) ....
FHA examination fee ....(0.3%) ....
Inspection fee ....(0.5%) ....
Financing expense ....% ....
Title and recording expense ....
TOTAL FOR CARRYING CHARGES AND FINANCING .... $........
TOTAL FOR ALL IMPROVEMENTS, CARRYING CHARGES, AND FINANCING .... $........

LEGAL AND ORGANIZATION EXPENSE:
Legal expense ....
Organization expense ....
....
TOTAL LEGAL AND ORGANIZATION EXPENSE .... $........
TOTAL ESTIMATED REQUIREMENTS, EXCLUSIVE OF LAND .... $........

LAND:
.... sq. ft. @ .... per sq. ft. .... $........

TOTAL ESTIMATED REQUIREMENTS .... $........

**Estimate depreciated reproduction costs of salvable existing improvements if rehabilitation is involved* .... $........
....
TOTAL SALVAGE .... $........
Estimated cost of demolition which is not to be included in Estimated Requirements above .... $........

ESTIMATED ANNUAL OPERATING STATEMENT

INCOME: (See note No. 5, explanatory notes)
Dwelling rent (from schedule E) .... $........ per annum.
Garage rent (from schedule E) .... per annum.
Store rent (from schedule E) .... per annum.
Other income (from schedule E) .... per annum.
....
TOTAL ESTIMATED GROSS INCOME PER ANNUM .... $........
Less vacancies assumed:
(......% on dwellings) .... $........
(......% on garages) ....
(......% on other income) ....
TOTAL VACANCY DEDUCTION .... $........
GROSS INCOME EXPECTANCY .... $........
(Effective gross income)

TOTAL OPERATING EXPENSE: (Schedule D)
Number of rooms .... @
$........ per annum .... $........
REAL-ESTATE TAXES:
Estimated assessed value:
$........ @ $........
PER $1,000 ....
SOCIAL SECURITY AND OTHER SPECIAL TAXES ....
TOTAL .... $........
CASH AVAILABLE FOR DEBT SERVICE .... $........
ANNUAL FIXED CHARGES:
Interest (1st year) ....% $........
Amortization @ ....%
during first year ....
Mortgage insurance ......(0.5%) ....
Other fixed charges ....
TOTAL ANNUAL FIXED CHARGES .... $........
CASH AVAILABLE FOR INCOME TAXES, CORPORATE TAXES, DIVIDENDS, OR SURPLUS .... $........

LIST OF EXHIBITS

....

16—48183-5

SCHEDULE E
Estimate of Rentals

Number of each family unit type	Percent of total units	Rooms per family unit	Composition of units *Efficiency LU Only **Where K is less than 60 sq. ft. deduct ½ Rm. (See Allowable Room Count below)	Estimated unit rent per month	Total monthly rent for each unit type	Total annual rent for each unit type
		*2	LR–DS Comb.	$	$	$
		2½	LR–K–DA			
		*3	LR–DS Comb. B–R			
		**3	LR–K–BR			
		**3½	LR–K–DA–BR			
		**4	LR–K–DR–BR			
		4	LR–K–2BR			
		4½	LR–K–DA–2BR			
		5	LR–K–DR–2BR			
		6	LR–K–DR–3BR			
	TOTAL ESTIMATED RENTALS FOR ALL FAMILY UNITS				$	$
	Garage stalls					
	Stores					
TOTAL ESTIMATED INCOME (at 100% occupancy)					$	$

Total number of family units .... @ average rental of $.............. per unit per month.
Total number of dwelling rooms .... @ average rental of $.............. per room per month.

NOTE.—If the total estimate of accessory income, such as that from garages, stores, offices, and any source other than from dwellings, exceeds 10 percent of the total estimated gross income of the project, 100 percent occupied, the amount of such excess above 10 percent will not be considered in project rental estimates. Extraneous income anticipated from the submetering of electricity, gas, and telephone services, rental of laundry equipment, maid and valet service, etc., shall not be included in project rental estimates.

ALLOWABLE ROOM COUNT

For purposes of uniformity the Administration has established the following method of counting the number of rooms which must be followed: (1) All habitable rooms (except kitchens and dining alcoves under conditions listed below) shall be located on exterior walls and have their own direct natural light and ventilation and shall also comply with all other current applicable requirements. (2) A room shall be counted and its compliance with the area requirement determined on the basis of its intended use as indicated by its relation to other rooms. (3) A kitchen shall be separated from other rooms by a complete partition and door. In rehabilitation of existing structures and in the construction of elevator buildings, kitchens need not be located on an exterior wall when adequate ventilation through individual ducts is provided by either natural or mechanical means. (4) A dining alcove need not be located on an exterior wall provided it is adjacent to the kitchen and has no separation from the living room. (5) The partition between a living room and a dining room may be omitted provided that the combined rooms have an area of not less than 260 square feet and further provided that the dimension at the outside wall is not less than 17′ 0″. (6) Efficiency living units shall include the following features for which no additional room count will be allowed: (a) Entry from public space to living room through foyer; (b) dressing closet (in LU without BR) having space for chest of drawers and its use, adequate circulation and ample storage, including clothes rod and shelf space approximating 6 linear feet; (c) kitchenette opening off living room or foyer with a door or doors, minimum 3 feet by 5 feet, equipped and arranged for complete kitchen use and having tenant-operated exhaust fan connected to outer air; (d) access to bathroom from foyer or dressing closet if no bedroom is provided or from bedroom-bath hall accessible from living room, if bedroom is provided; (e) closets, light and ventilation and other features as required by applicable requirements or by the insuring office; (f) minimum area (in efficiency living units) applies to and includes LR–DS or LR–DS–BR only. (7) In living unit with LR–BR combination, and DS in kitchen, the LR–BR shall have closet space exceeding the minimum and approaching that required in (6) (b) above for a dressing closet; items (6) (a), (6) (d), and (6) (e) above also apply.

Room		Minimum Sq. Ft. Area	Count
LR	(DS and K elsewhere in LU)	150	1
LR–DS comb.	(K and BR elsewhere in LU)	160	1
LR–DS–BR comb.	(in Efficiency LU having no separate BR, item (6) above).	220	2*
LR–DS comb.	(in Efficiency LU having one BR, item (6) above)	210	2*
LR–BR comb.	(in LU having DS in K and no BR, item (7) above)	190	1
K–DS comb.		90	1
K	(DS elsewhere in LU)	60	1
K	(in LU of less than 2 BR—DS elsewhere in LU)	50	½
DR		110	1
DR	(less than 110 sq. ft.)	70	½
DA	(open to LR)	45	½
BR	(in LU of over 2 BR) 2 @	100	1 each
	Others @	70	1 each
BR	(in LU of 2 BR) 1 @	100	1
	1 @	70	1
BR	(in LU of 1 BR)	100	1
Other habitable rooms		70	1
Bath (space for tub, lavatory and water closet, and their use)		...	0

*NOTE.—This counts as 2 rooms ONLY when other features in item 6 are provided in ADDITION to the area shown.

One limitation on amount of maximum insurable mortgage relates to average number of rooms per family unit.

This information is therefore important.

Abbreviations used in this form: LR=Living Room; LU=Living Unit; DR=Dining Room; DS=Dining Space; DA=Dining Alcove; K=Kitchen; BR=Bedroom; Comb.=Combined.

Nonrevenue-Producing Dwelling Space

Type of employee	Number of rooms	Composition of unit	Location of unit in project

The undersigned, as mortgagor or as authorized representative(s) of the proposed mortgagor with respect to the transaction covered by this application, hereby certifies that to his (their) best knowledge and belief, no restriction upon the sale or occupancy of the property covered by this application, on the ground of race, color, or creed, has been filed of record at any time subsequent to February 15, 1950; and that, until the mortgage has been paid in full or the contract of insurance otherwise terminated, he (they) will not file for record any restriction upon the sale or occupancy of the mortgaged property on the basis of race, color, or creed, or execute any agreement, lease, or conveyance affecting such property which imposes any such restriction upon its sale or occupancy; and it is understood that the mortgage to be insured will contain a covenant by the mortgagor that until the mortgage has been paid in full or the contract of mortgage insurance otherwise terminated, the mortgagor will not execute or file for record any instrument which imposes any such restriction and that such covenant will be binding upon the mortgagor and his or its assigns and will provide that upon violation thereof the unpaid balance of such mortgage shall be immediately due at the option of the mortgagee. It is also understood that, prior to insurance of the mortgage, the mortgagor must certify under oath that in selecting tenants for the property covered by the mortgage, the mortgagor will not discriminate against any family by reason of the fact there are children in the family, and that the mortgagor will not sell the property while mortgage insurance is in effect unless the purchaser also so certifies.

It is hereby represented by the undersigned that, to the best of his knowledge and belief, the foregoing statements, schedules, and exhibits are in no way false or incorrect and that they are truly descriptive of the project or property, which is intended as the security for the proposed mortgage, and that the proposed construction does not violate existing zoning ordinances and requirements or existing deed restrictions.

The undersigned proposes to furnish assurance of completion of the project construction in the form of ....

....

NOTE.—*(1) and (2) below, to be completed only when rehabilitation is involved.*

The undersigned certifies: (1) That the subject property was acquired on .... (or that an agreement for its purchase dated .... is in effect) whereby title was (or will be) acquired from .... who is not related to, employed by, or connected with any of the sponsors.

NOTE.—*The following paragraph is to be completed only if property was initially acquired within 1 year prior to date of this application.*

(2) That the entire consideration was $.............................. which includes expenditures to clear all liens and encumbrances, if any, as follows: ....

....

Date .... Date ....

Attest: .... (Signed) ....
Sponsor.

On behalf of ....
Proposed Mortgagor.

U. S. GOVERNMENT PRINTING OFFICE 16—48133-5

FHA Application Form 2013 — Page 4

F H A R E N T A L H O U S I N G
P U B L I C A T I O N S

The following publications issued by FHA, available to builders, investors and mortgagees upon request, have been prepared to assist in the development of rental housing properties of high loan-value ratio:

FHA FORM NO.	TITLE
2467	Space and Equipment for Rental Housing
2460	Planning Rental Housing Projects
2538	Neighborhoods Built for Rental Housing

728.1 :333.63 F22h

U.S. Federal Housing
Administration.
How to test financial soundness of rental ...

479

NOV 20 81

Copy 1

Unacc.