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RENTAL HOUSING MANUAL



FEDERAL HOUSING ADMINISTRATION

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✓ RENTAL HOUSING
MANUAL



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RENTAL HOUSING MANUAL

INTRODUCTION

The Rental Housing Manual presents the techniques and principles established by the Federal Housing Administrator through the Rental Housing Division in effectuating the intent of Congress as set forth in the National Housing Act and in particular the provisions of Section 207 of the Act except those dealing with so-called release clause projects designed primarily for sale.

Section 207 of the National Housing Act as amended authorizes the insurance of mortgages not in excess of 5 million dollars each on privately constructed and financed rental housing projects. All projects involving mortgage amounts of \$100,000 or less will be known as "SMALL SCALE" and projects involving mortgage amounts in excess of \$100,000 will be known as "LARGE SCALE." Each mortgage is fully amortized during its term and bears interest at a rate not in excess of 4% per annum for large scale projects and 4½% for small scale projects. The owner corporation is regulated by the Administrator as to capital structure, charges, rents, rate of return and methods of operation.

In addition to compliance with the provisions of Section 207, the Administrator must find prior to insurance that the property or project with respect to which the mortgage is executed is economically sound. A further duty stated in the preamble of the Act is to encourage improvement in housing standards and conditions.

The primary objective of the Rental Housing Division program is to encourage, through a system of mortgage insurance, the construction of privately financed rental housing developments for the large group of people in the moderate income classification who, through choice or necessity, live in rented living quarters and who are both willing and able to pay rent commensurate with their income for adequate living accommodations.

Accordingly, through exhaustive analysis of projects, together with careful and advanced planning to include the most desirable principles in both the physical and financial structure, this Administration endeavors to meet a dual objective of (1) compliance with the intent of Congress in providing insurance of mortgages on rental housing, including determination of the economic soundness of each individual project and the improvement of housing standards

and conditions, and (2) encouraging the construction of properly planned and maintained rental quarters at relatively low rentals for wage earning and salaried families.

The Rental Housing Manual codifies and elaborates the general principles and techniques of appraisal, architecture, and cost estimation adopted by this Administration as the means to accomplish its dual objective. From time to time as experience, the accumulation of data and development of principles, theories and procedures necessitates, revisions and additions will be made. In view of the number and complexity of problems involved, the right is specifically reserved to the Administrator and the Assistant Administrator in charge of Rental Housing, to vary, in the processing of individual projects, the procedure and requirements hereinafter prescribed.

Members of the staff of the Federal Housing Administration must be mindful at all times of the extremely confidential nature of their work. Accordingly, all exhibits, data, and correspondence regarding projects, all actions and determinations of the Rental Housing Division during initial, preliminary and final examination or subsequent to commitment, or during and after construction, or in connection with management supervision, must be held in strictest confidence and must not be divulged to any persons unless actively engaged in the processing of such projects or in positions of administrative authority in the Rental Housing Division. The size, character, location and sponsorship of a proposed project shall not be revealed except upon specific authorization from or public announcement by the sponsors of such project. These instructions may be waived *only* for the benefit of the mortgagee or the sponsors of a particular project and then only in connection with such project.

RENTAL HOUSING MANUAL

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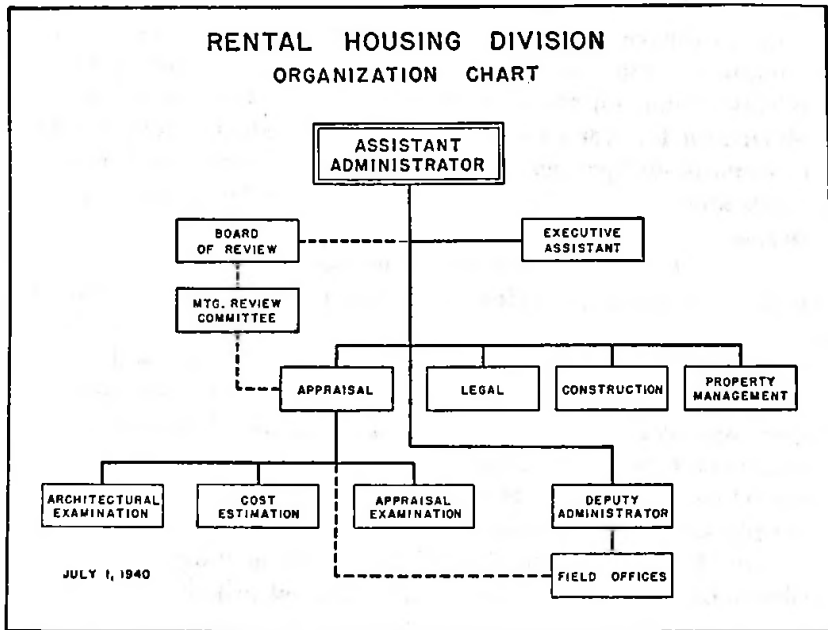
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ORGANIZATION OF RENTAL HOUSING DIVISION
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PART I
ORGANIZATION OF RENTAL HOUSING DIVISION
SECTION 1
WASHINGTON HEADQUARTERS

1101. The following chart indicates the general organization of the Washington headquarters of the Rental Housing Division and its position in relation to the field.



1102. **The Assistant Administrator.** Responsibility for all rental housing activities is vested in the Assistant Administrator for Rental Housing. He is assisted by the Executive Assistant for Rental Housing. Directly responsible to the Assistant Administrator for Rental Housing for their respective functions are the Director of Appraisal, Director of Construction, Director of Property Management, and the Director of Architecture. The Chief Counsel for Rental Housing is subject to the technical authority of the General Counsel for the Federal Housing Administration and is attached to the Rental Housing Division for the handling of legal matters arising out of Rental Housing Division operations.

1103-1108

1103. The Board of Review is an independent advisory body, established by the Administrator for the purpose of recommending to him the Commitment for Insurance on those projects which it deems to be acceptable and the terms under which the commitment should be issued. The Board of Review consists of such appointees as the Administrator directs. The following officials are at present members of the board: The Assistant Administrator for Rental Housing, Chairman; the Director of Appraisal; the Chief Counsel for Rental Housing; the Director of Construction; and the Deputy Administrator having jurisdiction over the territory within which the project is located.

1104. The Mortgage Review Committee of the Washington office consists of the Director of Architecture, the Chief Appraisal Examiner, the Chief Engineer in charge of Cost Estimation, and the Executive Assistant for Rental Housing. It is responsible for conducting the review of projects submitted through the field organizations and for formulating recommendations to the Assistant Administrator for Rental Housing and the Board of Review relative to the soundness of projects offered as security for mortgage insurance; mortgage amounts, and terms and conditions of the Commitment for Insurance.

1105. The Executive Assistant represents the Assistant Administrator for Rental Housing in the performance of administrative functions as directed, and in particular is responsible for the supervision of field and Washington processing, general financial analysis of projects; personnel reclassifications, appointments and records; approval of and preparation of forms; issuance of travel requests; procurement; maintenance of records; planning of the Rental Housing Division budget; field and Washington procedures, except technical, and is a member of the Mortgage Review Committee.

1106. The Director of Appraisal is responsible for the development and coordination of the appraisal principles, techniques, and procedures to be followed in the field processing and in the Washington review. He is assisted by the Director of Architecture, the Chief Engineer for Cost Estimation, and the Chief Appraisal Examiner in the Washington Office. The Director of Appraisal supervises and coordinates all technical phases of processing in the Insuring Offices and Washington Offices of the Rental Housing Division. This includes appraisal, architectural, and cost estimation examinations. In addition to the duties enumerated, the Director of Appraisal is a member of the Board of Review and will perform such other duties as may be assigned by the Assistant Administrator for Rental Housing.

1107. The Director of Architecture is responsible for the development of planning principles, architectural techniques and policies; for the review of all matters relating to planning, design and specifications, for conformity with the standards of the Administration; for the final determination of required and recommended changes in architectural planning; for the preparation of reports to the Mortgage Review Committee and the Board of Review; is a member of the Mortgage Review Committee and performs such other duties as may be appropriate to the direction of the architectural work of the Rental Housing Division or as directed by the Assistant Administrator for Rental Housing.

1108. The Director of Construction is responsible for inspection of the construction of all projects to enforce conformity with the Commitment for Insurance and all construction contract documents with particular reference to the approved plans and specifications; periodic estimation of value of construction performed; certification of the progress of the construction work for which monthly payments are requested; establishment of techniques to be followed by construction inspectors; and in addition to the duties enumerated, is a member of the Board of Review and will perform such other duties as may be assigned by the Assistant Administrator for Rental Housing.

1109. The Director of Property Management is responsible for approval of rental schedules for individual rental units and approval of all lease forms and contracts of management; supervision of the management of projects after completion; examination and approval of minutes of meetings of mortgagor-corporations; maintenance of records of occupancy, earnings, rental schedules, management costs, and policies on each project; supervision of management or disposition of projects following their default under Administrative Rules and Regulations; preparation and maintenance of statistical studies on itemized costs of operation and planning of projects; and such other duties as may be assigned by the Assistant Administrator for Rental Housing.

1110. The Chief Engineer for Cost Estimation is responsible for the establishment of methods and techniques of cost estimation to be followed in all offices; estimation and checking construction and improvement costs on all rental housing projects; preparation of reports on the costs of construction and improvements including the preparation of payment breakdowns as a basis for advances; is a member of the Mortgage Review Committee and performs such other duties as may be assigned by the Director of Appraisal and the Assistant Administrator for Rental Housing.

1111-1113

1111. The Disbursing Officer reviews, audits, and approves all requisitions for advances under the contract for insurance; approves all authorizations for disbursement in connection with projects; upon completion of project construction, completes audit of disbursements on the project and approves final payment before made.

1112. The Chief Counsel for Rental Housing is responsible for the preparation of all legal documents, procedures and closings in connection with rental housing projects. In addition he reviews all recommendations for construction advances prior to the actual disbursement and is a member of the Board of Review.

1113. The Land Planning Consultant to the Rental Housing Division in Washington reviews the land planning data prepared in the field and reports on the suitability of the site and landscape features, landscape specifications, and estimates of landscape cost.

PART II

PROCEDURE PRIOR TO COMMITMENT

SECTION 1

INITIAL CONFERENCES WITH SPONSORS; INITIAL EXAMINATION; PREPARATION OF FHA FORM 2013, APPLICATION FOR MORTGAGE INSURANCE; AND ELIGIBILITY TESTS

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PART II
PROCEDURE PRIOR TO COMMITMENT

SECTION 1

INITIAL CONFERENCES WITH SPONSORS; INITIAL EXAMINATION; PREPARATION OF FHA FORM 2013, APPLICATION FOR MORTGAGE INSURANCE; AND ELIGIBILITY TESTS

INITIAL INTERVIEWS AND INITIAL EXAMINATION

2101. It is the desire of the Administrator that adequate facilities be offered to potential sponsors in the preparation and submission of applications for mortgage insurance under Section 207. The scope of requirements for the consideration of an application is discussed in detail in this section of the manual. Thorough familiarity with these details will enable the personnel of the Federal Housing Administration to provide intelligent and helpful service in this regard. It is important that the assistance to sponsors be confined strictly to general counsel and guidance in planning the proposed project and in the preparation of the application form in order that there may be no implication of Administration approval of the project in advance of commitment for insurance. The sponsor shall be advised of the scope of requirements in the preparation of FHA Form 2013 and the approach to the various estimates made necessary within the application form. In the event that any sponsor's estimates are deemed to be insufficient, unreasonable or inapplicable to the project or to the need for rental housing, the sponsor shall be informed of the reasons and shall be given counsel and suggestions. Administration personnel *must not* engage in the actual preparation of FHA Form 2013 or give any specific amounts or estimates to the sponsor for inclusion in the application form. The completion of the form shall be the work of the sponsor. Sponsors shall be caused to realize that the assistance offered during initial interviews carries no implication of approval but is for the purpose of expediting consideration of the proposed project.

2102. The Director or Manager of the Insuring Office is required to make available to the public, information relative to the objectives and policies of the Rental Housing Division. He shall designate qualified members of his staff to make public appearances

2102-2108

and undertake private or public discussions which may be necessary to develop a thorough understanding of the Rental Housing Division program, and will make available to interested parties such printed matter as is published from time to time by the Administration for public distribution.

2103. It must be recognized that nebulous ideas in the minds of capable sponsors may often be brought into tangible and practical form under careful and intelligent guidance. However, it is of primary importance to make certain that substantial sponsorship is available, that the proposed project is one that would be eligible under Administrative Rules and Regulations, under Section 207, and would be economically sound insofar as can be determined. In order to assist in developing soundly conceived projects, a sponsor should be encouraged to submit a tentative, unsigned application on FHA Form 2013 for consideration before proceeding to the details of a formal application. There should be sufficient information contained in the tentative application regarding the location, size and scope of the proposed project as to permit the giving of proper counsel and guidance to the sponsor in developing the details.

2104. During the period of Initial Examination it is necessary to use careful judgment in considering the suitability of the site in reference to the type of housing proposed, the rental range in which the project could be found acceptable, the size of the project in relation to demand, the general characteristics of the rental units and the reputation, character and financial responsibility of the sponsorship. The sponsors and their architects shall be given as complete an explanation of the Administration's architectural principles and requirements as is possible and shall be furnished with the various publications issued by the Administration to assist them in planning acceptable projects.

2105. Upon the completion of a favorable Initial Examination, the sponsor shall be advised of the eligibility of the proposed project for processing and shall further be advised at that time that consideration will be given upon submission of an application on FHA Form 2013, with the required exhibits, the required fee, and completed as hereinafter set forth. If, after Initial Examination, the proposed project appears to be ineligible or unacceptable, the sponsor shall be so advised.

2106. When a proposed project has been declared acceptable for processing, every means of cooperation shall be offered to the mortgagee proposed in the application to facilitate its examination and to coordinate it with the examination made by this Administration. Accordingly, such files, exhibits, or determinations as are

2106-2108

pertinent shall be made available to the authorized representatives of the mortgagee proposed in the application.

SCOPE OF REQUIREMENTS IN THE PREPARATION OF FHA FORM 2013, APPLICATION FOR MORTGAGE INSURANCE

Mortgagee's Application

2107. The application form is divided into six sections, the first of which is the "Mortgagee's Application." The "Mortgagee's Application" provides for alternate methods whereby the arrangement for the repayment of a loan shall be set forth. In case of Small Scale projects, amortization is required to be on a level annuity basis with fixed monthly payments. Depending upon the plan of repayment adopted, the inapplicable line must be deleted.

2108. The first alternate method of payment provides for the retirement of the obligation by equal monthly or quarterly payments including both interest and amortization. The second alternate method of payment, as set forth on the application, also provides for monthly or quarterly installments but requires amortization in equal payments throughout the term of the mortgage with interest payable only on the balance of the principal remaining from time to time unpaid; consequently, this plan provides for declining total monthly or quarterly payments. The first repayment plan, involving level payments including both interest and amortization, ordinarily will be used in case of Large Scale projects, and must be used in case of Small Scale projects. In each case, the term of a Section 207 loan will be fixed by the period necessary to repay the loan, generally starting with an amortization of 2 per cent of the original principal amount of the mortgage. When the Administrator, the mortgagee and factors determining the economic life estimate of the proposed project will permit, the starting rate of amortization may be as low as 1½ per cent of the original principal amount. The periods necessary to repay the loan are set forth in FHA Form 2410, Amortization Tables. The most frequently used portions of these tables follow:

PROCEDURE PRIOR TO COMMITMENT

2108-2110

LEVEL ANNUITY QUARTERLY INSTALLMENTS

[Including principal and interest]

Amortization period	Number of payments	Initial curtail	Quarterly installment factor
At 4 percent interest			
Yr. Mo.			
32 9	131	1½	13. 750
30 0	120	1¾	14. 375
27 9	111	2	15. 000
25 9	103	2¼	15. 625
24 3	97	2½	16. 250

LEVEL ANNUITY MONTHLY INSTALLMENTS

[Including principal and interest]

Amortization period	Number of payments	Initial curtail	Monthly installment factor
At 4 percent interest			
Yr. Mo.			
32 7	391	1½	4. 583333
29 10	358	1¾	4. 791667
27 7	331	2	5. 000000
25 8	308	2¼	5. 208333
24 0	288	2½	5. 416667
At 4½ percent interest			
30 11	371	1½	5. 000000
28 5	341	1¾	5. 208333
26 3	315	2	5. 416667
24 6	294	2¼	5. 625000
23 0	276	2½	5. 833333

2109. An application must contain the signature and address of a proposed mortgagee in the "Mortgagee's Application" in FHA Form 2013 and shall be accompanied by a check in the amount of the fee required pursuant to the applicable Administrative Rules and Regulations. The sponsor is required to complete the endorsement on the "Mortgagee's Application" in the space provided opposite the lines for the mortgagee's signature and address.

Mortgagor's Application

2110. The remainder of FHA Form 2013 constitutes the "Mortgagor's Application" which must be completed. At number 1 under section II of the form shall be entered the name of the proposed mortgagor. In case the proposed mortgagor is to be a corporation, the name need not be one already legally adopted nor the

one finally adopted. It is necessary that an appropriate name be made available in the application for purposes of record and identification. At 1(a) the names and addresses of the principal sponsors shall be entered. At 1(b) it is required that the sponsor shall indicate the name and address to which official correspondence regarding the proposed project may be addressed. At 2 (a) and 2 (b) the names and addresses of the sponsor's architect and attorney, respectively, shall be placed.

Explanatory Notes

2111. Section III of the form consists of explanatory notes which should be studied by the applicant prior to the completion of the form. These notes refer to the scope and nature of the exhibits which *must* accompany the application and to instructions which will aid in completion of the statements and schedules in the form. The notes also set forth the method of room count which has been established for uniformity in appraisal and for statistical purposes.

Supplementary Schedules

2112. Section IV of FHA Form 2013 contains five schedules, each of which is to be completed by the applicant. It is important that the information entered in these schedules be as full and complete as possible.

Schedule A. Sources of Equity

2113. Schedule A calls for information bearing upon the sources of the equity in the proposed project which will be furnished by the various persons who will participate in the ownership. The name and address of each person who is participating in the equity in the proposed project shall be entered on the lines provided. If more lines are required, the entire schedule should be prepared on a separate sheet and attached to the application form. If the equity participant is furnishing land, the amount of value ascribed to such land shall be entered in the first column opposite the name and address of that equity participant. If the same party is also furnishing cash or other equity, the amounts shall be entered in the same line under the appropriate column. Similarly, the amount of cash to be furnished by each other participant will be entered in the proper column on the line with name and address. If the site of the proposed project is to be purchased out of cash indicated under the second column of the schedule, naturally no entries will be made under "Land" in the first column. As is pointed out in the note under Schedule A, the sources of other equity will include "Builder's fee," "Architect's fee," "Attorney's fee," "Materials furnished," etc. After entering the amount

2113-2115

of other equity, the specific "nature" of such other equity shall be entered in the fourth column, for example: "Builder's fee," not merely "Services." In case the source is fees for services, only that portion of the fee which is to be taken in equity in the proposed project shall be entered in the columns under "Other equity." Where part of the fee is to be paid in cash, the amount of such cash payment is not pertinent to Schedule A. Under the fifth column, the total equity which is to be allocated to each individual named will be entered. The summation of the amounts entered in the fifth column will provide the total to be entered on the bottom line of the Schedule, which amount must equal "Total equity" as entered under "Resources" on page 3 of the application form.

Schedule B. Information Concerning Land

2114. This schedule requires information concerning all of the land making up the site of the proposed project. If insufficient space has been provided under this schedule the required information should be presented on a separate sheet in substantially the same form and attached to the application form. In the first column shall be indicated the lot or parcel number or other designation to indicate the portion of the project site referred to. In the second column, the present owner or owners of such portion of the site shall be entered. It is desired that the record title holder or holders be entered in this schedule rather than the names of holders of options, contracts to purchase, etc. The remaining five columns in the schedule require information concerning each parcel in the site of the proposed project. The requirements are virtually self-explanatory. It shall be borne in mind that what is desired is the status of ownership and indebtedness concerning the site as of the date of the application. If it is contemplated that any unpaid taxes, assessments, interest, or other indebtedness against the land are to be paid out of the funds represented under Schedule A, it shall be stated fully under Schedule B.

Schedule C. Estimated Cost of New Utilities and Extra Foundations

2115. This schedule refers to those costs which will be incurred in the construction of the proposed project. It is important that the cost of each of the necessary items which have been indicated in the drawings and specifications and which are to be paid for as part of the construction cost, shall be entered in detail. This schedule and Schedule D provide valuable aid in making recommendations to the sponsor for the adequate planning of the proposed project. Special attention is directed to the "Note" directly under the subject of Schedule C in FHA Form 2013 and to paragraph 2135 of this manual, relating thereto.

Schedule D. Estimated Cost of Landscape Construction and Planting

2116. This schedule refers to the estimated cost of items necessary in the landscape construction and the recreational facilities to be afforded by the project. The amounts allocated to the cost of the various items will provide means for offering valuable assistance in planning this important phase of the project and in determining whether or not such amounts of expenditure will provide adequate facilities.

Schedule E. Estimate of Annual Operating Expense

2117. Estimates of operating expense constitute important factors in the formation of an opinion as to the economic soundness of a proposed project and in the final conclusion as to the amount of insurable mortgage. Sponsors shall be advised of the importance attached to this schedule. The nature of the items included under each sub-head of this breakdown of operating expense should be discussed with the sponsor in order that the amounts predicted will reflect a true picture of the proposed project as contemplated by the sponsor. If the space provided under this schedule is insufficient, the information required may be submitted on a separate sheet attached to the application form. Operating expense data regarding comparable properties would be of assistance to sponsors in the preparation of these estimates. Sponsors should be encouraged to submit such data with the application as supporting information. All of the estimates shall be made on an annual basis. A brief discussion of each item in the schedule follows:

2118. Administrative expense.

- a. *Advertising.* The estimate for advertising must be related to the size of the project and the intensity of demand for the type of accommodations offered. In the case of a relatively small project which is well located and is predicted to enjoy good demand, the amount required for advertising may be reduced to a minimum. The element of tenancy turn-over in larger projects frequently will require that considerable sums be expended for advertising in order that the estimated occupancy of the project be maintained.
- b. *Management* includes all of the costs of management (except advertising), office expense, clerk hire, legal and auditing charges and broker's renting commissions, if any. It is desirable that the sponsor shall indicate whether management will be by the owner or by contract with an established and independent concern. In the latter case the prevailing rate of

2118-2119

reliable firms for competent management of the size and type of project contemplated should be used. If the owner intends to manage the property, the various costs of management for personnel, office expense, etc., should be set forth.

2119. Operating expense.

- a. *Elevator Power* applies only to projects offering elevator service. The estimate of elevator power consumption shall be in accordance with the size, type, speed, and height proposed. Elevator servicing companies will be able to offer assistance in arriving at an estimate of elevator power consumption.
- b. *Elevator maintenance* is usually provided under a contract with an elevator servicing company. Care must be exercised that a full maintenance charge is estimated, including periodic cable replacement and the replacement of all mechanical parts necessary.
- c. *Fuel*. Kind of fuel, quantity predicted, *delivered* price per unit, such as ton, gallon, etc., and quality or grade are all desirable and necessary items of information to assist in a reliable estimate. When coal is used as fuel, the type of firing, such as by hand or by stoker, must be considered and should be indicated. It is suggested that the estimate of a qualified fuel dealer, heating engineer or heating contractor will be of aid to the sponsor and may be included among the exhibits.
- d. *Janitor's supplies* includes cleaning supplies, electric light globes, small janitor's tools, and equipment.
- e. *Lighting and miscellaneous power*. "Lighting" includes the cost of lighting all public space in the buildings, entrances, walks and grounds, boiler and laundry rooms, and any other lighting necessary in the operation of the project, as distinguished from electrical service to be used and paid for by tenants. "Miscellaneous power" includes an estimate of the cost of power for stokers, oil burners, circulating pumps, blowers, and any other electrical devices necessary in providing services which are to be furnished to the tenants by the owner of the proposed project.
- f. *Water*. An estimate of over-all annual water consumption per family, including ground sprinkling and boiler water is to be indicated. Records of the local water company generally will disclose the average yearly billings per family and the rate charged.
- g. *Gas*. An estimate of gas consumption is to be included only in the event that gas is to be used for building heating, in-

cinerators, clothes dryers, domestic water heating or any other use at the expense of the sponsor.

- h. *Garbage and ash removal.* The controlling factors in arriving at this estimate are whether or not the fuel to be used produces ashes and if the garbage and rubbish is to be carried away from the project site at public expense or by contract with a private concern at the sponsor's expense. In the absence of incinerator facilities to each unit, the proposed plan of garbage collection and disposal should be indicated for consideration of its effect upon janitor payroll.
- i. *Payroll* includes wages for power plant and heating engineers, janitors, porters, handymen, groundskeepers, watchmen, and all other operating personnel. (Administrative personnel is to be included under "Management.") The sponsor should indicate the number of persons, duties assigned to each, annual wage for each and whether for full or part-time employment. If custom requires that living quarters be furnished in addition to wages, indicate unit or units to be assigned (Schedule F). If janitors are permitted by local custom to make minor repairs and to paint and to wash walls, so indicate. The payroll estimate should be commensurate with the contemplated type and quantity of services to be offered to tenants.

2120. Maintenance expense.

- a. *Decorating.* This item should reflect estimates of the annual budget required to maintain a definite program of painting walls and trim, public halls, stairs and exteriors, refinishing floors, etc., in keeping with the type of such service customary in the community. Indications of the probable frequency of necessity for redecorating tenant space, public space, exterior of residential buildings and of accessory buildings together with the type and kind of material contemplated is necessary. Estimates of reliable contractors regarding these items will be of assistance. The sponsor should state whether the estimate was based on furnishing of material to his own mechanics or on a completed contract price. Frequency of tenant turnover has an important effect on the frequency of redecoration, which in turn affects the estimate of decorating cost.
- b. *Repairs.* This item applies to all maintenance expense not otherwise estimated which is not in the nature of complete replacement. In general, a repair restores service which was interrupted by failure of a part of the given unit of the

structure or the equipment. Replacement, which is treated in paragraph 2628 of this manual, contemplates removal of the given unit and restoration of service by use of a new unit. It should be borne in mind that the repairs estimate is a level annual one over the life of the project and should be considered in relation to the type of construction, materials, and equipment proposed to be used. Obviously, buildings constructed with long-life roofs, non-corroding gutters and downspouts, non-corroding pipes, and high grade heating and plumbing fixtures will have less cost of repairs than those constructed of less durable materials. Therefore, project specifications must be considered when making repair estimates. It should be borne in mind that fireproof, semi-fireproof, and non-fireproof structures are all subject to the same general items of repair cost resulting in approximately the same repair expense. This item generally is estimated on the basis of a fixed sum per room per annum. Data on the repair experience of comparable buildings which have been in existence for a number of years would aid in arriving at this estimate. Such supporting information should be forwarded with the application.

- c. *Exterminating.* Local conditions, and type of construction affect this estimate. Estimates received from a local exterminating company will indicate amount to be allocated for this purpose, generally on the basis of an amount per room per annum.
- d. *Insurance.* In scrutinizing the sponsor's estimates of the annual cost of all forms of insurance, methods outlined in paragraph 2356 of this manual should be followed. The amounts and forms of insurance coverage should be consistent with prudence in protecting the investment and with local requirements.
- e. *Grounds expense.* Replacing shrubbery and top-soil, lawn seed, fertilizer, and replacement of hose, lawn-mowers and other equipment not listed as "Janitor's supplies" are to be included here. The extent of planted area and type of treatment will govern this estimate, which refers to materials only.
- f. *Furniture and furnishings.* Included under this heading are shades, venetian blinds, fire extinguishers, mats, rubber stair treads, mail boxes, buzzer equipment, shower curtains, employees' uniforms, entrance furniture, and office furniture. This estimate bears a direct relation to the extent and type of service offered to the tenants.

2121. Total is a summation of all items of estimated expense previously listed in Schedule E.

2122. Replacement Reserve. Reference is made to the breakdown of replacement reserve requirements applicable to the proposed project as set forth in paragraph 2628 of this manual.

2123. Total Operating Expense is a summation of the previous "Total" and "replacement reserve."

2124. Total Operating Expense Per Room Per Annum is obtained by dividing the total of all items of operating expense, including replacement reserve, by the room count, according to sub-head 6 of section III of FHA Form 2013. This room count must include rooms in janitor's or other employees' quarters.

2125. Copies of memoranda (in triplicate) substantiating the sponsor's estimates of operating expense, including estimates and rates from public utility companies, fuel companies, contractors, etc., shall be included among the exhibits attached to the application in the docket and a copy of each shall be placed in the Insuring Office files for future reference. It is suggested that only the total dollar estimate for each subhead be shown under Schedule E in FHA Form 2013 and that the supporting information be furnished separately in the form of a brief among the exhibits. In view of the fact that all the information called for by the schedules is essential for the examination of the proposed project, sponsors should be impressed with the necessity for accuracy and completeness of these estimates.

Proposed Set-Up

2126. "Project name" shall be inserted on the first line of the caption and will be that name selected by the sponsor. "Number of family units" shall include all dwelling units proposed for the project but such units shall be separated by a designation of the number of income-producing units and the janitors' or other non-income-producing units. (For example: 150+2 Jan.) The same division shall be made for the "Number of rooms," which is determined in accordance with room count requirements set out in sub-head 6, section III of the application form. "Location" refers to location of the project and must state the city or town, county and state. "Average monthly rent: per family unit" shall be determined by dividing the "Total Estimated Rentals for all Dwelling Units" derived from Schedule F on page 4 by the number of income-producing family units. Similar procedure shall be followed in determining "Average monthly rent: per room." In neither of the latter two computations shall janitors' quarters or other non-income-producing family units or rooms be included. Designation of "Type of buildings" shall be

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made according to provisions and definitions set forth in paragraph 2304 of this manual.

Resources

2127. Land. The first item is that of "Land," which amount is to be entered under both "Resources" and "Estimated Requirements." The sponsor may support his estimate for "Land" by including among the exhibits information, such as triplicate copies of bona fide options, sale prices, qualified appraisals, etc.

2128. Cash (Exclusive of Working Capital or Deposit) must be in an amount at least equal to the total of all "Carrying Charges, Financing, and Organization Expense, etc." as set forth under "Estimated Requirements" in section V of FHA Form 2013. This item also must be sufficient to balance "Total Resources (exclusive of Working Capital or Deposit)" with "Total Estimated Requirements" after all "other equity" amounts have been entered.

2129. Other Equity. This item includes the amount that represents the extent to which builders, architects, and others have indicated willingness to accept an equity in the proposed project in lieu of cash compensation for all or part of their remuneration for services or materials furnished to the proposed project and which generally are agreed upon between sponsors and their associates prior to the submission of the application. The amount of these items will be included as "Other equity" under "Resources" (from Schedule A).

2130. Total Equity will be a summation of the entries for "Land," "Cash (exclusive of working capital or deposit)," and "Other equity." "Total equity" set forth under "Resources," must equal the "Total" in the last line of Schedule A, "Sources of Equity," on page 2 of the application form.

2131. Mortgage Loan Proceeds will be the principal amount of the proposed mortgage for which insurance is requested.

2132. Total Resources (Exclusive of Working Capital or Deposit) will be a summation of "Total equity," mentioned in paragraph 2130 and the amount of "Mortgage loan proceeds." The sponsor's statement of "Total Resources" should be checked to determine that it balances with the "Total Estimated Requirements" set forth below it. The validity of the statement of "Resources" cannot be ascertained until the "Estimated Requirements" have been studied. The statement of "Resources" and "Estimated Requirements" shall be analyzed to determine whether or not the items are reasonable in amount and in reasonable relation to each other.

2133. Cash Working Capital (or Deposit) will be an estimate of the amount which the sponsor must have in cash to operate the enterprise until satisfactory income is obtained (in addition to

the amount of "Cash" necessary for construction purposes, as set forth in paragraph 2128), and will be computed on the basis of a minimum of 3% of the amount of the proposed mortgage when an FHA insured mortgage in excess of \$100,000 is contemplated. The sponsor of a project involving a mortgage of \$100,000, or less, will be required to deposit with the mortgagee a sum equal to six months' interest on the mortgage, plus FHA mortgage insurance premium for one year, in lieu of "Working capital." Attention is directed to the "Note" immediately under "Cash working capital (or deposit)" in FHA Form 2013.

Estimated Requirements

2134. Under "Estimated Requirements" the sponsor shall enter the estimates of the costs of the project as indicated by the various sub-heads. The estimates of cost under these sub-heads shall comprise field cost, which includes general contractors' overhead, sub-contractors' costs and profits and all other construction charges except those set forth immediately following, namely, "Contingency allowance," "Taxes (Social Security, Sales, etc.)," "Surety bond" premium and "Builder's and Architect's fees." See sub-head 4, section III of FHA Form 2013.

2135. Land Improvements. The totals from Schedule C, page 2 of FHA Form 2013, for "New utilities" and "Extra foundations" and from Schedule D for "Landscape work" are to be entered and totalled. The attention of the sponsor shall be called to the "Note" under Schedule C, which is as follows: "The cost of roads, utilities, sidewalks and curbing, etc. which are necessary to be constructed in connection with the proposed project on public land or privately-owned land that is not a part of the project site, shall not be included in the total estimated construction cost for 'Land Improvement'." The provisions of the "Note" do not preclude the inclusion of the costs of all necessary roads, sidewalks, curbing and utilities to be built upon the land actually comprising the site of the proposed project, in the total cost of "Land Improvement." (See applicable Administrative Rules and Regulations, FHA Forms 2012 and 2012a.)

2136. Construction. The estimated field cost at the price per cubic foot for the computed total cubic content of the dwellings is to be listed on the line provided.

- a. *Garages and Stores.* The estimated cost of garages and stores shall be listed at the price per cubic foot for the indicated content or at the price per unit for the number specified.

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- b. *Contingency allowance.* The estimate of "Contingency allowance" should be approximately 2 per cent of the total field cost estimate of buildings and land improvements.
- c. *Taxes* include all tax charges which form a part of construction cost, but no real estate taxes. Sales taxes charged on building materials and social security taxes on building labor are to be included in this estimate. If sales, social security and other taxes properly coming under this heading have been included in the field costs of dwellings, garages, stores, etc. as previously entered under "Construction," this item in the form may be left blank.
- d. *Surety bond* calls for the amount of the premium for a surety bond. It is necessary that the sponsor elect, at the time of submission of the application, the particular form of assurance of completion which is to be offered in the event of approval of the application for mortgage insurance. It is required that the sponsor shall be informed fully on this subject before making this decision. This information must be included in the application as discussed in paragraph 2161 of this manual. If a surety bond is to be furnished, the estimated premium for the particular form of bond required will be calculated upon the amount of "Total for All Improvements" under "Estimated Requirements," excepting "Architect's fee" and "Surety bond premium." The amount of the premium shall be entered on the line provided. No "Surety bond" premium or other charge may be entered when the form of assurance of completion elected by the sponsor is either a deposit of cash or acceptable securities. The form of assurance of completion required by the Administrator for Large Scale projects is set forth in paragraph 3316, and for Small Scale projects, in paragraph 3358 of this manual. Determination of the acceptability of a surety company for any given risk will be governed by the Treasury List, a copy of which has previously been furnished to each Rental Attorney.

2137. Fees.

- a. *Builder's Fee.* In arriving at a conclusion regarding the rate of "Builder's fee" it must be borne in mind that builder's overhead has been included in the field cost estimates. Therefore the "Builder's fee" estimated here will be net. The amount of the fee will be computed upon the total of all entries under "Land Improvement" and "Construction," except "Contingency allowance" and "Surety bond," at a

rate which is in keeping with local practice, size of project and the character and amount of services rendered.

- b. *Architect's Fee.* The rate of "Architect's fee" is estimated by a method of computation similar to that used in arriving at "Builder's fee" with due consideration being given to the standards of fees and practice of recognized professional societies. The amount of the fee will be computed at the rate chosen upon the total of all entries under "Land Improvement" and "Construction," except "Contingency allowance" and "Surety bond," plus the amount of the "Builder's fee." The estimate of "Architect's fee" will include the fees of the landscape architect and fees for the services of mechanical engineers or other services required by the architect in the design and supervision of construction of the proposed project.

2138. Total for all Improvements. A summation of the entries for all items under "Land Improvement," "Construction" and "Fees" will provide the "Total for all Improvements."

2139. Carrying Charges, Financing, and Organization Expense, etc.

- a. *Interest* at the rate of the proposed mortgage for the anticipated period of construction and computed on one-half of the amount of mortgage applied for is entered where indicated. One-half of the mortgage amount is used as an estimate of the median amount of indebtedness during the period of construction as the loan is disbursed from time to time.
- b. *Taxes* as here entered refer to the amount of state, county and municipal taxes which will accrue against the real estate during the period of construction only.
- c. *Insurance* refers to the estimated cost incurred during the period of construction of the project for insurance protection for the benefit of the mortgagor and mortgagee against losses by fire, windstorm, and other hazards pertaining to the community. The estimate must also include the cost of owner's contingent liability insurance during the construction period.
- d. *FHA Mtg. Ins. Premium* shall be computed at the rate of one-half of one per cent on the face amount of the proposed mortgage.
- e. *FHA examination fee* shall be computed at the rate of three-tenths of one per cent on the face amount of the proposed mortgage.

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- f. *Financing expense.* If financing expense is charged, it shall be computed on the face amount of the proposed mortgage at the rate agreed upon between the sponsor and the mortgagee, but subject to limitations set forth in the applicable Administrative Rules and Regulations under Section 207, FHA Forms 2012 and 2012 a.
- g. *Title and recording expense* shall be an amount estimated to cover recording fees, mortgage and stamp taxes, if any, and costs of survey and title insurance. (See applicable Administrative Rules and Regulations.)
- h. *Legal expense* is to be an estimated amount sufficient to furnish adequate counsel and legal services to the sponsor during the period of organization and construction.
- i. *Organization expense* and *Other estimated expenses* shall be entered only after adequate explanation by the sponsor in the exhibits.

2140. Land. The same amount for "Land" will be entered here as under "Resources." The amount is to be divided by the square foot area to provide the price per square foot in the space provided.

2141. Total Estimated Requirements is a summation of all the various amounts entered under "Estimated Requirements."

2142. Cash Working Capital (or Deposit), in the same amount as under "Resources" shall be estimated on the basis of a minimum of 3 per cent of the proposed mortgage when an FHA-insured mortgage in excess of \$100,000 is contemplated. The sponsor of a project involving a mortgage of \$100,000 or less will be required to deposit with the mortgagee a sum equal to six months' interest on the mortgage, plus FHA insurance premium for one year.

Estimated Annual Operating Statement

2143. At this point estimates of predicted rents are introduced into the form and are developed into important assumptions of probable net income to be produced by the project. If the sponsors' opinions of obtainable rentals as set forth in the subcaption "Income" are not acceptable, unit rent prices should be discussed in detail both with the sponsors and the mortgagee, bearing in mind Administration requirements relative to project rental estimates as set forth in paragraph 2352 of this manual. If the total estimate of accessory income such as that from garages, stores, offices, and any source other than from dwellings, exceeds 10 per cent of the total estimated gross income of the project, 100 per cent occupied, the amount of such excess above 10 per cent will not be considered in arriving at the estimate of fair value of the property. Additional income anticipated from the sub-

metering of electricity, gas and telephone services, rental of laundry equipment, maid and valet service, etc. shall not be included in project rental estimates.

2144. Income totals will be entered from the "Estimate of Rentals," Schedule F, on page 4 of FHA Form 2013. A summation of these totals on the form will provide the "Total Estimated Gross Income per annum" of the project at 100 per cent occupancy. Deductions for "vacancies assumed" include losses in collection, tenancy turnover, and interims of vacancy during cleaning and repairing. Such deductions should be related to the type of property and tenancy according to custom, trend and experience in the district. The assumed vacancy percentage on dwellings ordinarily will be 10 per cent of total estimated rentals for all dwelling units. Exceptions to this rule will be rare and, if made, must be completely explained and justified in a memorandum attached to the Income Schedule. The assumed vacancy percentage "on garages" probably will be more than on dwellings, except in a case where a garage is assigned to each dwelling unit and the garage rent is included. Garage occupancy suffers during the summer in many localities. In the colder climates tenants frequently vacate unheated garages in order to keep their cars in heated public garages during winter. The assumed vacancy percentage "on other income" may be more than on dwellings, depending on the source of the income. On leased stores there might be little loss during the lease term but frequently there might be extended vacancy between leases while a tenant with an enterprise suitable to the needs of the proposed project was being sought. If "other income" arises from more than one type of source, the percentage entered in the application form should be over-all and based upon the relation of the amounts of gross income from each of the sources.

2145. Gross Income Expectancy (effective gross income) will result after subtracting the "Total Vacancy Deduction" from the "Total estimated gross income per annum."

2146. Total Operating Expense has been discussed in detail in paragraphs 2117 to 2125 of this manual, which relate to Schedule E of FHA Form 2013, and to the supporting exhibits. Schedule E will provide the "Total Operating Expense" and the amount per room per annum for the total number of rooms in the proposed project (including rooms in any units furnished to janitors and other employees).

2147. Real-Estate Taxes. The importance of the exercise of great care and judgment in making this estimate is manifest. The "*Estimated assessed value*" is to be arrived at by the sponsor according to a procedure similar to that employed by the local assessing authority. Comparison of the estimate with the known assessed

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valuations of comparable properties would be helpful in arriving at a conclusion. Actual assessed value of the subject site has been included under Schedule B. The tax rate used shall be the total of the annual rates of all taxing bodies to which the proposed project would be subject. Special assessments, if any, are not to be included in this estimate. (See paragraph 2151.)

2148. Social Security, Unemployment and Other Special Taxes include all taxes imposed against the project, the sponsor by reason of the project, the payroll and the income of the project, except "Real Estate Taxes," which have been estimated previously, and "Federal and State Income Taxes," which are to be estimated subsequently. "Special Taxes" include capital stock tax; state occupational, privilege or franchise taxes; and state gross revenue or sales taxes, where applicable but do *not* include special assessments. (See paragraph 2151.)

2149. Total represents summation of the estimates for "Total Operating Expense," "Real Estate Taxes" and "Social Security, Unemployment, and Other Special Taxes."

2150. Cash Available for Debt Service represents the estimated income of the project remaining after operating expense and tax deductions. This estimate develops the first indication of the ability of the proposed project income to meet the proposed mortgage, income tax, dividend and surplus requirements set forth immediately below it. In FHA Form 2013 this estimate will result from the deduction of the total of "Total Operating Expense," "Real Estate Taxes" and "Social Security and Other Special Taxes" from the "Gross Income Expectancy."

2151. Annual Fixed Charges. Interest for one year computed on the principal amount of the proposed mortgage at the rate agreed upon between sponsor and mortgagee is to be entered where indicated. The rate of "amortization" will be entered according to information set forth in paragraph 2108 of this manual. The amount of "amortization" to be entered under "Annual Fixed Charges" will be the product of that rate and the principal amount of the proposed mortgage. "Mortgage insurance" will be calculated at the rate of one-half of one per cent on the principal amount of the proposed mortgage. "Other fixed charges" will include annual installments of any unpaid special assessments in cases where payment in full before maturity is not feasible—continuing sewer taxes, etc. "Total annual fixed charges" will result from the addition of the various estimates of "Annual Fixed Charges."

2152. Cash Available for Income Taxes, Dividends, and Surplus will result from the subtraction of "Total annual fixed charges" from "Cash available for debt service."

2153. Estimated Federal and State Income Taxes will be ascertained according to federal and state statutes and the amount will be entered where indicated. (See paragraph 2681.)

2154. Cash Available for Dividends and Surplus will result after deducting the "Estimated Federal and State income taxes" from "Cash available for income taxes, dividends and surplus."

- a. *Dividend on stock* will be computed on the amount of the total of "Land," "Cash," "Other equity," and "Cash Working Capital (or Deposit)" as entered under "Resources," and at a rate not to exceed 6 per cent per annum, as set forth in the applicable Administrative Rules and Regulations. The amount allocated to "Dividend on stock" should be made with reference to the typical ratio indicated for "Surplus" in the comment in subparagraph b following.
- b. *Estimated surplus cash for year* will be the remainder of "Cash available for dividends and surplus" after the deduction of the amount of "Dividend on stock." This estimate must be not less than one-half of one per cent of the proposed mortgage amount.

List of Exhibits

2155. A list of all required exhibits, consisting of maps, drawings, specifications, explanatory and supporting information, and estimates will be entered in the space provided on page 3 of FHA Form 2013. Each exhibit must be identified by a designating letter for ready reference. Section III, FHA Form 2013 sets forth information regarding the kind and number of exhibits required. The nature of this material is discussed in detail in the next paragraph.

2156. Exhibits to be Presented With Each Application. Accompanying each FHA Form 2013, the following exhibits must be presented:

- a. *Site information* as follows shall be submitted in triplicate except photographs and city map, which may 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 the 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. No formal application involving a proposed project site where the zoning at the time of application is for a more restrictive use than that proposed will be received for examination. All matters contrary to the permitted zoning use of a site must be settled with local authorities prior to formal application. Personnel of the Federal Housing Administration shall take no part in zoning hearings in reference to specific rental housing projects except at the request of the official local body having jurisdiction and then only with approval of the Assistant Administrator for Rental Housing.
- b. *Architectural exhibits*. In order to permit an adequate architectural examination of the project, the following exhibits, in triplicate, are required. Exhibits presented with the application must conform substantially in detail with these descriptions:
- (1) A current, dated *topographical survey* of the proposed project site, prepared by a registered surveyor or engineer, which provides the following information:
 - (a) The boundaries (by course and dimension), area, orientation, and legal description of the property. The area shall be expressed in square feet. The legal description may be brief but must be sufficient to identify the property and to make possible a definite check with the legal description furnished by the sponsor.
 - (b) Elevations over the entire property either by accurately platted contour lines at an interval not in

excess of five feet, or by elevations taken at an interval of not more than ten feet horizontally on a rectangular grid.

(c) The location of all natural features such as water courses, ponds, outcropping of rock, ravines, etc.

(d) The location, size, direction of flow, and grades of all existing sanitary and storm sewers contiguous to or on the property, and the location and size of all water, gas, and electric lines. Where sewers and all other service mains are not available at the borders of the site, the distance in feet and the direction to each of such mains shall be indicated.

(e) The width, type, and condition of paving, curbing, culverts, bridges, and public sidewalks on all existing streets and required improvements of proposed abutting streets. If there are legally established grade or curb elevations, they shall be shown. Otherwise, the existing grade of the streets shall be indicated.

(f) The location of groups of trees on the site and along abutting streets and the location and size of specimen trees with a proper designation of the kind of tree.

(g) Any easements or set-back lines, whether required by deed restriction or public regulation.

(h) The location and brief description of any improvements or construction located on the proposed site at the time of survey.

(i) The engineer who has prepared the survey shall also establish a fixed bench mark at the site, and the location and elevation of this bench mark shall be shown on the survey plat.

- (2) A *plot plan*, showing location of proposed buildings, indicating typical building units, walks, drives, garage accommodations, parking areas, play grounds, and a tentative, general outline of planting and other landscape features in conformity with the estimate of costs in Schedules C and D of the application form. Show over-all dimensions of the buildings and total area of the property so that percentage of coverage may be figured. Show contour lines. Each house or building unit shown shall be marked with a number corresponding to the unit plans. The first floor level of each building unit must be shown in relation to the bench mark or to sea level. Where more than one type or style of roof is planned on typical buildings,

the type or style shall be indicated for each building unit shown on the plot plan. If the proposed project site is an "inside" parcel, the distance in feet to the adjacent street intersections shall be indicated on the plot plan. Include either on this drawing or on another a room and apartment tabulation similar to the example on page 4 of FHA Form 2421, "Architectural Planning and Procedure." Where new street or alley paving, new curbing, extension of sewers, or other utility connections, or any other construction work is made necessary by the proposed project, and such work is to be done on public property or private property other than the subject site, the sponsor must provide a signed statement describing such work, where and by whom it is to be performed, when it is to be completed, and whether the cost is to be borne by the sponsor as other than project cost or by public expenditure.

- (3) *Basement plan* of entire project, showing extent of unexcavated areas, if any, location of laundries, of boiler rooms, and provision for fueling of boilers, for garbage disposal, and for storage. In case automobile storage space is planned in the basement or at grade, the location of each stall in which a car could be parked must be indicated on the plans.
- (4) *Plans of first and typical floors* of each typical house or building unit. Show dimensions of rooms and designate rooms according to use. Each building unit shall be designated by a number. Each typical apartment or dwelling shall be identified by a designating letter beneath which letter shall be shown the room count for the apartment or dwelling, in accordance with the room count method set forth in section III, paragraph 6 of FHA Form 2013. Room dimensions on plans must be from finish to finish. Partitions should be drawn to scale, especially those containing bath and kitchen plumbing stacks. In each typical kitchen and bath, all fixtures must be drawn to scale on the plans. In bedrooms, the beds should be drawn to scale in their assumed location, and of usual commercial size. A detail elevation of all kitchen cabinets must be shown at a scale of not less than one-half inch to one foot.
- (5) *Typical cross sections* through the building units sufficient to permit a check of cubage of the buildings shall be furnished. Also indicate by means of a sec-

- tion with descriptive notes the materials, finish and thickness of the following: Exterior walls, first floor supporting members; second and typical floor supporting members, window construction, and roof construction.
- (6) *An elevation or elevations* of typical units sufficient to show the general character of design. The materials used on the exterior shall be indicated.
 - (7) *Sketch drawings of garages or other accessory buildings.* These must be presented in a manner similar to the drawings for the dwelling units and with the same degree of completeness.
 - (8) *Outline Specifications* on FHA Form 2435.

Schedule F.

Estimate of Rentals

2157. Schedule F, on page 4 of FHA Form 2013, provides a form for the sponsor's estimate of predicted income of the various revenue-producing units in the proposed project. Conservative estimates of the currently obtainable monthly rental for each typical income unit shall be entered in the schedule. So-called "median" or "long term average" rental estimates are not to be used. If living quarters are to be furnished to janitors or other employees as part of their compensation, such units shall not be included with the revenue-producing units under "Estimate of Rentals" but shall be listed at the end of the schedule under the heading "Non-revenue-Producing Dwelling Space." If the sponsor proposes to include dwelling units for tenant use in the basement of the proposed project, such units are to be listed separately and designated "(basement)" in the column after the indication of the composition of such units. The estimate of rent for basement units must be in relation to the materially lessened desirability that is usually associated with living quarters below outside grade level. If the sponsor desires to submit a schedule of the estimated rent for each individual unit instead of for each typical unit as called for in Schedule F, the general form of Schedule F must be followed and each unit listed shall be specifically indicated. In such case, the schedule shall be attached to page 4 of the application form.

2158. In the completion of Schedule F, the first column requires the entry of the "Number of each unit type," according to the number of rooms in each typical unit. Each entry is to be made on the line corresponding to the applicable rooms indicated in the columns "Rooms per Unit" and "Composition of Units." In cases

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where the drawings call for a number of a particular unit type, some of which will produce a different amount of rent from the others, the blank lines under the column "Composition of Units" provide space for the separation of such income. The total of income-producing dwelling units will be entered near the foot of the first column under "Total Units." In the second column will be indicated the relationship in percentage which the number of each typical unit bears to "Total Units" as entered. The fifth column calls for the amount of estimated rent per month for each typical unit. In the sixth column will be entered the total amount of monthly rental for all of the units of the designated type. The amount in the seventh or last column will be twelve times each amount in the sixth column or the total amount of annual rental for all of the units of the particular type designated. The "Total Estimated Rentals for all Dwelling Units" will be a total of the entries in the sixth column for the monthly amount and in the last column for the annual amount. The entry of garage, store and other income is to be made where indicated in a manner similar to the dwelling units. The "Total Estimated Income (at 100% occupancy)" will result from a total of all entries under the sixth column for the monthly amount and under the seventh column for the annual amount. The number of family units in the first column under "Total Units" will be entered in the space following "Total number of family units" on the next line of the schedule. The amount per month of "Total Estimated Rentals for all *Dwelling Units*" as shown under the sixth column will be divided by the "Total number of family units" to provide the "average rental per unit per month." The number of dwelling rooms in "Total Units" according to the method of room count set forth in paragraph 6, section III of FHA Form 2013 will be indicated in the space after "Total number of dwelling rooms." The amount per month of "Total Estimated Rentals for All *Dwelling Units*" as shown under the sixth column will be divided by the "Total number of dwelling rooms" as entered, to provide the "average rental per room per month." Attention is called to the note relating to accessory income at the end of the schedule of "Estimated Rentals."

Non-Revenue-Producing Dwelling Space

2159. This portion of Schedule F is intended for the sponsor to indicate a description of any dwelling units assigned to employees, such as janitors, superintendent, manager, etc. The position held by the employee is to be entered in the first column; the number of rooms in the second column; the abbreviated room composition of the unit assigned in the third column; and the floor and building number or apartment letter in the last column.

Remarks

2160. Space has been provided under "Remarks" for the sponsor to set forth any addenda or explanatory and supporting information for which insufficient space was provided in the form.

Form of Assurance of Completion

2161. Below "Remarks" is the form of mortgagor's statement, which concludes the application. The second paragraph of the statement calls for the sponsor to indicate the type of "assurance of completion" which is to be offered in accordance with the information set forth under paragraphs 3316 and 3358 of this manual. The indication of the type elected should not be entered in the statement until after a thorough explanation of the requirements has been made to the sponsor. If the type of "assurance of completion" is finally approved by the Assistant Administrator for Rental Housing, the Commitment for Insurance will contain a condition making such type of assurance mandatory. If the type of assurance so elected is not finally approved, other assurance of completion satisfactory to the Administration will be required in the Commitment for Insurance.

Signature

2162. The date of signature is to be entered on the line indicated. FHA Form 2013, Application for Mortgage Insurance, shall be executed by the principal sponsor. The name of the "Proposed Mortgagor," as indicated previously in the application form, shall be entered immediately below. To the left of the sponsor's signature is required the signature of a person attesting or witnessing the sponsor's execution of the application form and the date on which it occurred.

General

2163. The sponsor should be assured that careful consideration of all the related details concerning the project as brought out in the proper completion of FHA Form 2013 will serve to improve the proposed project and will shorten the time required in processing. Personnel engaged in the processing of rental housing projects, or in dealing with sponsors, must become thoroughly conversant with *all* requirements of procedure by intensive study of the manual so that the sponsor may be fully informed of Administration requirements when submitting a project for consideration.

TESTS OF ELIGIBILITY

2164. When FHA Form 2013 has been thoroughly checked for accuracy and completeness and for sufficiency of the

exhibits required, a final effort shall be made to test the eligibility of the proposed project for FHA mortgage insurance. Detailed statements concerning the requirements will be found in the applicable Administrative Rules and Regulations, FHA Forms 2012 and 2012a. In general, the tests of eligibility under the National Housing Act are as follows:

- a. Eligible mortgagors may be private corporations, associations, trusts, or cooperative societies which consent to regulation by the Administrator, or may be governmental housing authorities or corporations formed under housing laws.
- b. The mortgage insurable has no minimum limit and the maximum limit is \$5,000,000.
- c. The mortgage allocable to dwellings may not exceed \$1,350 per room as computed in accordance with the method of determining room count which is set forth in Section III, "Explanatory Notes" on FHA Form 2013. The portion of the mortgage applicable to garages, stores or other non-residential structures shall be deducted before calculating the mortgage per room. (See paragraph 2687.) Proposed projects will rarely be considered eligible for mortgage insurance when the amount of mortgage per room approaches the maximum amount per room permitted under the Act.
- d. The interest rate may not exceed 4 per cent per annum in case of large scale mortgages (over \$100,000) and 4½ per cent per annum in case of small scale mortgages (\$100,000 or less).
- e. The term of the mortgage and the amortization provisions are limited only by the Administrator's approval, and a period of 28 to 33 years is normal. (See paragraph 2108 of this manual.)
- f. Principal and interest payments on Large Scale mortgages may be monthly or quarterly. On Small Scale mortgages they must be monthly.
- g. The mortgagor (except in the case of a project owned and operated by a public housing authority) must consent to regulation by the Administrator as to rentals, charges, capital structure, rate of return and methods of operation. Such regulation is enforced by means of special class of stock owned by the Administrator, except that in the case of a project under Section 207 involving a mortgage not in excess of \$100,000, such regulation may be enforced by contract (Regulatory Agreement).
- h. The mortgage may cover either proposed new construction or existing properties which are being substantially altered or rehabilitated.

- i. The mortgage shall not exceed the amount which the Administrator estimates will be the cost of the completed physical improvements on the site. (See applicable Administrative Rules and Regulations, FHA Forms 2012 and 2012a.) This amount, in the case of rehabilitation projects, may include the Administrator's estimate of the depreciated reproduction cost of salvageable materials upon the site.
- j. The mortgage shall not exceed 80% of the Administrator's estimate of the value of the project or property on completion.

Property Standards

2165. Property Standards as established by the Technical Division shall apply in connection with all rental housing projects except rehabilitation projects. These requirements are essentially minimum. They are not to be built down to, but form a basis from which to build up. Recognition and credit will be given to planning and construction that exceed these minima.

2166. Compliance with Property Standards must be maintained. In the event the proposed project fails to meet the Property Standards, consideration should be given as to whether or not a waiver of the Property Standards is in keeping with sound construction practice. Recommendations that a Property Standard be waived shall be submitted to the Assistant Administrator for Rental Housing for approval.

Minimum Construction Requirements

2167. Conventional methods of construction and materials used in rental housing projects shall comply with the Minimum Construction Requirements established by the Technical Division for the district in which the project is located. This should be construed to apply to all General Rulings which have been issued by the Technical Division and are in effect or those which may be subsequently issued. Neither the Minimum Construction Requirements, the rulings, nor the conditions of a ruling may be waived by the field offices of the Federal Housing Administration.

2168. Methods of construction which are conventional and which adhere to standard sound practice may be accepted if at least equivalent to the standards contained in the Minimum Construction Requirements. In any case, when a proposed method of construction is not conventional and fails to conform to standard practice, it may not be accepted until approval has been obtained from the Assistant Administrator for Rental Housing.

2169. Compliance with the Minimum Construction Requirements must be maintained. In the event the proposed project

2169-2173

fails to meet the Minimum Construction Requirements or the General Rulings, and, if certain conditions warrant the waiver of these requirements, the recommendations should be transmitted to the Assistant Administrator for Rental Housing for a ruling.

Rulings on Methods of Construction

2170. New Rulings. Technical Circular No. 4, "Rulings on New Methods of Construction," dated December 15, 1939, describes the procedure to be followed in cases when new methods of construction are submitted which are not covered by General Rulings. Normally the procedure prescribed in paragraph A-1 of this circular will apply, except that the extra set of drawings, description and technical data shall be forwarded to the Rental Housing Division in Washington, D. C. A limited number of additional copies of Technical Circular No. 4 is available for distribution by the field offices to those contemplating the submission of new materials, equipment, or methods of construction.

2171. Acceptability of Construction. Rulings issued by the Technical Division refer to the acceptability of the construction only from a structural standpoint. Additional conditions or requirements may be imposed by the Rental Housing Division to insure conformity of the construction with at least the customary standards of the community for the rental level and type of project.

2172. Individual Building Materials and Equipment. Paragraph F of Technical Circular No. 4 describes the procedure for determining acceptability of materials and equipment. In no case shall a manufacturer or his representative be advised that it is necessary to secure "approval" from the Technical Division before consideration will be given to a particular material or item of construction. The manufacturer may, however, be advised that, if he so desires, he may submit data directly to the Technical Division for consideration. Where a field office desires information concerning the quality or use of a proposed material, such requests should be made to the Rental Housing Division at Washington, which will forward them to the Technical Division. In cases of this sort advice will be given on the basis of the data generally available through other governmental research agencies. Manufacturers should be warned that the Administration does not issue approvals or maintain a list of approved materials and equipment.

Technical Circulars

2173. Technical circulars are issued by the Technical Division from time to time as need arises. These circulars cover

materials and equipment in general use concerning which *more detailed* information is necessary for judging appropriate use and installation.

Local Zoning Laws and Building Codes

2174. In addition to the preceding requirements for eligibility, the project must also comply with local zoning laws and with building codes. The latter, of course, is a stipulation of the Property Standards and Minimum Construction Requirements. Compliance with these local laws and codes must be maintained. Regarding zoning, reference is made to paragraph 2156, subparagraph a (5) of this manual.

Parking Facilities

2175. The proposed project should provide for a sufficient amount of parking space *on the site*, unless local conditions preclude such necessity beyond all doubt. This subject is discussed in detail under paragraphs 2351 and 2364 of this manual.

GENERAL

2176. The foregoing detailed explanation of requirements for the preparation of FHA Form 2013 has been made in order that field personnel may be conversant with Administration requirements. However, all personnel are explicitly instructed not to offer sponsors more than general counsel and guidance in the preparation of the application form in order that there may be no implication of Administration approval of the project at the time sponsor's application is filed and no implication of certainty that a commitment to insure a mortgage to be secured by the proposed project will be issued. Sponsors shall be informed that all estimates made prior to commitment for insurance are purely tentative.

SAMPLE FHA FORM 2013

FHA Form No. 2013
(Rev. 5-1-40)

**FEDERAL HOUSING ADMINISTRATION
RENTAL HOUSING DIVISION**

APPLICATION FOR MORTGAGE INSURANCE

Under Section 207 of the National Housing Act
(NEW CONSTRUCTION)

Date To Be Submitted in Triplicate No.
(Project number to be inserted)

MORTGAGEE'S APPLICATION

I.

TO THE FEDERAL HOUSING ADMINISTRATOR:

Pursuant to the provisions of Title II of the National Housing Act, 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 Building and Permanent Loan in the principal amount of \$..... which will bear interest at% per annum, payable as to Building Loan (monthly) and only on disbursements, until months after date of mortgage, and thereafter payable as to Permanent Loan

by equal (monthly) installments of \$..... covering principal and interest.

~~by Strike out if inapplicable~~

by (monthly) installments of \$..... each of principal, plus interest on balances of principal.

~~by Strike out if inapplicable~~

(NOTE.—Monthly installment, required if mortgage less than \$100,000.)

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 and Regulations (FHA Form 2012 or 2012 (a)) to be paid at the time of submitting application.

(Signed) Sponsor. (Signed) Proposed Mortgagee.

On behalf of Proposed Mortgagor. By (Name and title of officer)
(Address of mortgagee)

MORTGAGOR'S APPLICATION

II.

TO THE FEDERAL HOUSING ADMINISTRATOR:

The undersigned hereby applies for the insurance of a first mortgage in the principal amount of \$..... under the provisions of Section 207 of the National Housing Act, and agrees to pay the examination fee as prescribed by the Administrative Rules and Regulations (FHA Form 2012 or 2012 (a)). The schedules, estimates, maps, drawings, and other exhibits listed under "Explanatory Notes" below, properly identified and made a part hereof, describe the property which will secure the proposed mortgage.

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

III.

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.

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

4. **Statement of resources and estimated costs** (page 3): (a) "Construction." In the estimated cost per cubic foot (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. Include also the cost of refrigerators and stoves, if such are to be provided.

(f) Dining rooms not less than 110 square feet in area shall count as one room each.

(g) Bathrooms shall not be included in the room count, nor interior foyers whether intended for dining or not.

SAMPLE FHA FORM 2013

(2)

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" in the third column. Under "Nature" will be indicated the source of the amount such as "Builder's fee," "Architect's fee," "Attorney's fee," "Materials furnished," etc.

Name and address	Land	Cash	Other equity		Total
			Amount	Nature	
.....	\$.....	\$.....	\$.....	\$.....
.....
Total (amount which must equal "Total equity" set forth under "Resources" on p. 3).....					\$.....

SCHEDULE B—Information Concerning Land

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

SCHEDULE C—Estimated Cost of New Utilities and Extra Foundations

NOTE.—The cost of roads, utilities, sidewalks, and curbing, etc., which are necessary to be constructed in connection with the proposed project on public land or privately owned land that is not a part of the project site, shall not be included in the total estimated construction cost for "Land Improvement."

Item	Description	Quantity	Unit	Unit cost	Estimated cost
Streets.....	Sq. yd.....	.....	.....
Driveways.....	Sq. yd.....	.....	.....
Parking areas.....	Sq. yd.....	.....	.....
Curbing.....	Lin. ft.....	.....	.....
Sidewalks (public).....	Sq. yd.....	.....	.....
Private walks, etc.....	Sq. yd.....	.....	.....
Storm sewers.....	Lin. ft.....	.....	.....
Sanitary sewers.....	Lin. ft.....	.....	.....
Septic tank system.....	Each.....	.....	.....
Water mains.....	Lin. ft.....	.....	.....
Wells.....	Total.....	.....	.....
Gas mains.....	Lin. ft.....	.....	.....
Electric service.....	Lin. ft.....	.....	.....
Heating tunnels.....	Lin. ft.....	.....	.....
Rough grading.....	Cu. yd.....	.....	.....
Piling (kind).....
Extra foundations.....
Walls and bridges.....

SCHEDULE D—Estimated Cost of Landscape Construction and Planting

Item	Description	Quantity	Unit	Unit cost	Estimated cost
Purchase of topsoil.....	Cu. yd.....	.....	.....
Lawns and planting.....	Total.....	.....	.....
Drainage and culverts.....	Total.....	.....	.....
Playgrounds, etc.....	Total.....	.....	.....
Fencing.....	Lin. ft.....	.....	.....

SCHEDULE E—Estimate of Annual Operating Expense

List services and utilities included in rental (heat, hot water, gas, electricity, etc.).....

Administrative expense:		Maintenance expense—Continued.	
Advertising..... \$.....		Repairs..... \$.....	
Management.....		Exterminating.....	
Operating expense:		Insurance.....	
Elevator power.....		Grounds expense (materials only).....	
Elevator maintenance.....		Furniture and furnishings.....	
Fuel (kind).....		Other operating expense.	
Janitor's supplies.....		Total.....	
Lighting and misc. power.....		Replacement reserve.....	
Water.....		Total operating expense.....	
Gas.....			
Garbage and ash removal.....		Total operating expense per room per annum.....	
Pay roll.....			
Maintenance expense:			
Decorating.....			

VI. SCHEDULE F—*Estimate of Rentals*

Number of each unit type	Percent of total units	Rooms per unit	Composition of units	Estimated unit rent per month	Total monthly rent for each unit type	Total annual rent for each unit type
-----	-----	2	LR-SK-BR	\$-----	\$-----	\$-----
-----	-----	2½	LR-K-DA	-----	-----	-----
-----	-----	3	LR-K-BR	-----	-----	-----
-----	-----	3½	LR-K-DA-BR	-----	-----	-----
-----	-----	4	LR-K-DR-BR	-----	-----	-----
-----	-----	4	LR-K-2BR	-----	-----	-----
-----	-----	4½	LR-K-DA-2BR	-----	-----	-----
-----	-----	6	LR-K-DR-2BR	-----	-----	-----
-----	-----	6	LR-K-DR-3BR	-----	-----	-----
Total units		Total estimated rentals for all dwelling 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.

(Key to room abbreviations: LR=Living Room; K=Kitchen; SK=Strip kitchen; DA=Dining alcove; DR=Dining room; BR=Bedroom.)

NOTE.—If the total estimate of necessary 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%-occupied, the amount of such excess above 10 percent will not be considered in arriving at the estimate of fair value of the property. 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.

Nonrevenue Producing Dwelling Space

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

REMARKS

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 ----. It is understood by the undersigned that a reasonable time will be required by the Federal Housing Administration, after the filing of this application and the supporting exhibits, to complete its examination and that the final decision on all questions relating to projects, including eligibility, mortgage amount, architectural and other conditions rests with the Assistant Administrator for Rental Housing.

Date Date
 Attest: (Signed)

On behalf of.....
 Proposed Mortgagee.

SAMPLE FHA FORM 2435

FHA Form No. 2435.

FEDERAL HOUSING ADMINISTRATION
RENTAL HOUSING DIVISION

**OUTLINE SPECIFICATION REQUIRED WITH INITIAL AND PRELIMINARY SUBMISSIONS
FOR MORTGAGE INSURANCE, RENTAL HOUSING PROJECTS UNDER SECTION 207
OF THE NATIONAL HOUSING ACT**

<input type="checkbox"/> New construction. Project No. Project name Location	<input type="checkbox"/> Rehabilitation. Sponsor Architect Date
--	--

1. Abbreviations may be used only when the meaning is clear and there is no possibility of misinterpretation.
2. After items that do not apply write "None."
3. Avoid use of "Ditto" or ditto marks.
4. Asterisk (*) denotes information that should be included in initial submission.

*** 1. DEMOLITIONS:**

NOTE.—State number of buildings and types of construction, materials that may be reused, and any other pertinent data.

2. EXCAVATION:

- (a) Nature and bearing value of soil (c) Description
 - (b) Approximate depth of topsoil
- NOTE.—After (c) describe any unusual conditions which may affect cost.

3. FOOTINGS:

- (a) Material (b) Description
- NOTE.—After (b) state any special foundations necessary.

4. EXTERIOR WALLS BELOW GRADE:

- (a) At basements (c) At other locations
 - (b) At boiler rooms
- NOTE.—State materials for each location; show thickness on plans.

5. INTERIOR WALLS BELOW GRADE:

- (a) Stair enclosures (c) Walls retaining earth
 - (b) Boiler-room enclosures (f) Partitions within apartments
 - (c) Incliner-room enclosures (g) Storage cubicles
 - (d) Fire walls (h) Not listed above
- NOTE.—State material of all walls below first floor; show thickness on plans.

6. SUBOIL DRAINS:

NOTE.—State location, size, material of drains, porous fill, and to where drained.

7. WATERPROOFING:

- (a) Walls below grade enclosing basements (d) All basement floors
- (b) All walls enclosing boiler room and fuel room (e) All subterranean roof slabs (such as over garages)
- (c) All slabs under basement apartments

NOTE.—State type of waterproofing, giving thickness or number of coats or plies. State type of permanent protection of waterproofing if it is to be installed.

8. EXTERIOR WALLS ABOVE GRADE:

- (a) Grade to first floor * (c) floor to
 - (b) First floor to * (d) Parapet
- NOTE.—Under (b) and (c) insert floor at which change in wall occurs. State material and composition (plaster, furring, or dampproofing should be shown under their proper headings). Show thickness on section.

9. INTERIOR WALLS AND PARTITIONS ABOVE GRADE:

- (a) Stair enclosures (d) Partitions separating apartments
 - (b) Public-hall enclosures (e) Fire walls
 - (c) Partitions within apartments (f) Not listed above
- NOTE.—State thickness and materials. (Lath, plaster, and sound insulation should be shown under their proper headings.)

***10. DAMPPROOFING AND FURRING:**

NOTE.—State location, materials, and method.

***11. STRUCTURAL-STEEL OR REINFORCED -CONCRETE FRAMING:**

- (a) (b) Lintels
- NOTE.—Under (a), state kind of members, general location, and portion of structure supported. Under (b), state type, material, and location.

12. CHIMNEYS:

NOTE.—State material of linings, and thickness and materials of enclosing masonry. Describe fireplaces if any.

13. BASEMENT FLOOR CONSTRUCTION:

- (a) Stone concrete slab thick including thick monolithic cement finish.
- (b) Creosoted wood sleepers over slabs, with spaces ventilated (location)
- (c) Other

***14. FIRST FLOOR CONSTRUCTION:**

NOTE.—State type and materials of structure. (Finish of floor, ceiling materials, and insulation should be covered under their proper headings.) If more than one type of construction is used, list separately and state locations.

***15. UPPER FLOORS CONSTRUCTION:**

NOTE.—See instruction note of par. 14.

***16. ROOF CONSTRUCTION:**

NOTE.—State type and materials of structure for flat and/or pitched roofs and ceiling.

***17. HEAT INSULATION:**

- (a) Over top-story ceilings
- (b) Over ceilings of boiler room, fuel rooms, incinerator rooms, open passages through buildings, basement garages

NOTE.—State material and thickness of insulation. State means of ventilating air space under roof. In item (b), strike out locations which do not apply.

18. SOUND INSULATION:

- (a) Apartment ceilings, where apartments are above
- (b) Partitions separating apartments
- (c) Partitions separating living or bedrooms from stairs or public halls

NOTE.—State methods and materials.

***19. ROOFING:**

- (a) Pitched roofs
- (b) Flat roofs

NOTE.—State in (a) material and thickness or weight of roofing, weight of felt below finish, and materials of nails. In (b), describe roofing giving number of plies and years of possible guarantee.

***20. SHEET METAL:**

- (a) Flashings
- (b) Gutters
- (c) Leaders
- (d) Termite shields
- (e) Skylights
- (f) Screened roof vents
- (g) Flashing under brick sills
- (h) Flashing over lintols

NOTE.—State material and weight or gage for each use. In (f), describe any items not mentioned above.

***21. FINISH WOOD FLOORING:**

- (a)
- (b)

NOTE.—State thickness, width, material, grade, finish, and method of installation over each type of construction.

***22. WINDOWS:**

- (a)
- (b)
- (c)

NOTE.—State type, thickness or weight, material, and preservative (if required) of each type used.

23. CALKING:

NOTE.—State material and where used.

***24. WEATHERSTRIPS:**

- (a) Windows
- (b) Exterior doors
- (c) Interlocking thresholds—Material
- (d) Width

NOTE.—State material and manufacture or type.

***25. SCREENS:**

- (a) Windows Size
- (b) Doors

NOTE.—State type and material of screen mesh and frames. In (b), state also thickness of frame and describe lower panel protection. Give locations.

***26. STAIRS:**

- (a) Main
- (b) Service
- (c) Other

NOTE.—State type, materials of treads, risers, handralls, etc.

27. MISCELLANEOUS IRON AND METAL WORK:

NOTE.—State materials and specify all items of miscellaneous and ornamental iron and metal work.

28. WOOD DOORS:

- (a) Exterior main..... (c) Apartment entrances.....
- (b) Other exterior..... (d) Interior.....

NOTE.—State thickness, material, and type.

***29. METAL DOORS:**

- (a) Stair hall..... (d) Incinerator rooms.....
- (b) Public hall..... (e) Garages to basement.....
- (c) Boiler room (interior)..... (f) Fire walls.....

NOTE.—State material and type.

30. EXTERIOR MILLWORK

NOTE.—State material and grade for various purposes.

31. INTERIOR MILLWORK

NOTE.—State material and grade for various purposes. Describe special millwork. If metal bucks, etc., are used, describe here.

32. GLASS

NOTE.—State thickness and grade for each location.

33. GLASS BLOCK

NOTE.—State type, and location. Specify special features of installation.

34. CUT STONE

NOTE.—State material and where used.

35. CAST STONE

NOTE.—State where used.

***36. PLASTER**

NOTE.—State types of plaster, number of coats, and types of lath, and where various types are used. (Lath should be consistent with any lath mentioned in par. 18.) (Attention is called to basement ceilings and stair soffits.)

37. PAINT:

- (a) Exterior millwork..... (e) Bathroom and kitchen walls, ceilings, and trim.
- (b) Interior millwork..... (f) Other plaster walls.
- (c) Exterior ferrous sheet-metal work..... (g) Other ceilings.
- (d) Ornamental iron..... (h) Other.....

NOTE.—State number of coats, materials, and sizing if required.

***38. TILEWORK:**

<i>Location</i>	<i>Floor</i>	<i>Wainscot</i>
(a) (1)	(2)	(3)
(b) .....	.....	.....
(c) .....	.....	.....

NOTE.—After (a) (2), state type of tile, and (3), state type and heights.

39. BATHROOM ACCESSORIES:

In each bathroom items of..... Number recessed.....

NOTE.—State number and materials.

40. MEDICINE CABINETS:

<i>Material</i>	<i>Size</i>	<i>Type</i>	<i>Door</i>
.....

41. HARD SURFACE FLOORS

NOTE.—State location and material of floors which are not described elsewhere.

***42. LINOLEUM**

NOTE.—State location, material, gage, and method of laying. State type of floors under linoleum, if not mentioned elsewhere.

43. FINISH HARDWARE:

- (a) Manufacture..... Grade.....
- (b) Exterior: Locks.....; butts.....; trim.....
- (c) Interior: Butts.....; trim.....; balance.....
apartment entrance locks.....
type of closers and where used.....
- (d) Apartment and house numbers.....
- (e) Window hardware.....

NOTE.—Under (b) and (c), state type and material.

44. ELEVATORS

NOTE.—State manufacture, operation, control, cab, capacity, and if self-leveling. If dumb-waiters are used, describe here.

45. PLUMBING FIXTURES AND PIPE:

- (a) Fixtures: Manufacture.....
- Bathtube
 - Shower
 - Water closets
 - Seat and cover
 - Low tank, wall supplies
 - Flush valve, wall supplies
 - Lavatories
 - Sinks
 - Wall supplies
 - Wall supplies
 - Laundry trays
 - Driers
 - Slop sinks
 - Fittings
- (b) Sanitary and storm-drainage system (materials and weight):
- Soil, waste, and vent stacks
 - Branch wastes and vents
 - Interior leaders
 - Storm sewers
 - Sanitary sewers
 - Floor drains
- (c) Water system (material and weight):
- Pipes; cold water
 - ; hot water
 - Hose bibs
 - Standpipes and fire hose
 - Hot-water storage
 - Hot-water heater
 - Heating rate (gal. per hr.)
 - Temperature control
 - Pipe insulation (material)
 - ; (where used)
- (d) Gas pipe
- Meters

NOTE.—Under (a), state type or plate numbers, sizes of fixtures and materials. Under (b), state materials.

46. HEATING SYSTEM:

- *Number of systems
- *Type
- Boiler type
- Number of boilers
- Oil burner
- Stoker
- Controls
- Radiators
- Radiator valves
- Insulation
- Radiator enclosures
- Concealed pipe

NOTE.—Under "Insulation," state material and items to be covered. For other items and systems provide description in remaining spaces.

47. ELECTRIC WORK:

- (a) Lighting fixtures
- (b) Apartment light outlets with switches: Living room
- ; dining room
- ; kitchens
- ; baths
- ; bedrooms
- ; foyers
- ; halls
- (c) Apartment receptacles: Living room
- ; kitchens
- ; baths
- ; bedrooms
- ; foyers
- ; dining room
- (d) Public halls
- ; stairs
- (e) Conduit
- (f) Power outlets
- (g) Radio outlets
- (h) General

NOTE.—After (a), state quality and manufacture. In (b) and (c), state number per room or space. In (h), state other items not included.

***48. INCINERATORS:**

NOTE.—State locations, manufacture, and type. If garbage receptors are used, describe.

49. MAIL BOXES:

NOTE.—State type, material, and location.

50. DOOR BELLS:

NOTE.—State type and location of push buttons.

51. SHADES:

NOTE.—State location and type. If venetian blinds are used, describe.

52. KITCHEN CABINETS:

NOTE.—State material, finish, and description of units; material of worktop and splashback. Describe cabinets other than kitchen cabinets that may be used and locations.

***53. REFRIGERATORS AND RANGES:**

- (a) Refrigerators
- (b) Ranges

NOTE.—State type, manufacture, capacity, and special features.

54. EXTERIOR UTILITIES ON PROPERTY:

- *Service connections to building for: Water
- *Gas
- *Storm sewer
- *Sanitary sewer
- *Electric (underground or overhead)
- *Fire hydrants

SAMPLE FHA FORM 2435

55. GARAGES:

- | | |
|-----------------------------|------------------------------|
| (a) Footings..... | (h) Structural steel..... |
| (b) Walls below grade..... | (i) Floor..... |
| *(c) Walls above grade..... | (j) Sash..... |
| *(d) Roof..... | (k) Heat..... |
| (e) Roofing..... | (l) Garage court paving..... |
| (f) Sheet metal..... | (m) Lights..... |
| *(g) Doors..... | |

NOTE.—Describe the above items so far as possible in the same manner as the balance of the specifications

56. IMPROVEMENT OF THE GROUNDS:

- | | |
|-------------------|--|
| *(a) Walks..... | (e) Retaining walls..... |
| (1) Main..... | (f) Bridges..... |
| (2) Service..... | *(g) Steps..... |
| (3) Minor..... | (h) Yard lighting (underground- or overhead-type poles or brackets)..... |
| *(b) Curbs..... | *(i) Yard drains..... |
| *(c) Roads..... | (j) Landscape work..... |
| *(d) Outlets..... | |

NOTE.—Describe briefly, stating materials, thickness, widths of walks, and any other information necessary.

57. ACCESSORY BUILDINGS:

NOTE.—State materials of all essential parts of all other buildings on site which are not covered elsewhere.

(Signed) *Sponsor.*
 By *Architect.*

PART II
PROCEDURE PRIOR TO COMMITMENT
SECTION 2
ANALYSIS OF SPONSORSHIP

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Sample FHA Form 2417, Personal, Financial, and Credit Statement

PART II

PROCEEDINGS OF THE COMMISSION

SECTION I

ANALYSIS OF PROCEEDINGS

CHAPTER I

1. The Commission was organized on January 1, 1954, and its first meeting was held on January 13, 1954. The Commission was organized to study the problem of the control of atomic energy and to report to the President and the Congress. The Commission was organized by Executive Order of the President, and its members were appointed by the President. The Commission was organized to study the problem of the control of atomic energy and to report to the President and the Congress. The Commission was organized by Executive Order of the President, and its members were appointed by the President. The Commission was organized to study the problem of the control of atomic energy and to report to the President and the Congress. The Commission was organized by Executive Order of the President, and its members were appointed by the President.

PART II

PROCEDURE PRIOR TO COMMITMENT

SECTION 2

ANALYSIS OF SPONSORSHIP

SCOPE OF SPONSORSHIP ANALYSIS

2201. The Insuring Office is responsible for obtaining and checking credit information concerning the sponsorship of projects submitted for mortgage insurance under Section 207. The greatest emphasis shall be laid upon a searching analysis of the financial responsibility and standing of the individuals or firms comprising the project sponsorship. Before issuing a commitment to insure a mortgage under Section 207, the Administrator requires satisfactory assurances on three principal points concerning proposed sponsors as individuals:

- a. Are they of good reputation and standing in the Community?
- b. Can they produce the equity resources, including the land, free and clear, and the amount of cash required to complete the project over and above the proceeds of the mortgage?
- c. Can they successfully organize, construct, and manage the project?

SOURCES OF INFORMATION

2202. In order to obtain the necessary data as to sponsorship, the Insuring Office shall make use of such facilities as are available and shall procure information from the following sources:

- a. *Credit Agency Reports.* Routine credit agency reports relating to each sponsor having a substantial interest in the project.
- b. *Personal Financial Statements, FHA Form 2417.* A signed financial statement must be submitted by each sponsor having a substantial interest in the project (with the exception of architects, unless the architects subscribe to equity over and above the amount of their services). This statement shall include bank and trade references. FHA Form 2417 is provided for the convenience of sponsors; its use is desirable but not mandatory. If sponsor has available a recent financial statement prepared for other purposes, it

will be acceptable provided it fairly sets forth his financial condition as of statement date and is properly signed. This requirement may be waived in cases where the sponsor, in lieu of a signed financial statement, submits satisfactory evidence from a bank or other financially-qualified institution or person that cash sufficient in amount to cover his subscription to the equity of the project will be available at the time of closing.

- c. *Bank and Trade References.* Bank and trade references which must be submitted by all sponsors shall be carefully checked by the Insuring Office. If possible, some responsible official of the bank or firm referred to should be interviewed, either in person or by telephone. Where this is impracticable the information may be obtained by correspondence. The names and addresses of references checked, together with information obtained orally from each source shall be included in the letter of transmittal to the Assistant Administrator for Rental Housing (see paragraph 2207). Reference letters received need not be transcribed into the report but shall accompany the credit file when transmitted to the Assistant Administrator for Rental Housing.

QUALIFICATIONS OF SPONSORS

2203. Reputation and Standing in Community. The personal reputation and standing in his community of each sponsor having a substantial interest in the project is of prime importance. Any information tending to reflect upon his character or any indication of previous dealings of a questionable nature should be thoroughly explored and reported. Bank references are required of each principal sponsor and must be checked to determine the size of the account, the amount and type of credit extended, and the manner in which obligations have been met, together with some indication of the bank's opinion of the individual. A statement to the effect that an individual has conducted a routine non-borrowing account satisfactorily, if unsupported by favorable comments as to his character and reputation, will not be considered adequate to establish his acceptability. The burden of proof rests on the sponsor and in order to qualify he must give as reference responsible persons or institutions willing to recommend him.

2204. Ability to Produce Equity Resources. The financial status of sponsors and the reasonable probability of their being able to produce the equity requirements of the project can be determined from the information contained in credit agency reports, financial statement of sponsor, and information obtained from bank

references. When it is apparent from his financial statement that the sponsor's personal resources are inadequate to meet his proposed subscription to equity, to acquire the land (if it is to be purchased) or to free it from incumbrances and to cover the probable cost of off-site improvements such as roads and other utilities, information should be sought and verified as to the source from which such funds are to come.

2205. Ability to Organize, Construct, and Manage.

Ability to organize, construct, and manage the project should be given careful consideration and the best guide in this connection is the past experience of the individuals concerned. This phase of the examination of sponsorship is particularly important in the case of contractors and each should be required to submit satisfactory evidence based upon experience, of his ability to build the structures and to obtain satisfactory assurances of completion, usually in the form of a bond.

2206. For all sponsors, the extent and nature of their participation in the project must be definitely determined, and wherever possible, all sponsors having a substantial interest in the project should be interviewed personally.

DISPOSITION OF CREDIT DATA

2207. Upon conclusion of the analysis of sponsorship a complete credit file shall be forwarded to the Assistant Administrator for Rental Housing. This file shall include the following:

- a. Letter of transmittal
- b. Routine Credit Agency Reports
- c. Financial Statements, FHA Form 2417 (or satisfactory equivalent)
- d. Transcript of information contained in Schedules A and B of FHA Form 2013, together with a statement of the amount of the mortgage applied for and any pertinent details with respect to ownership of the land, such as existing liens, if any, the probable acquisition cost if not already owned by the sponsors, and the probable cost of off-the-site improvements necessary to but not included in the project.

The letter of transmittal shall set forth a brief description of the architectural features of the project, its type, number of units and recommended rental; the names and addresses of references checked, together with information obtained orally from each source; and a resume of the information obtained from sources outlined in paragraph 2202 above. *In all instances the letter of transmittal shall include definite recommendations as to the acceptability of the sponsorship.*

FHA Form No. 2417

PERSONAL FINANCIAL AND CREDIT STATEMENT RENTAL HOUSING PROJECT SPONSOR

Project name _____ Number _____
 Location _____
 Statement of _____
 Address _____

(Answer all questions and fill in all blanks)

Cash on hand and in bank.....	\$.....	Accounts payable.....	\$.....
Accounts receivable.....		Notes payable (bank).....	
Notes receivable.....		Notes payable (others).....	
Stocks and bonds.....		Other current liabilities (itemize).....	
Other current assets (itemize).....			
Current assets.....		Current liabilities.....	
Land and buildings.....		Mortgages.....	
Machinery and fixtures.....		Other liabilities (itemize).....	
Other assets (itemize).....			
		Net worth.....	
Total.....		Total.....	

Accounts and notes receivable:
 (a) Amount, if any, past due or doubtful \$.....
 (b) Amount, if any, pledged \$.....
 (c) Amount, if any, due from officers, partners, employees, relatives, subsidiaries, branches, or similar sources \$.....
 Insurance.—Life \$.....
 Beneficiary.....
 Cash value, \$..... Loans, \$.....
 Has policy been assigned?.....
 List assets pledged as collateral and against what liabilities.....

Accounts and notes payable.—If any are past due state amounts and circumstances.....
Notes payable.—State amounts, maturity dates, and to whom payable.....
 If any legal proceedings have been instituted by creditors, or any unsatisfied judgments remain on record, give full details (using separate sheet if necessary).....

SCHEDULE OF STOCKS, BONDS, AND OTHER READILY SALABLE ASSETS

Description	Cost	Can be sold today at—	Where listed
.....	\$.....	\$.....	
.....			

(Use separate sheet, if necessary)

Location and description of land and buildings owned	Market value	Assessed at—	Mortgaged for—	Insured for—
.....	\$.....	\$.....	\$.....	\$.....
.....				

Title.—The legal and equitable title to all pieces of the above-described real estate is solely in my name, except as follows:
 Are taxes and interest on mortgages paid up to date?.....
 If not, state period and amount owing on each.....

References:

Bank:.....
 Trade:.....

I hereby certify that the foregoing figures and the statements contained herein, submitted by me for the purpose of obtaining mortgage insurance under Section 207 of Title I, of the National Housing Act, are true and give a correct showing of my financial condition as of this date.

Signed this day of, 19....

(Name)

PART II
PROCEDURE PRIOR TO COMMITMENT
SECTION 3
COLLECTION OF APPRAISAL DATA AND PROJECT
INFORMATION
PREPARATION OF FHA FORM 2401

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THE OFFICE OF THE ATTORNEY GENERAL

SECTION 1

THE OFFICE OF THE ATTORNEY GENERAL

INVESTIGATION OF THE BUREAU

ARTICLE

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PART II
PROCEDURE PRIOR TO COMMITMENT

SECTION 3
COLLECTION OF APPRAISAL DATA AND PROJECT
INFORMATION

PREPARATION OF FHA FORM 2401

GENERAL INSTRUCTIONS

2301. On FHA Form 2401, Appraisal Data and Project Information, shall be provided the most significant information available for appraising the value and judging the economic merit of a proposed project. The first page of this form contains a caption which provides distinguishing information pertaining to the proposed project under consideration, and a section which pertains to "Physical, Economic and Social Data" about the city, the neighborhood, and the site. The second page of the form is devoted to the development of a conclusion as to the market price of the land proposed as the site of the proposed project. The third page contains a record of "Rental Housing: Survey and Estimates," from which the appropriate rentals for the proposed project may be estimated. The fourth and last page provides for basic operating cost data, insurance rates, tax information, and general recommendations. The form concludes with spaces for authenticating signatures.

2302. All Federal Housing Administration personnel are responsible for observing the confidential nature of the information contained in the application. Caution and tact must be exercised in order that the size, character, location and sponsorship of a proposed project will not be divulged to unauthorized persons.

SCOPE OF REQUIREMENTS IN THE PREPARATION OF FHA FORM
2401, APPRAISAL DATA AND PROJECT INFORMATION

Caption

2303. The date when the work commences shall be entered on the date line of the caption of the form. The project name and project number shall also be included. The location of the

PROCEDURE PRIOR TO COMMITMENT

2303-2305

project shall be indicated by the compass section and name of the city or town in which the project is to be situated, the county, the state, the name of the general district or subdivision, and the names of abutting streets or intersections. If the project is to be situated in a city or town comprising a part of a metropolitan area, the project location in relation to that area (by compass) shall be indicated. Location data shall be set forth on the form in the order named.

2304. The first entry on the last line of the caption refers to the type of building. The following designations, by abbreviation, either singly or in combinations, shall be used:

WU Apt. — Sty., meaning: Walk-up Apartment House(s), — Stories.

Elev. Apt. — Sty., meaning: Elevator Apartment House(s), — Stories.

Det. H. — Sty., meaning: Detached House(s), — Stories.

SDet. H. — Sty., meaning: Semidetached House(s), — Stories.

Row H. — Sty., meaning: Row House(s), — Stories.

Definitions of the above types are as follows:

Apartment house: A structure, two or more stories in height under one roof, designed for the occupancy of two or more families, and not otherwise defined below.

Detached house: A structure designed for occupancy by a single family and having exterior walls which are independent of any other structure.

Semidetached house: A structure which is divided into dwelling space for only two families by a vertical common wall.

Row house: A structure which is divided into dwelling space for three or more families by vertical common walls.

2305. "Construction" in the caption refers to the relative fire-resistant qualities of the building materials and methods of using them. The following designation shall be used.

Fireproof, FP.

Semifireproof, SFP.

Nonfireproof, NFP.

The family unit count and room count as set forth in FHA Form 2013 shall be checked for accuracy and the correct unit and room count shall be entered in the space provided in the FHA Form 2401 in accordance with the method set forth in paragraph 2440 of this manual.

Physical, Economic, and Social Data

2306. Under this heading is to be included general information concerning (A) the city, (B) the neighborhood, and (C) the site.

A. City Data

2307. Item A-1, pertaining to city data, requires the "Economic stability rating." This rating will be the economic background rating used by the Insuring Office. It is based upon the Economic Background Rating Form (FHA Form 2096). The rating provided by this form pertains to the entire economic background area in which a site is located. The boundaries of the area thus rated shall be carefully noted. In the event the local economic background rating differs materially from that of the city or metropolitan area, there may be placed above the item an asterisk which will refer to a footnote of explanation written in the margin at the bottom of page 1, of FHA Form 2401.

2308. Item A-2 requires a report, as of the latest available date, of the population of both the city and the metropolitan area, if the two are distinguished by the United States Census. The source of the estimate must be clearly indicated. The economic background reports filed in the Insuring Office will give this information in a reliable form and may be quoted as the source of the estimate. The validity of many non-governmental estimates varies widely and unless reported by an unbiased source is subject to doubt.

2309. At Item A-3, shall be set forth any special climatic or geological hazards. "Climatic hazards" include subjection to destructive wind, hail or electrical storms. "Geological hazards" would comprise earthquakes, landslides, subsidence, and floods. Where there is a tendency to recurrent threats of loss or damage from any of these sources or others against which precautions must be taken, an opinion as to the probable extent and effect on security, accompanied by a detailed discussion, is required. In cases where history has recorded the evidence of such a hazard but the probability of recurrence is remote, a brief mention of the source of hazard, time, and extent of damage is all that need be entered in the form.

B. Neighborhood Data

2310. Definition. A neighborhood is that portion of a community which is identified by the extent of similarity of those physical characteristics that reflect the general economic and social position of the residents. It is not always possible to define the exact limits of a neighborhood. Usually there is a zone between neighborhoods which partakes of the character of each. In the pursuit of the

objectives of this manual, a neighborhood shall be taken to extend from the site that distance from which any pertinent characteristic tends to exert an important influence upon the desirability of the site for rental housing purposes.

2311. The questions pertaining to the neighborhood must be considered as a unit. The answer to any one question may depend in part upon the answer to several others.

2312. Physical. At B-1 shall be characterized the topography in such descriptive phrases as "gently rolling," "heavy topography," "wooded, gentle southern slope," "level topography," or "flat topography," etc.

2313. Economic. Great care must be exercised in providing the "economic" data required. The form is designed to bring out information regarding economic trends in the neighborhood. Any conditions or indications not specifically treated in the questions shall be noted under "Remarks" on page 2 or in an attached report. Item B-2 (a) requires a conclusion as to the dominant use type of structures in the neighborhood—residential, commercial or industrial. If residential, state prevailing type, for example: "85% Det. 1 and 2 story, 15% small apartments"; "25% small apartments, 75% multifamily W. U."; etc.

2314. Item B-2 (b), which requires an indication of "stability or nature of transitional trend" of the neighborhood, permits an estimate to be made of the influence of all factors upon the economic life of the improvements and the social or economic characteristics of the neighborhood. If it is believed that the neighborhood will undergo little, if any, change within the life of the proposed project, the indication in the form would be "stable." In contrast, various types of transitions may be in progress. One type of transition involves a complete change in the type of land use, as from residential to commercial. Again, the residential structures themselves may gradually be forced to a different use; for example, for boarding houses and cheap offices rather than for single family residences. On the other hand, the race, nationality, income level, or other characteristics of the inhabitants of the neighborhood may be undergoing change. Any tendency towards such change must be noted and described.

2315. Item B-2 (c) requires an account of any non-conforming land uses which may adversely affect the desirability of the site for the use proposed. The distance from the site to such uses should be approximated in feet. At Item B-2 (d) shall be indicated the adverse effects, if any, which these non-conforming land uses may have on the neighborhood and might exert on the proposed project. Finally, Item B-2 (e) requires that reference shall be

made to any other economic influences which might adversely affect the neighborhood, such as, for example, the prospect of the withdrawal of transportation or other service facilities.

2316. Item B-2 (f) deals with the trend of future residential growth in the neighborhood and with the nature of such trend. The qualified appraiser who has been careful to keep in close touch with developments in the area which he serves will encounter little difficulty in defining those residential areas that are enjoying and are predicted to continue enjoying growth and improvement. In answering the question in the form, consideration should be given as to whether or not the trend of growth would be "favorable" to the proposed project. Caution must be exercised in the consideration of a site located in the general compass direction of growth but on the fringe or outlying. The length of time required for the site to become contiguous with the community and its facilities and the potential competition of developments on intervening sites, merit careful analysis. It must be remembered that direction of growth is merely an evidence of mass human reaction and as such is subject to change. Natural and artificial barriers, such as parks, streams, bodies of water, industrial areas, city limits and broken topography often exert a profound effect on the direction of growth. The trend would be considered "favorable" if the predicted expansion would bring a group of residents comparable to those the proposed project is designed to serve.

2317. Item B-2 (g). If the conclusion is reached that the trend of growth is "favorable" to the project, it is necessary to carry the reasoning further in order to estimate how long the trend will persist and thus continue to support the recommended project rentals. This forecast results from careful investigation of the underlying reasons for the expansion and a studied analysis of the intensity of the potential demand for rental housing in the area. The answers to this and the preceding question should be supported with a qualifying statement or, if necessary, by comment under "Remarks."

2318. Under Items B-2 (h) and B-2 (i), shall be described the most significant features of the transportation system in terms of running time to the central city, frequency of service during the rush hour, and the fare. Care should be taken to indicate any instance in which a project is in an extra-fare zone. The exact amount of the fare is not as significant as the cost of transportation in relation to existing or potential competitive rental housing.

2319. Item B-2 (j), calls for a description of the age and condition of the older buildings within a block radius of the project. These buildings constitute such an immediate influence that their appearance, age, and condition is a highly significant matter, especially in smaller projects which do not have a great degree of self-protection.

2320. In Item B-2 (k) the neighborhood zoning restrictions must be described. In this connection the permissible land use, and the type of construction are most important. Use, height, coverage and other zoning requirements will be described under "C. Site Data" or Item C-2 (b). With reference to the neighborhood, the principal zoning question concerns what types of structures will be permitted. If there are no zoning restrictions, it shall be noted and comment shall be made on the effect of any other existing restrictions. In the absence of zoning or other restrictions, it shall be indicated whether or not there is sufficient dedication of the neighborhood to a use with which the proposed project would be in harmony.

2321. **Social.** Item B-3 (a) asks, "Is neighborhood homogeneous in population?" If neighborhood inhabitants have common customs and habits of life, the population may be characterized as homogeneous. If, however, there is a mixture of groups which tend to be socially antipathetic, one to the other, by reason of differences in economic status or language, or for other reasons, the neighborhood population is not homogeneous. Even though the neighborhood is lacking in homogeneity, some race or group may be predominant, in which event the group shall be characterized in answer to Item B-3 (b). The predicted influence of such population upon the future of the proposed project shall be indicated in response to Item B-3 (c).

2322. Items B-3 (d) and B-3 (e) permit an appraisal of the predicted effect of social changes on the proposed project. This question refers to such influences as the predicted infiltration of in-harmonious social groups, or of inhabitants of a different economic status, the change in the economic status of the neighborhood inhabitants, or merely the effect of neighborhood appeal upon future rent levels.

C. Site Data

2323. **Physical.** The physical elements embodied in the site of the proposed project must be reported specifically. The investigation of these aspects must be related to the data in the various exhibits which accompany the FHA Form 2013. Item C-1 (a) requires a description of any threat from floods. If, at any known time, a flood has inundated any portion of the subject site and subsequent measures have not been taken to avoid a repetition, the facts must be set forth specifically and in detail. Under Item C-1 (b), shall be indicated in percentages the portions of the site which are above, below, or at street grade. At C-1 (c) shall be stated any difficulties which might be encountered in constructing the foundations of the proposed project. If the site has been filled in during recent years, is former marsh land, or gives evidence of subsurface rock or hydrostatic pressure, competent authority shall be questioned

and the report included in the docket. Possibility of subsidence because of mining or other subterranean conditions shall be noted. If definite information regarding subsurface conditions remains uncertain, the sponsor shall be called upon to provide the necessary information. The estimates of construction cost in the application should include necessary expense resulting from unusual foundation conditions.

2324. Item C-1 (d) calls for a brief description of any existing structures on the site, together with a statement of the estimated demolition costs, if any.

2325. Item C-1 (e). The presence or absence of preservable trees on the site shall be noted by checking the sponsor's topographical survey against the site. Under "Remarks" on page 2 of the form shall be indicated any additional or corrective topographical data and whether or not the site has been inspected by a Land Planning Consultant of the Administration.

2326. Item C-1 (f). The answer to this question may be brief: "Main St. asphalt 60'—good; First St. concrete 30'—fair; Second St. platted, unopened." There shall be indicated under "Mandatory conditions" on page 2 of the form if paving is needed to provide access to the site from main traffic arteries and community facilities and if such paving will be constructed by the sponsor or by the community. If the kind or condition of existing curbs and public sidewalks is such that extensive repairs or replacements are required, note under "Mandatory conditions" on page 2. (See paragraph 2135 of this manual.) If off-the-site construction would be made necessary by the proposed project, an opinion shall be given as to the ability of the sponsor to complete such construction at his own expense out of funds other than the cash indicated under Schedule A of FHA Form 2013, or to cause such construction to be completed at public or public utility company expense. In addition, there shall be indicated the portions of such construction which would be so necessary to the proposed project that assurance of the completion of such construction, at or before the time the proposed project is ready for occupancy, should be made a mandatory condition of the Commitment for Insurance, if issued. These requirements, if any, shall be set forth at "Mandatory conditions" on page 2 of the form.

2327. Information regarding Items C-1 (i) and C-1 (j) can be obtained from city or utility company engineers. If adequate utility services are not available at the border of the proposed site, it will be necessary that the sponsor shall provide or cause to be provided such facilities and any cost shall be defrayed from funds other than the proceeds of the proposed mortgage. If additional utilities are required, there shall be stated whether or not the utility com-

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panies would provide the required services to the borders of the site without cost.

2328. Economic. Item C-2 (a) is the question, "Will the project appeal to typical, higher or lower income groups than those now predominant in the neighborhood?" Before the question may be answered it is necessary to complete a careful analysis of the proposed project as set forth in the FHA Form 2013 and attached exhibits. Such analysis should result in a conclusion as to the specific income group which would be attracted by the advantages offered by the proposed project. When that conclusion has been reached, it must be related to the typical group now predominant in the neighborhood. If it is concluded that the proposed project would appeal to a higher or a lower income group than those now predominant in the neighborhood, the reasons shall be set forth in detail. If the project is deemed to be in keeping with the prevailing or probable future demand in the neighborhood, a brief summary of the reasoning underlying such a conclusion should follow the answer to the question in the form.

2329. Item C-2 (b) pertains to zoning or deed restrictions as to use, height, coverage, type of construction and other requirements. Descriptive terms rather than official classifications shall be used in stating whether or not restrictions arise from zoning ordinances or deed covenants. For example, instead of referring to "first residential" refer to "single-family, detached residences," and instead of "first commercial"—"retail stores, office buildings, hotels, etc." The restriction as to height either in feet or in the number of stories, depending upon the requirements of the zoning laws shall be indicated. "Coverage" refers to the legal maximum percentage of the area of a lot which may be covered by buildings. At "Type of construction" shall be indicated whether the local regulations require fireproof construction or permit semifireproof or nonfireproof construction. [See Administration requirements regarding nonacceptability of rental housing applications for projects in conflict with zoning laws or restrictions as set forth at paragraph 2156 a. (5).] If there are no zoning or deed restrictions on the proposed site, the extent to which the surrounding neighborhood has been dedicated to use and the nature and trend of such use must be reported.

2330. Social. Questions pertaining to the social aspects of the site under Item C-3 refer principally to community conveniences. The distance of the site from important facilities, such as transit lines, main traffic highways, schools, neighborhood shopping centers, etc. must be indicated. This distance from the nearest portion of the site should be approximated in feet. Item C-3 (b) requires a report of the seating capacity and enrollment in the elemen-

tary schools which would serve the tenants of the proposed project. From this information may be judged the capacity of the schools to absorb the children of new neighborhood tenants.

Determination of Market Price of Land

2331. Page 2 of the FHA Form 2401 is devoted to the development of data leading to estimation of the fair price on the current market for the proposed project site. An approach to market price estimation is by comparison of the subject site with other sites which offer similar elements of utility and desirability for the type and size of rental housing proposed. In order for the results of the comparison to be effective 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 subject property but it is necessary that each be deemed to offer:

- a. adequate size to meet 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 the occupancy of the proposed project, and
- c. sufficient other attributes of utility and desirability to make the comparison reasonable and true.

2332. Current land prices in the real estate market are relative and tend to be governed by supply and demand. The technique of land price estimation employed in FHA Form 2401 has been devised:

- a. to provide a pattern of the effect of supply and demand upon land prices in the community,
- b. to provide a bracket of land price information to assist in the determination of the market price of the subject site, and
- c. to provide data relative to potential competition which might result from the development of additional rental housing in the community.

The data provided will be used in arriving at important conclusions regarding the approach to the estimate of value of the proposed project. (See paragraphs 2653 and 2657-2660 of this manual.) It is *imperative* that every means available be employed to make the objectives of this technique prove effective.

2333. In order to provide an orderly means for comparing sites, FHA Form 2401 includes two principal tables, one for the

2333-2335

purpose of reporting assessed values, sales prices, listing prices or appraisals of comparable sites (Item A-2) and the other for the purpose of comparing the various features of the comparable sites which tend to establish price (Item B).

2334. At Item A-1 the area of the proposed project site in square feet shall be indicated. Item A-2 requires a report concerning assessed values and sales prices, or the appraised values, of five parcels of land which are considered comparable to the subject parcel. In this regard, a search is made for other sites on which the proposed project or a similar competing project might be built. There must be included among the five parcels of land chosen for comparison, those parcels which, if developed with a similar project, would offer the greatest competition for tenancy to the proposed project on the subject site. It is desirable that not less than five comparable sites be reported in all cases. However, information on not less than three comparable parcels will be acceptable, if there is entered on the form a statement of opinion that not more than the number of parcels reported would be competitive with the subject site. Under "Location" in the table the five chosen parcels numbered from 1 to 5 shall be described briefly as to location so that they may be found on the map of the community among the exhibits. The area and assessed value of each site shall be recorded in the form. The total assessed value for each entire site shall be shown in the proper column. In a similar manner, recent sales prices should be recorded as the amount per parcel. If estimates of value from recent appraisals by qualified authorities are available, the amount "per parcel" may be entered in the last column. "Appraisal" does *not* refer to appraisal by Federal Housing Administration personnel but to opinions of value rendered by competent outside authorities. The amount of such an opinion under "Appraisal" must be more than an off-hand estimate or unqualified opinion. The purpose of the appraisal, the date, the use upon which it was predicated and comment on the experience of the appraiser would be considered as supporting information which may be entered in the space under A-3. If the comparable property has been offered for sale recently or is listed for sale with a real estate broker, the price per parcel may be entered in the column under "Appraisal" and indicated in the margin as "Listing." At Item A-3 space is provided for comment on special circumstances affecting the sale or listing prices. Information concerning the amount and terms of recent offers of the properties would be significant and desirable.

Comparison Grid

2335. Application of Grid. Item B provides a grid for the purpose of comparing the relative desirability of the proposed

project site with the parcels of land listed and described in Item A-2. In the grid are set forth eleven factors of comparison to be used as "yardsticks" in measuring the proposed site in relation to the five tracts of land chosen for comparison. It is intended that each factor regarding the subject site shall be weighed carefully in relation to the same factor of each of the five reported sites. The nature of each comparison must be on the basis of the contemplated use of each reported site for a project of the same size and type as proposed for the subject parcel. Obviously, as a result of each comparison, the proposed project site will fall in one of three categories, namely "Superior," "Equal" or "Inferior." After a conclusion has been reached in each comparison, an "X" shall be placed in the appropriate column. It will be noted that the grid does not indicate the extent of superiority or inferiority. These elements are expressed in the final estimate of market price after the bracket of relative desirability has been defined from the grid. After completion of the grid, a preponderance of "X" marks in one of the three columns under each site number will indicate the relative desirability of the proposed project site in comparison with the reported site under consideration. It follows that if the aggregate desirability features of the subject parcel are "superior," the market price thereof would tend to be in excess of the known sale price, listing price or appraisal of the comparable site. Conversely, an "Inferior" rating would indicate a lesser estimate. The extent of difference will result from the use of judgment in the determination of the relative importance of the particular desirability factors which are in preponderance. The proper treatment and application of the grid should narrow the bracket of market price consideration to the point that a qualified estimate of fair market price will result. More detailed discussion regarding the application of the eleven "yardsticks" in the grid will be found in paragraphs following.

2336. City-Wide Factors.

- a. *Relation to most suitable residential trend* is the first item listed on the grid. The word "suitable" here refers to the adaptability of the site for requirements of the particular project being proposed. The rent level, the services and advantages offered, the number of rooms in each family unit, and other characteristics of the proposed project will determine the type of residential area into which it could be appropriately placed. It is very important that the proposed project be located in or near a section of the community where the trend would appear to render the proposed project economically sound and justified. The application of this factor of comparison will indicate the "suitability" of the proposed

site in relation to the comparable parcels for the type of use proposed.

b. *Relation to appropriate employment areas.* The next factor to be rated refers to the relation of the site to "appropriate employment areas." One consideration is that of accessibility to the types of employment in which the occupants of the proposed development probably would be engaged. Ordinarily in each city there will be an upper limit to the time people are accustomed to spend in traveling to and from areas of employment. The site which is conveniently located with respect to diversified kinds of employment is obviously in a more stable situation than one wherein the tenants of a proposed project would be reliant on one or a limited number of industries or centers of employment. Convenience of location with respect to appropriate employment areas must not be confused with physical proximity. In many cases a site which is located within easy walking distance of a large center of employment might be decidedly inferior to a site which is much farther removed but has the advantages of frequent and convenient modes of transportation to and from work. The very fact that it is farther removed might be an advantage because of the relative freedom from the disadvantages that frequently attend residence near a large center of employment. The degree of "appropriateness" of the employment areas under consideration in making the comparison must be related to the typical tenant that the proposed project is contemplated to serve.

c. *Relation to existing and known future civic betterments* is the next factor on the grid. Civic improvements which are in existence exert considerable influence in the determination of where the individual tenant would prefer to live. "Future civic betterments," such as a new subway or other transportation extension, a proposed bridge, a new park, or other recreational center, etc., may be important matters at the time the rating is made, if such improvements are definitely "known" and not merely contemplated or in prospect. Weight shall not be given to mere possibilities of future civic improvements but whenever such improvements are assured beyond all doubt, such facts may influence the comparisons under this factor.

d. *Relation to public transit services* must bring into consideration the distance of such services from the proposed site, the fare to appropriate employment areas, and main shopping districts, the frequency of service, the running time during

rush hours, and the other elements which bear upon the convenience of those tenants who would depend upon public transportation. In making the various comparisons with reference to this factor, the necessity of a transfer or an additional fare in order to get to and from one of the sites, would constitute a serious lessening in desirability in relation to a site located where such disadvantages do not exist. Consideration must be given to the public transportation requirements of the prospective tenants who are anticipated to live in the proposed project before drawing conclusions regarding the comparisons under this factor.

- e. *Relation to present and future tax burdens* constitutes the final "city-wide factor" in the comparison of the proposed site with competitive parcels. This factor requires consideration of the relative amounts of taxes now levied against the various sites under consideration, as well as any variation in methods of assessment for tax purposes, where the sites lie in different tax jurisdictions. The relative status of the sites with respect to necessary land improvements, such as streets, curbing, sewers, and other utilities which have been constructed on one or another of the sites will provide an important consideration in effecting the comparisons under this heading. If one of the sites were located in an area which has consistently experienced more favorable total taxes in relation to value and this favorable condition is deemed likely to continue, the influence of such condition should be weighed in making the comparison.

2337. Neighborhood Factors.

- a. *Adequacy of zoning and deed restrictions.* Information on zoning and deed restrictions on the subject site may be obtained from the required exhibits accompanying FHA Form 2013. The effect of zoning and deed restrictions upon the relative desirability of a site for rental housing must be considered in the light of the predicted influence of such regulations and restrictions if the proposed project were to be built upon each site under scrutiny in turn. The effect which the nature of the restrictions, the date of expiration (if any), and the degree of protection afforded by the restrictions, is predicted to exert upon the future development of the subject neighborhood must be considered. In general, a site which is afforded adequate protection by zoning and deed restrictions would be considered superior to a site wherein the restrictions are lacking or inadequate to meet the needs of the proposed project.

b. *Social and income characteristics of neighborhood inhabitants.*

A comparison of the sites with respect to the "Social and income characteristics of neighborhood inhabitants" will provide an important reflection of the elements of desirability offered by the proposed project site in relation to the other sites under comparison. It must be borne in mind that this factor in the grid requires careful consideration of the social and economic position of the prospective tenants which the proposed project is designed to serve. The favorable or unfavorable attributes of a neighborhood are indicated by the type of people who live there. People of similar social and income characteristics tend to live in the same areas and usually evolve a neighborhood pattern which is related to those characteristics. The construction of the proposed project in a neighborhood inhabited by and appealing to residents who are greatly different as to social and income position from the typical tenant contemplated for the project, would be a mistake which undoubtedly would result in loss. A function of the comparison grid is to provide data regarding the probable flow of income from the proposed project. Any hazards embodied in the social and income aspects of a neighborhood strike directly at the income stream. It is important that the site for a project be located in the community so that the maximum advantage with respect to continuity of income will be afforded. The final test of the subject site in the use of this factor will be whether or not the neighborhoods surrounding any of the comparable sites would offer "social and income characteristics" bearing upon the amount and continuation of project income, which would be "superior," "equal" or "inferior" to those of the proposed project.

c. *Influence of population growth, stability or decline.* This factor offers an opportunity to predict the effect which probable population changes would exert were the proposed rental housing erected upon the site under consideration. The trend of population changes will be very significant in making the comparisons of the various sites with the proposed project site. Mere numbers of population change are of less importance than the social and economic characteristics of the people moving in or out of the neighborhood. It is evident that an increase of population through the influx of an inharmonious or a lower income group than that contemplated for the proposed project would not be interpreted as a condition favorable to the project. To be

considered favorable, any population growth in the area surrounding the particular site under consideration must be of a similar social and economic status and one that would improve or uphold the homogeneity of the neighborhood. In general, a declining population in any residential area is considered unfavorable. The rate, trend, and nature of change in population must be considered in relation to the effect it would produce if the proposed project were to be constructed upon the site in question.

2338. Site Factors.

- a. *Influence of surrounding improvements.* A well improved neighborhood usually is more favorable for a rental housing site than one that is entirely unimproved, depending upon the nature of zoning and deed restrictions and the probable future trends. It is the type, age, character, and condition of improvements rather than extent of development, that is significant in employing this comparison. If one neighborhood is constituted of structures that would tend to lower the potential rental level of the proposed development below that contemplated, such improvements would be regarded unfavorably in comparison with a relatively unimproved neighborhood. An unimproved neighborhood in the path of an unfavorable trend, and especially one that is improperly zoned, would also be regarded unfavorably. Consideration shall be given to the effect which the existing improvements surrounding the particular site would have upon the desirability, harmony, and appeal of the proposed project, if it were constructed thereon. The comparison of the predicted effect with that resulting from a similar procedure with a competitive site should provide assistance in arriving at the conclusions required by the application of this factor in the grid.
- b. *Topography, foundation requirements, freedom from flood threat, etc.* It is important that the first two factors be related to the adaptability of the site as a location for the proposed project. The topography of a given site might lend itself very well to the needs of the project as to pleasing terrain but the construction on the site might require such a cost for extra foundations, or for subsurface rock conditions, that the total cost would be prohibitive. The relation of the proposed project to the topographical features of the site is extremely important and the advantages or disadvantages of the subject site in comparison with the

other sites in the grid must be carefully considered. Sub-surface conditions might exert such a profound influence upon construction costs that this comparison would become vital. The conclusion as to "freedom from flood threat" will hinge on the elements of potential hazard and the history of flood experience, if any. If a site has ever been flooded without remedial measures having been taken thereafter, it must certainly be rated unfavorably, if not rejected. In applying these factors in the comparison grid, it will be necessary to weigh the importance of each of the applicable items in the factor before indicating the conclusion in the form.

- c. *Security against special hazards, noise, smoke, traffic, undesirable outlook, etc.* The relative security of a site for rental housing against those hazards and nuisances which would tend to lessen its desirability, is an item of prime importance in the determination of market price of land and the ultimate estimate of project value. Tenants soon react to annoyances which cannot be quickly remedied, by seeking other housing which is better located. Proximity to railroads, industries, congested highways, undesirable outlook, the presence of excessive smoke, fog, noxious odors, or other unpleasant characteristics of location must be taken into consideration in rating the comparison by this factor. Hazards against which precautions could be taken in planning a project on the site will assume less importance: for example, the site might be shielded from railroad tracks which are little used, by proper screen planting; the buildings might be oriented away from an undesirable outlook; etc.

2339. Conclusion. If the site under consideration has been carefully compared with the other reported sites of which the sales or listing prices or appraisals are known, it is then possible to make an approach to an estimation of price by bracketing. If the proposed project site has a preponderance of "superior" ratings, the presumption is that the subject parcel justifies a higher price than that of the particular parcel used in comparison. Thus, the price of the comparable parcel to which the subject site is "superior" would set a figure below which the price of the subject parcel should not ordinarily fall. By bracketing the subject parcel within the price range of the highest priced parcel to which it is "superior" and the lowest priced parcel to which the project site is "inferior," a tentative market price range for the subject parcel will have been established. Care should be taken, however, to avoid using as an effective limit (upper or lower) the price information of any comparable parcel, wherein special cir-

cumstances resulted in an unwarranted figure. After establishing the bracket of upper and lower market prices through the use of the comparison grid, a tentative conclusion may then be reached as to the current market price at which the subject parcel should sell for use as a site for the proposed project. Another important approach to the site market price estimation for the purpose of the form may be found in sale, option or listing prices and appraisals on the subject site itself. It might appear that an actual sale, option or listing price of the subject parcel would provide the best evidence of fair market price. This might or might not be true, depending on the circumstances surrounding the establishment of such price. If the amount of the definite price information regarding the site be found to lie within the bracket established by the use of the comparison grid, it could probably be concluded that such amount would be the final estimate of "fair market price." However, if the price information concerning the site falls outside the confines of the bracket, all data and conclusions resulting from the use of the grid must be checked carefully. If, after a recheck of the conclusions employed in the comparison grid, the bracket of market price by comparison remains substantially at variance with any known price information concerning the subject site, both the grid bracket information and the actual price information shall be treated as appraisal data before proceeding to the formation of a final conclusion of "fair market price." It must be remembered that the estimate of "fair market price" within the meaning contemplated by FHA Form 2401 is one for the use of the site as a location for the proposed rental housing project. The final conclusion must take into consideration all of the data compiled in the FHA Form 2401 including "Mandatory Conditions" (see paragraph 2340) and be tempered with experience and the exercise of good judgment. Following a final conclusion as to the estimate of "fair price on the current market" for the site of the proposed project, the amount shall be indicated in the proper space in the certification on the form. The amount of the price shall be reduced to a basis of price "per square foot" in each case and shall be entered in the space provided.

Mandatory Conditions

2340. If required utilities (streets, sewers, water and gas mains, electric light and power lines, etc.) are not available at the site or if they are of insufficient capacity, their construction up to the site must be made mandatory. Pursuant to the requirements of the National Housing Act as amended, costs of construction of such utilities must be paid by sponsors or other interested parties and cannot be included in estimated project construction costs (see paragraph 2135). Therefore, the mandatory conditions, if any are

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required, which are set forth in the space provided on the form, must include all items of off-the-site construction which, it is deemed will be necessary for the operation of the property when it is completed. *The site shall be considered as having the benefit of all mandatory conditions set forth on the form when the estimate of "fair price on the current market for this parcel of land" is made.* Sponsors' statements regarding off-the-site construction, set forth in the application (FHA Form 2013, Schedule C) and the requirements and statements set forth on the FHA Form 2401 [page 1, item C, 1, (f) through (j)] must be reviewed, in order to make certain that all required items of off-the-site construction will be included in the list of "mandatory conditions." This list may also include any other items which are considered to be necessary to make the site acceptable for project development. The space under "Remarks" is provided for additional data or comment. Each statement bearing relation to another part of the form should be preceded by the page number and item reference designation, for example: "P. 1, C-1 (e)." In the space under "Remarks" the approximate height and type of buildings, if any, on sites adjoining and abutting the proposed project site and the distance in feet of such buildings from the nearest portion of the subject site shall be reported. This information is for the purpose of aiding consideration of the site by the Land Planning Division.

Rental Housing: Survey and Estimates

2341. The third page of the FHA Form 2401 contains a record of the rental housing survey and estimates from which the predicted rentals for the proposed project may be made. The items of data are divided into four sections, namely: "A," city-wide rental data; "B," neighborhood rental data; "C," a tabulation of specific rentals in various types of accommodations; and "D," a list of service items included in the monthly rentals of competitive units.

A. City-Wide Data

2342. Items A-1 to A-4, inclusive, give a cross-section of the occupancy and rental situation of the *entire city*. Item A-1 is an over-all estimate of the occupancy ratio of all residential units of the rental market area within which the project is situated. Not only is the over-all occupancy of all residential units required but also the occupancy by classes of residential structures. If possible, these figures should be reported from a recent market survey of the Market Analyst. In the event such is not available the reports of the local Insuring Office, the Real Estate Board, Property Managers Association, utility companies, or other reliable sources shall be

entered. In the absence of a survey by the Market Analyst it should be ascertained that the source of information offers more than a guess and that it results from a recent survey. It is a wise practice to indicate on the margin the source of the figures reported. Item A-2 requires an indication of the rental range per month which shows the highest occupancy ratio. This figure will indicate the norm of rent-paying capacities, willingness and space requirements of the majority of tenants in the community. It is significant when used in relation to the rents proposed for the project under investigation. Its determination must be made with great care and with the aid of Market Analysts' reports when they are available. Available space in the lines following A-3 may be used for such additional information as the case may require.

2343. Item A-3 inquires "What volume of competitive construction is under way?" In this connection "competitive" means construction of a similar use type, rental range, appealing to the same bracket of demand as that for the proposed project, and includes single family houses for rent or for sale. The "volume" is best expressed in the number of family units in the various types of construction rather than the number of buildings. The Local Insuring Office, the office which issues building permits, the local real estate board, real estate transfers, news accounts, the Chamber of Commerce or Board of Trade and local contractors or their trade association provide sources of the information required. Personnel performing appraisals should strive constantly to develop contacts and avenues of information which will keep them advised regarding all phases of the broad field of rental housing in the district where they are stationed. Item A-4, as to whether or not existing vacancies, plus present construction, will fill the city-wide demand is again a matter requiring careful estimates. When available, a market analysis made by the Market Analyst must be studied. If no recent market analysis is available, the most recent report of the Market Analyst should be supplemented by personal investigation before undertaking an answer to this question.

B. Neighborhood Data

2344. Item B-1 requires an estimate of the amount of yearly income received by families representing the predominant family type in the neighborhood. The estimate of typical income will constitute an important guide in forming a conclusion as to the rent-paying capacity of prospective tenants for the proposed project. If the proposed project is to be constructed in an outlying area which has not assumed definite neighborhood characteristics as to typical income, an opinion of the amount of yearly income earned by the

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typical families who would qualify as prospective tenants for the project upon completion shall be indicated on the form. In the latter event, there must be stated on the same line as the question in the form: "Area undeveloped; typical income amount shown is anticipated" or a similar qualifying statement.

2345. Item B-2 calls for the age of the *typical* residential structures in the neighborhood. Reference is made to paragraph 2310 of this manual, wherein the extent of the term "neighborhood" is discussed. By "typical" is meant those structures which predominate and which would exert the greatest influence on the desirability and potential income of the proposed project.

2346. Item B-3 seeks to establish the relative degree of maintenance of the typical structures in the area. Observations of adequate maintenance or the lack of it will provide an excellent indicator of the appeal of the neighborhood, and the rent-paying capacity of the residents. As a rule, adequate maintenance indicates at least a stable condition of a neighborhood. Repair and upkeep are the first items to feel the pressure of economic change. General lack of maintenance hastens depreciation and fore-shadows decline into decadence. Indications of failure of adequate maintenance should be discussed briefly in the remaining space under B-5.

2347. Item B-4 relates to evidences of transition in any part of the neighborhood which might bear upon the subject project. "Transition" refers to changes in the general use to which environing properties are being put. Any indications of a general change in use such as "from residential to commercial," or "from old single-family to multi-family," and underlying causes shall be discussed under B-5. The predicted effect that any transition would have on the proposed project and the future rentals shall be indicated at B-5.

2348. Item B-6 requires an estimate of the proportion of vacancy existing in the neighborhood in the various types of residential units indicated in the form. Real estate and management concerns may be consulted regarding their vacancy experience in the area but the conclusions to be entered in the form must result from a personal survey of much of the neighborhood environing the project site. In many cases it will be helpful to talk with janitors and tenants in competitive buildings, tradesmen, public utility service, and mailmen, etc., before making these estimates. The conclusions as set forth in the form will offer the basis for measuring the kind and extent of demand for rental housing in the area. Great care must be exercised that the true condition is recorded upon the form.

2349. Item B-7 requires a "brief summary of recent residential construction." This refers to single family home construction for sale and for rent as well as multi-family residential construc-

tion. Often a supply of single family houses being offered on easy terms will provide a disturbing source of competition for rental housing units. When there is a volume of such construction in the neighborhood or in other areas, and it is deemed that it would be in competition with the proposed project for the potential project tenants, the facts must be presented in detail. The rent or rental value of such competing houses and other units shall be stated. "New construction" would include that in process of completion and any new construction which is being planned and which appears certain to be built. Item B-8 inquires "What has been the absorption of such construction?" The rate of absorption will indicate the amount of competition afforded by the new construction in addition to reflecting the intensity of demand in the neighborhood involved. The number of new units constructed and the number sold, rented and remaining vacant shall be set forth.

2350. Items B-9 -10 and -11. The answers to these related questions are expected to provide a cross-section of the competitive rental housing in the neighborhood. The room composition and unit distribution of the proposed project will be compared with Item B-11 in the preparation of FHA Form 2264.

2351. In answering B-12, consideration must be given to the effect on parking facilities in the neighborhood and on all-night parking in particular, which would be exerted by the additional number of cars of the tenants who would live in the proposed project. Where police regulations tolerate all-night parking in the streets, the probability of indefinite continuation of such privilege after project construction should be considered. If the project site lacks adequate space for parking tenants' cars, the availability of other parking space off the street must be discussed. An estimate shall be made of the number of parking spaces which would be required by the tenants of the proposed project and their guests and an opinion shall be given as to the adequacy of indicated parking facilities to meet the estimated need.

C. Monthly rentals

2352. The completion of the table "C. Monthly Rentals—Competitive Units and Project Estimate" must be based on a personal survey. A thorough investigation must be 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 family units of the type and size offered by the proposed project. The table provides spaces for listing the amounts of rent actually being received for apartments of different types of room composition in each of the four properties which are considered to be

most competitive with the proposed project. In the column under "A" in the form shall be indicated on each line the amount of monthly rent being received for each typical family unit in property "A", which has a room composition corresponding to the number and designations of the rooms abbreviated in the form. By "typical" is meant the unit of the size and room composition in property "A" which would be most comparable to the typical unit of the same size and room composition in the proposed project. The column under "A" relates to the said competitive property down to and including the line after "5 rooms, LR-K-DR-2BR." Below the said line in columns "A, B, C, and D," the data to be entered will be described later and will refer to other properties. The columns under "B, C, and D" shall be completed in a manner similar to that described for property "A." The symbols used to describe the typical room compositions are defined as follows:

LR—Living Room.

SK—Strip Kitchen—Kitchen equipment located along the walls of a room or space used for other purposes.

K—Kitchen.

BR—Bed Room.

DA—Dining Alcove.

DR—Dining Room.

No portion of the three columns under "Recommended for Project Units" shall be completed until the remainder of the grid "C. Monthly Rentals" has been completed. On the line following "4 room det. house," the abbreviated room composition, stories, construction material, number of baths, type of heating and rental value of the typical four-room detached house in the neighborhood shall be entered. This information may occupy the portion of the line under columns A to D. Similarly the lines following "5- and 6-room detached houses and 5- and 6-room two-family properties" will be completed. The amount of monthly rental for individual "stall garages" and for space for one car in a "garage compound" shall be entered on the proper lines in the columns. A brief description of the garage accommodations may be entered in the space below the table. The information which has been entered in the four columns under "Actual Rentals—Competitive Units" must be completely and carefully studied before proceeding to the completion of the three columns under "Recommended for Project Units." This portion of the form provides an opportunity for an expression of opinion concerning the amount of currently obtainable monthly rent and the occupancy ratio predicted for each typical unit specified in the proposed project. In addition, in the final column, entitled "Number Units," must be indicated the num-

bar of each of the typical units recommended to be planned and constructed in the proposed project. This portion of the form provides for an indication of any variance with the room composition as indicated in the drawings of the project. The estimates of rents recommended shall be predicated upon the normal occupancy ratio of 90%, unless there are set forth under "Remarks" on page 2 of the form, definite reasons for the use of a different occupancy ratio. These data are of vital importance in the preparation of FHA Form 2264. Unless the project plans call for "detached houses or two-family units" it will be unnecessary to make recommendations of rentals therefor. Recommendations as to the monthly rent, the occupancy ratio, and the number of garage units which could be absorbed in the renting of the project shall be entered for the two types of garage accommodations included in the form. The actual rentals of the detached houses and two-family buildings will become of great interest and concern if there are indications that a surplus of such rental accommodations is likely to offer unfavorable competition to the proposed project for tenancy. If such a condition exists, the extent thereof must be described under "Remarks" on page 2 of the form. The location of the competitive properties, designated "A," "B," "C," and "D," shall be set forth on the form in the spaces immediately following. Also below the monthly rentals grid are lines on which shall be indicated the probable monthly accessory income which would be received from stores, offices, etc. Store and office rents, sizes and services included in the rent shall be expressed as follows: "one corner store, 2,000 sq. ft. \$----- per month, including heat and hot water," etc. It must be borne in mind at all times during the preparation of FHA Form 2401 and in the discussion of rental housing projects with sponsors that the amounts of rent predicted to be received from units in rental housing projects must be estimates of *currently obtainable* rentals. So-called "median" or "long-term average" rental estimates of project income must *not* be used. Any reason for deviation from this premise in making rental value estimates must be explained in complete detail and be substantiated in the space under "Remarks" on page 2 of the form, or in a statement attached to the form.

D. Items Used In Monthly Rentals

2353. The table at D in the form shall be checked by making an "x" in the proper column indicating the items which are included in the monthly rentals of each of the same four competitive rental properties with which comparison was made in Table C. If the services included in the monthly rentals of the four competitive

properties depart in any particular from the local custom in furnishing basic services, a note should be added at the bottom of the page describing the extent of such difference. In addition to the items included in monthly rentals, the form requires that the ages of each building in years be noted in the second column.

E. Data for Estimating Operating Costs

2354. At E, on page 4 of FHA Form 2401, is a table for providing basic data for use in estimating operating costs. The portions of FHA Form 2401 which were discussed in preceding paragraphs refer to the income aspects of the proposed property. The schedule under consideration in this paragraph refers to the out-go or expense. The items of expense for which current prices shall be obtained are listed in the left-hand column of the table. In the column entitled "Unit" shall be entered the unit of operating expense for which a quotation is to be made in the last column of the table; thus, in reference to heating fuel, coal being sold on a per ton basis—the "unit," therefore, would be the ton. If the *delivered* price of stoker coal is \$5.00 per ton, this price should be entered in the right hand column of the table. There is ample space in the "Items" column to give a full description of the grade, quality or size of the item upon which a report is made. This is particularly important in quoting fuel prices. The cost of heating a project is as much related to the heating value of the fuel as it is to the amount of fuel consumed. All fuel dealers are prepared to give the "B. T. U. rating of the fuel as delivered" for each kind and grade of coal or oil. This information shall be indicated for all fuels quoted. It is desirable in quoting on coal that prices and ratings on both a high grade and a low grade coal be ascertained. It is essential that one of the quotations apply to that grade and quality recommended by the heating contractor for use in the specific heating plant of the proposed project. Electricity for lights and for power will be quoted in prices per kilowatt hour in the rate bracket which would apply to the size of the project. The price estimated for each "unit" under "E" in the form must be the "delivered" price and must be related to the quantity of units which, according to the size of the project, would be purchased at one time in order to get a price advantage; for example, coal shall be quoted at the price per ton in car-load lots delivered in the project bins whenever the size of the project permits. The water consumption per family per year and the water cost per family per year shall be reported in the spaces provided. If the cost per family is not available it can be calculated from the average consumption. These consumption figures may be readily obtained from the local water company. Similarly, estimates

can be secured from the gas and electric utility companies. The item "Janitor" contemplates the cost of competent services according to local custom, local working conditions, and with relation to the size of the project. It should be indicated whether or not janitors are permitted by local custom to make minor repairs and to paint and wash walls and if it is necessary to furnish quarters in addition to the wages specified. "Handymen" would include janitors' helpers, groundskeepers, etc. Janitors, handymen or other individuals shall be reported on a man-month basis. "Elevator operator" costs, where applicable, should include information as to the number of men per day per car required by local working conditions. The item "Decoration" calls for an expression of the local custom regarding the length of the cycle of re-decoration for the type of units projected and the local cost per man-hour for decoration by a contractor, which cost includes the mechanics' wages, overhead and contractor's profit. The "Average tenant turnover" of the four comparable properties used in Tables C and D shall be reported opposite the appropriate line of Table E. The purpose of this figure is to permit a more accurate estimate of decorating costs. The figure reported shall be the ratio of new tenants entering in any year to the total family units in a building. The following formula may be used in computing this ratio:

If T = tenant turn-over expressed as a percentage,
 Z = new tenants in any year, and
 Y = total family units in a building
 then $T = \frac{Z}{Y} \times 100$

If this ratio varies widely from property to property and from year to year in a given property, all available ratios shall be reported. Under "Management" is desired the prevailing rate of reliable firms for competent management of the size and type of project contemplated. The methods of estimating expenses and the sources of information discussed in paragraphs 2117 to 2124, and 2620 to 2627, inclusive, of this manual will assist in the completion of this part of the form.

2355. It must be borne in mind that Table E, "Data for Estimating Operating Costs" is directed at the requirements of the specific proposed project under consideration. Information regarding the cost of any utility, service or material contemplated in the application or exhibits and not called for in the form, must be provided in the blank or unused spaces or as supplemental information attached to the form.

F. Insurance

2356. Schedules of fire and other hazard insurance rates applicable to the type of construction and location of the project shall be obtained from a local rating bureau or a responsible agent to determine the rates that would be applicable to the proposed project. Sponsors also may be required to produce evidence of applicable rates. The exact nature, location and sponsorship of the proposed development must not be disclosed to a rating bureau or other source of information, but, if rates vary from one part of a city to another, sufficient information must be given to permit a quotation which would be applicable. In quoting a rate it is necessary to distinguish between the flat or manual rate and the net rate with co-insurance and to indicate the percentage of co-insurance. Eighty per cent will be the usual figure for co-insurance. The form calls for *annual* rates in each case but the rates are to be computed on the basis of one-third of the three-year premium rate. The rates for all insurance, except where not applicable in special forms of coverage, shall be quoted in an amount per \$1,000 of insurance. Windstorm insurance rates shall be quoted in the same manner as fire. The rate for "extended coverage" or "supplemental" insurance, which includes protection against windstorm, riot, civil commotion, explosion, aircraft damage, etc. is to be quoted if such protection is available in the area. The rates for "liability" insurance shall include those for "Public Liability" and "Workmen's Compensation" protection. Rates for boiler insurance are to be quoted on the specific boilers specified in the proposed project. Rates for plate glass, rent and burglary insurance are to be listed if the appraiser deems them to be necessary or if such protection was anticipated in the sponsor's application. If space for "Insurance" on the form is inadequate, the information may be reported on a separate sheet, provided reference thereto is made in the form and the sheet is attached thereto.

G. Taxes

2357. In the general approach to the valuation of real property there is hardly an item that exerts a greater influence than the estimate of taxes. If the form does not bring out all of the facts or, if insufficient space is provided, additional comment shall be attached to the form. The methods of assessors in arriving at the assessed value of a property vary so widely that it is imperative that complete information be obtained in order to make possible a fair and qualified estimate of future taxes. The valuation of any particular project for tax purposes *must not* be discussed with the local assessor. It is necessary to become fully informed as to the various

practices and mechanics of assessing employed locally in order to prepare a valid estimate of the probable real estate taxes to be levied against a proposed project. It will be found helpful in estimating taxes to compare the actual current tax per room in competitive rental housing properties with the estimate for the proposed project. Frequently it will be found that the sponsor has previously discussed the assessed value of the project with the local assessor and that a rather definite amount has been tentatively agreed upon. Caution should be exercised against accepting such figure until after its reasonableness has been checked by comparison with similar existing properties. In cases where the site of the proposed project lies beyond the corporate limits of the municipality from which the proposed project would draw its tenants, it is probable that the amount of annual taxes would be considerably more were the city to extend its borders to include the project. The probability of such action taking place and the effect it would exert upon the taxes of the proposed project must be discussed in such case.

2358. Item G-1 seeks to incorporate into the form the ratio between assessed value and market price which is used by the local assessor in valuation for tax purposes. Even though in many states it is the legal requirement that land, and sometimes buildings, be assessed at the full market price, it is usual for the assessor to apply a horizontal debasing percentage to the market price in arriving at "assessed value." It is this effective, though unofficial, ratio that is sought in the form.

2359. Items G-2 and 3 relate to the assessed value of the site before and after the proposed improvement and to the applicable tax rate. The present assessed value of the land is to be entered on the line provided. Some assessors make a practice of assessing land after it has been improved, on a different basis than when it is vacant. Line G-3 offers the opportunity to discuss any such difference. In either case the applicable tax rate shall be indicated. The rate will usually be the current one unless unusual circumstances have prevailed under which the current rate is out of the "normal" bracket or trend.

2360. At G-4, 5, 6, and 7 information is desired as to local technique employed in assessing new buildings and in computing the tax to be paid thereon. G-4 requires a discussion of the assessor's method of estimating the value of new buildings. If the space provided is insufficient, the necessary information must be set forth in a memorandum attached to each copy of the form. In cases where the basis is reproduction cost estimated at a given price per cubic foot, the factor per foot which ordinarily would be applied to construction similar to the proposed project shall be indicated. If

2360-2364

this, or any other approach be used, it must be explained in such detail that the estimate of taxes under G-9 can be verified and used as a basis for the estimate of taxes on FHA Form 2264. At G-6, shall be entered the total tax rate for all general taxes to which the proposed project would be subject. If the current local tax rate is in keeping with the trend of the rate during recent years in the community, that rate shall be entered. But, if the current rate be deemed not typical or contrary to the trend, the applicable rate shall be estimated, after explanation has been made under "Remarks" below on page 4 of the form. G-7 is to be filled in if the local assessor uses an income approach to the assessed value or any other approach which does not contemplate a separation of land and buildings. If the facts require information to be entered on this line, the explanation must be full and complete.

2361. Item G-8 requires a computation of the amount of current tax per room which has been charged against the land and buildings of each of the competitive properties shown in Table "C" on page 3 of the form, and the average of the four figures. The manner of room count of such properties used in computing the tax per room should conform to the FHA room count method.

2362. Item G-9 calls for the use of the various data set forth under Items G-1 to G-8, inclusive, in the estimation of the probable annual tax on the project when completed. The estimated amount is to be separated under "Land" and "Buildings" and then shown in "Total." This estimate will represent the opinion of the probable amount of taxes which would be levied against the proposed project and which would be in keeping with comparable and competitive properties and with the trend of taxation in the area.

2363. At Item G-10 any unpaid special assessments against the property are to be set forth in the form. The designation of the particular assessment, the amount due each year and the number of years to be paid shall be entered. This information will be available from the office of the collector of taxes. The item of special assessments is totally separate and distinct from general taxes, which have been entered previously.

H. General Recommendations

2364. Item H-1 calls for an opinion regarding the economic soundness of the proposed project. This offers an opportunity to state wherein the proposed project may appear to be weak and to make suggestions for its improvement. At H-2 shall be stated the number of family units recommended for the project. In the event this number varies from that contemplated in the project application and plans, explanation should follow. Item H-3 is self-explanatory.

Item H-4 regarding adequacy of room sizes requires more than mere comparison of the room measurements with sizes of comparable units. The planning, window-lighting, and general utility and desirability of the rooms of the proposed project as compared with the competition should be considered carefully in this analysis. The conclusion should be supported with a logical explanation. Item H-5 relates to adequacy of the project garage facilities and parking space. The conclusion on this matter must follow careful investigation as to local custom in the area and as to the specific requirements of the typical tenant which the project is designed to serve. Garage facilities should not be provided for more tenants than would be willing to pay the predicted garage rent. Parking space, particularly all-night parking space, on the site in many projects is a vital need. In arriving at a conclusion as to the sufficiency of outside parking, consideration must be given to the probable number of parking spaces which will be required by tenants and their guests during the daily "peak." The congestion of streets near the project by parked cars of project tenants often leads to regulations restricting parking so severely that the desirability of the proposed units and consequently the income would be affected. The space under "Remarks" offers an opportunity to elaborate on any of the items under which space was lacking. In addition a statement is required under "Remarks" regarding the local custom with reference to "renting seasons." In some communities rental housing units are being offered and rented throughout every month in the year while in others nearly all of the renting is done during certain "seasons," usually twice a year. Complete information on this subject will make it possible to predict how long it would take to achieve normal occupancy in the completed project.

2365. Upon completion of all items of data and conclusions required by FHA Form 2401, the report will be dated and signed on the lines provided for this purpose.

2366. Information set forth in FHA Form 2401 (Appraisal Data and Project Information) constitutes the principal data used in making final determination of estimated project value as shown on the FHA Form 2264 (Project Income Analysis and Appraisal). Therefore, it is most essential that the highest degree of judgment and care be exercised when making field and other investigations for the collection of data which are finally expressed on the FHA Form 2401.

2367. Much of the data required in the FHA Form 2401 is not subject to reduction to mathematical precision but must be expressed in the form of matured opinions arrived at after careful consideration of all available pertinent information, including personal knowledge gained from experience, from informed individuals or other reliable sources, and observed physical or economic conditions.

Only those opinions and conclusions resulting from the careful application of judgment and experience to carefully collected data are acceptable on the FHA Form 2401. "Guesses" and the introduction into the form of unsubstantiated "hearsay" are not acceptable and the possibility of their use must be studiously avoided. Information received from prejudiced sources must not be introduced into the form without complete verification. The organization and sequence of processing must be consistent with instructions set forth in General Order No. 18.

SAMPLE FHA FORM 2401

FHA Form No. 2401
Revised Nov. 1, 1939

FEDERAL HOUSING ADMINISTRATION
RENTAL HOUSING DIVISION

APPRAISAL DATA AND PROJECT INFORMATION

Date..... Project No.....
Name of project..... Location.....
Type..... Construction..... Number of family units..... Number of rooms.....

PHYSICAL, ECONOMIC, AND SOCIAL DATA

A. CITY

- 1. Economic stability rating 2. Population as of 19.....: (a) City.....
(b) Metropolitan area..... (c) Source of estimate.....
3. Characterize any special climatic or geological hazards?.....

B. NEIGHBORHOOD

- 1. Physical: Characterize topography.....
2. Economic: (a) Is the district primarily residential, commercial, or industrial?..... (b) Indicate stability or nature of transitional trend.....
(c) If the district contains any nonconforming land uses, note type and distance from site.....
(d) Do they adversely affect the neighborhood?..... (e) Are there any other broad economic influences which might adversely affect the neighborhood?.....
(f) Is this neighborhood in a favorable trend of future residential growth?.....
(g) Will the trend of this neighborhood continue to support the recommended project rentals?.....
(h) State rush-hour running time of public transit to central city and the fare:..... minutes;..... cents.
(i) State rush-hour frequency of service.....
(j) Describe briefly principal structures within a block radius of the project and give age and condition of older buildings.....
(k) What are the neighborhood zoning restrictions?.....
3. Social: (a) Is neighborhood homogeneous in population?..... (b) What race or group predominates?.....
(c) How will such population affect the project?.....
(d) Is the neighborhood undergoing social changes which will improve or impair its value for a project?..... (e) If so, explain.....

Remarks:.....

C. SITE

- 1. Physical: (a) Describe any flood threat.....
(b) Is the surface of the site above, below, or at street grade?.....
(c) Will foundations require special treatment because of rock or soft ground?..... (d) Describe structures now on site and estimate whether cost or salvage will result from demolition (indicate amount if possible).....
(e) Are there preservable trees on the site?..... (f) State kind, width, and condition of pavements on abutting streets.....
(g) Are curbs installed?..... If not, are they required?..... (h) Sidewalks laid?.....
(i) Are water, gas, sewer, and electric lines of sufficient size available at the site?.....
(j) If not, will they be provided by the companies without cost?.....
2. Economic: (a) Will the project appeal to typical, higher or lower income groups than those now predominant in the neighborhood?.....
(b) What are the present zoning or deed restrictions as to—(1) Use?..... (2) Height.....
(3) Coverage?..... (4) Type of construction?.....
(5) Other requirements?.....
3. Social: (a) State the distance in feet from site to—(1) Transit lines (state type).....
(2) Main traffic highways..... (3) Schools (grade and high)..... (4) Neighborhood shopping center.....
(5) Main shopping center..... (6) Fire department apparatus.....
(b) Seating capacity of elementary schools..... Enrollment in elementary schools.....

SAMPLE FHA FORM 2401

(2)

DETERMINATION OF MARKET PRICE OF LAND

- A. 1. What is the area of the project site?
 2. List below sales prices or listings of comparable parcels:

Parcel No.	Location	Area	Assessed value land per parcel	Sales price per parcel	Appraisal per parcel
1
2
3
4
5

3. What special circumstances, if any, affected these sales or listings?

B. COMPARISON GRID FOR DETERMINING RELATIVE DESIRABILITY OF PROJECT AND COMPARABLE SITES

Parcel number.....	1			2			3			4			5		
	Project sites			Project sites			Project sites			Project sites			Project sites		
	Superior	Equal	Inferior	Superior	Equal	Inferior	Superior	Equal	Inferior	Superior	Equal	Inferior	Superior	Equal	Inferior
<i>City-wide factors</i>															
Relation to most suitable residential trend.....															
Relation to appropriate employment areas.....															
Relation to existing and known future civic betterments.....															
Relation to public transit services.....															
Relation to present and future tax burdens.....															
<i>Neighborhood factors</i>															
Adequacy of zoning and deed restrictions.....															
Social and income characteristics of neighborhood inhabitants.....															
Influence of population growth, stability, or decline.....															
<i>Site factors</i>															
Influence of surrounding improvements.....															
Topography, foundation requirements, freedom from flood threat, etc.....															
Security against special hazards, noise, smoke, traffic, undesirable outlook, etc.....															

C. CERTIFICATION OF FAIR MARKET PRICE

I hereby certify, That I have read Section 512 (a) of the National Housing Act; that I have no personal interest, present or prospective, in the property, the applicant, or the proceeds of the mortgage; that I have examined the parcel of land, which is to be used for this project (and which is legally described on Form No. 2013 and exhibits attached thereto); and that, based upon an analysis of the available information, a fair price on the current market for this parcel of land in fee simple is, in my opinion, \$..... per or a total of \$.....

4. Mandatory conditions (if any) on which above estimate of land price is based:

Remarks:

(Signed).....
(Title).....

Date

SAMPLE FHA FORM 2401

(4)

E. DATA FOR ESTIMATING OPERATING COSTS

Item	Unit	Cost per unit
Heating fuel:		
Coal.....	.....	\$.....
Oil.....	.....	.....
Gas.....	.....	.....
Method and cost of garbage and rubbish removal.....	.....	.....
Electricity (lights).....	.....	.....
Electricity (power).....	.....	.....
Water consumption per family per year.....	..... gallons.	.....
Water cost per family per year.....	\$.....	.....
Janitor.....	.....	.....
Handyman.....	.....	.....
Elevator operator.....	.....	.....
Decoration.....	.....	.....
Average tenant turnover per year.....	.....%	.....
Management.....	.....	.....

F. INSURANCE—GIVE LOCAL ANNUAL RATES FOR PROJECT BUILDINGS ON THREE YEAR BASIS

1. Fire, \$..... net rate; with% co-insurance, \$.....
2. Liability.....
3. Windstorm, \$..... net rate; with% co-insurance, \$.....
4. Other.....
5. Has this been established by rating bureau or local agent?.....

G. TAXES

1. What ratio currently exists between assessed value and market price?.....
2. State present assessed value of the site \$.....; applicable tax rate \$..... per.....
3. Estimated assessed value of land after improvement \$.....; applicable tax rate \$..... per.....
4. How does the assessor estimate the value of new buildings?.....
5. What percent of this estimate does he use as the assessed value?.....%
6. State the tax rate applied to the above assessed value \$..... per.....
7. If there is no separation of the assessed value of land and buildings, how does the assessor arrive at his value for the completed project.....; applicable tax rate \$..... per.....
8. State the present annual tax per room for the competitive units shown in Table "C" on page 3: (a) \$.....; (b) \$.....; (c) \$.....; (d) \$.....; (Average) \$..... Comment:.....
9. State the probable annual tax on this project when completed: Land \$.....; Building \$.....; Total \$.....
10. Give estimated rate for special assessments..... (for..... years) \$..... per.....; (for..... years) \$..... per.....

H. GENERAL RECOMMENDATIONS

1. In your judgment, does the condition of the rental market in this city warrant the construction of this project? Explain:.....
 2. How many family units do you recommend for the project?.....
 3. Indicate best outlook from and best approach to the project.....
 4. Do project room sizes conform to local demand for comparable units? Explain any variation:.....
 5. Are projected garage facilities adequate?.....; is sufficient outside parking space available?.....
- Remarks:.....
- Date..... (Signed).....
- Remarks:.....
- Date..... (Signed)..... (Title).....
- Remarks:.....
- Date..... (Signed)..... (Title).....

THE UNIVERSITY OF CHICAGO

PHYSICS DEPARTMENT

PHYSICS 350

LECTURE 1

1950

LECTURE 1: THE CLASSICAL LIMIT OF QUANTUM MECHANICS

1.1

1.2 THE CLASSICAL LIMIT OF QUANTUM MECHANICS

1.3

1.4

1.5

1.6

The classical limit of quantum mechanics is obtained by taking the limit $\hbar \rightarrow 0$. In this limit, the wave function ψ becomes a function of position x and time t , and the Schrödinger equation reduces to the Hamiltonian equation of motion. The wave function ψ is then interpreted as a probability density, and the probability of finding a particle in a region V is given by $\int_V |\psi|^2 dx$. The classical limit is also obtained by taking the limit $\hbar \rightarrow 0$ in the path integral formulation of quantum mechanics. In this limit, the path integral is dominated by the classical path, and the action S is given by $S = \int_{t_1}^{t_2} L dt$, where L is the Lagrangian. The classical path is then determined by the principle of least action, $\delta S = 0$.

1.7

1.8

1.9

1.10

1.11

1.12

1.13

1.14

1.15

PART II
PROCEDURE PRIOR TO COMMITMENT
SECTION 4
ARCHITECTURAL EXAMINATION PRIOR TO
COMMITMENT
(STAGE A)

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PART II
PROCEDURE PRIOR TO COMMITMENT
SECTION 4
ARCHITECTURAL EXAMINATION PRIOR TO
COMMITMENT
(STAGE A)

GENERAL CONSIDERATIONS

2401. The Architectural examination of rental projects under Section 207 shall be conducted with expedition, consistent with proper and complete processing. The conclusions and recommendations reached after detailed architectural examination are summarized in FHA Form 2411, "Architectural Report."

2402. In the preparation of FHA Form 2411 the plans shall be examined for general conformity with planning standards of the Administration. The exhibits shall be checked for conformity with the data presented on FHA Form 2401, and such further examination as may be necessary shall be conducted to complete the report.

2403. During the process of architectural examination conferences shall be held with sponsors and their architects in order:

- a. To remove elements of ineligibility, if any, in the plans and specifications found in the initial examination.
- b. To effect such changes as further examination may indicate to be essential to the acceptability of the project.

These conferences shall continue until such time as the unacceptable elements as to site plan, unit plans, and specifications have been removed and the project revised to the mutual satisfaction of both parties. If necessary, minor changes can readily be included in the conditions of the commitment for insurance without requiring the preparation of revised sketch plans and specifications. Such procedure shall be followed in the interest of expediting processing.

2404. In such cases, a memorandum shall be prepared setting forth the changes required to be made subsequent to the Commitment for Insurance. The consent of the sponsor to the changes, and his signature of the memorandum, shall be obtained. The memorandum shall be attached to and its contents set forth in the Architectural Report, FHA Form 2411, as an addendum to the architectural exhibits which will be included in the Commitment for

2404-2406

Insurance, together with the requirements for landscape work. Should this memorandum necessitate important changes in planning, it shall include a requirement that revised sketch plans be presented to the Administration for approval before starting the working drawings. No assurance shall be given as to the final acceptability of sketch drawings and specifications. If redrafting of the plans and specifications is found to be necessary in order that the intention be clear and that a competent cost estimate may be prepared, the sponsor shall be required to present new plans and specifications.

2405. Some of the more frequent reasons for requiring replanning are the following:

- a. Plans and specifications are inadequate to permit a proper estimate of cost.
- b. Overcrowding the land. This usually means a reduction in the size of the project either by eliminating building units or reducing the number of stories.
- c. Failure to conform to topography. This frequently involves excessive height of foundation walls and difficult drainage of open space.
- d. Placing of bedrooms and living rooms too close to lot lines of adjacent uncontrolled property. This results in lack of adequate privacy afforded tenants.
- e. The shape of the buildings themselves produces narrow courts and lack of privacy.
- f. The project is considered too large for the demonstrable rental market as established by the appraisal analysis.
- g. Failure to take advantage of desirable outlook or prevailing summer winds.
- h. Excessive distance from road to entrance.
- i. Location of garages or other service elements.
- j. Room sizes inadequate.
- k. Unit plans faulty as to relation of rooms within dwellings, light, ventilation, or privacy.
- l. Distribution of apartment sizes wrong as established by appraisal analysis.

2406. The Federal Housing Administration has always insisted on the importance of the setting in which a project is placed. Hence, proper landscape treatment is considered an integral and essential part of every project. Its scope and cost vary greatly depending on the size of the property and the buildings, but it may not be omitted or be treated as an after-thought. Its scope and general character must be determined prior to the commitment for insurance. The procedure with respect to landscape plans and specifications outlined in paragraphs 2407-2418 inclusive shall be observed closely.

2407. During architectural examination it shall be determined that the necessary improvements to the site, outside of the buildings, are completely provided either in the scope of the general contract or under the landscape contract and that the items of improvement are properly allocated to the appropriate contract in accordance with the following lists which have been established in the interest of consistency of cost estimating.

a. *Under the General Construction Contract:*

Heavy grading and fill of plot.

Swimming pools.

Wading pools.

Bridges.

Roads.

Curbs and gutters.

Sidewalks and steps.

Retaining walls and steps.

Garage courts.

Drives.

Yard lighting.

Sanitary sewers.

Water mains.

Fire hydrants.

Sill cocks.

Gas mains.

Electric mains.

b. *Under the Landscape Contract:*

Finish grading.

Lawn construction (primary and secondary, and garage roof lawns).

Planting of all character.

Tree protection and surgery.

Storm water drainage and catch basins for all areas outside the buildings. This to include pick-up from downspouts, drainage for courts, drives, lawns, walks, and installation of main to connect with public storm water mains at property border.

Lawn hydrants and sprinkling system.

Playgrounds, tennis courts, and recreation areas.

Fencing of all kinds.

2408. A member of the Land Planning Division is available to the field offices for purposes of consultation on landscape construction, planting, and drainage. Although informal conferences on projects may be held with him at any time, he should not be called

PROCEDURE PRIOR TO COMMITMENT

2408-2413

upon to engage in any extended work with respect to a specific project until such time as it has been determined that the project will be processed.

2409. In cases where landscape plans and specifications are presented with the original submission, it shall first be determined whether the plot plan submitted is satisfactory. If it is, the landscape plan shall be checked for general conformity with the plot plan, and the landscape drawings and specifications shall then be transmitted to the Land Planning Consultant for examination and report.

2410. If landscape drawings and specifications are presented and the plot plan is unsatisfactory no action shall be taken with respect to the landscape plans until a plot plan has been developed satisfactory both to the sponsor and to the Administration.

2411. If no landscape drawings and specifications have been submitted, or if it has been necessary to change the plot plan, it shall be determined, in consultation with the Land Planning Consultant, where available, whether landscape plans and specifications are necessary, and, if so, their scope and contents; and whether they shall be required prior to or subsequent to commitment for insurance. The submission may be waived only in small scale projects when the possible landscape treatment is obviously so limited in area and so simple in its nature that an allowance of money for the work can be set up in the estimate of cost with assurance that it is reasonable and adequate. If this is the case, the scope of the work shall be negotiated with the sponsor.

2412. The preliminary landscape plans shall consist of a planting plan giving sufficient drainage and grading data to permit judgment of their adequacy and cost. The preliminary planting plan should be drawn at the scale of the site plan and should show location, size, and variety of specimen trees and outline of planting beds. A list of the plant material showing variety, quantity, and size should either be shown on the planting plan or in the specifications. The location of such features as playgrounds or pools should be shown on the planting plan as well as points where retaining walls or terraces are contemplated.

2413. The preliminary grading and drainage data shall be shown on the planting plan and should include first floor grades and grades at corners of the buildings. Sufficient finished grades should be indicated to show the manner in which roads and lawn areas are to be drained. Grades at the top and bottom of retaining walls and terraces should be indicated. Storm water mains should be shown and their grades, direction of flow, and size should be indicated as well as the location of necessary catch basins and manholes.

2414. The specifications shall be in conformity with the general landscape specifications of the Administration with respect to finished grading, planting, and drainage. The specifications shall state whether or not the top soil on the property is usable giving the nature of the soil, the depth of the top soil and stating whether or not top soil is available over substantially the entire area of the property.

2415. If the landscape drawings and specifications are satisfactory they will become the basis of the commitment with respect to landscape work, and the cost estimate shall be part of the total estimated cost of improvements.

2416. If the landscape drawings and specifications are disapproved in whole or in part, the sponsors shall be invited to discuss and adjust the points of difference. When the landscape plans are approved, or when a satisfactory adjustment has been negotiated with the sponsors, an estimate of cost and a list of quantities shall be prepared for incorporation in the commitment documents. If it has been decided to waive the submission of plans and specifications and to make an allowance in the commitment (see paragraph 2411), similar negotiations shall be held with the sponsor. When a mutual understanding has been reached with the sponsor, the signature of the sponsor shall be obtained. In this case, an estimate of landscaping cost and a list of materials shall be prepared, based on the agreement reached with the sponsor. The estimate of cost will determine the amount of the allowance to be set up in the commitment for landscape work. It should be made clear to the sponsor that, prior to the closing, he will be required to submit a planting plan conforming with the requirements of the agreement and must demonstrate to the satisfaction of the Administration that the materials and labor called for by his plan will equal in cost the allowance set up in the commitment.

2417. The report and recommendations concerning landscape work shall be attached to FHA Form 2411. These may be in the form of approved drawings and specifications. In any event, these attached documents must leave no reasonable doubt as to the scope and quality of the work to be performed and must include the estimate of landscaping cost.

2418. In no case shall any report, estimate, or quantity list prepared by the Land Planning Consultant be altered or omitted from the records. Any disagreement with the opinions or planning approved by the Land Planning Consultant shall be prepared in a separate memorandum stating explicitly the points of disagreement.

INSTRUCTIONS FOR PREPARATION OF FHA FORM 2411

Recommendations (Item 1)

2419. The recommendations on FHA Form 2411 shall propose definite action with respect to the proposed project, based on the plans and specifications. Examples:

- a. The project is generally satisfactory and ready for cost estimate.
- b. The general characteristics of the plans and specifications do not warrant the assumption that a satisfactory building will be produced. Project proposed for rejection.
- c. Planning is unsatisfactory; major changes will be necessary; sponsors should be invited to make revised submission.

2420. If the plans and specifications are acceptable for further processing without revisions by the sponsors, and ready for cost estimate, a statement should be made under "Recommendations" of changes and additions, if any, which it is deemed necessary to incorporate as conditions of the Commitment for Insurance. These conditions should be stated clearly so that there will be no doubt as to their meaning.

2421. Plan changes should not include minor details, such as swing of doors, exact positions of windows, etc. Such changes, if necessary, should be called for in Stage B of the examination. Important changes are only those which improve the interior arrangement of dwelling units, create better ventilation, light, outlook or privacy, use the terrain to better advantage, produce a more economical building, correct faulty distribution of units of various sizes, reduce the size of a project which is too large for demonstrable need as recommended on FHA Form 2401, produce conformity with applicable regulations, or create similar advantages.

2422. Recommended specification changes should be only such as would produce conformity with standards of the Administration, with applicable codes, embody necessary improvement of durability, or rectify omissions of items of materials or equipment customarily required.

2423. In no case should a suggested change in plans or specifications be based solely on a personal preference. Rejection of a proposed project should be recommended only if:

- a. The plans and specifications evidence obvious incompetence or are undesirable to such a degree that they cannot be rectified by reasonable changes.
- b. After the necessity of replanning having been called to the attention of the sponsor, he is unwilling to modify his submission.

- c. The proposed project involves the alteration of a structure which, because of its layout or construction, is not susceptible to production of acceptable residential quarters, without excessive expenditure.

2424. In case of recommended rejection, items 7 to 17, inclusive, of the Architectural Report need not be completed.

2425. The recommendations in item 1 of the Architectural Report shall include the following topics in the order listed:

- a. A general report describing the project, its merits and demerits.
- b. A history of the negotiations concerning planning and specifications.
- c. Specific reference to the principal items of change that had been required of the sponsor.
- d. A list of the necessary changes which had been negotiated with the sponsor with respect to the latest plans in the docket.
- e. Negotiated landscape requirements.
- f. Negotiated mechanical requirements (these to be either a separate item or incorporated in the specifications).
- g. The complete negotiated outline specifications to be attached to the commitment.
- h. The mandatory conditions of construction off of the site as established by FHA Form 2401, with such additions as may have been found essential.

2426. **General Recommendations.** These should contain recommendations as to general acceptability of the project as planned and, if necessary, cover any specific recommendations with respect to items 2 to 6 inclusive. If it is necessary to complete the construction of streets, sidewalks, and utility system extensions on public or private property other than the proposed project site, a recommendation should be made that the completion of such construction, prior to the date the project is ready for occupancy, or within a reasonable time thereafter, be made a mandatory condition of the Commitment for Insurance.

2427. **Planning Recommendations.** Each item recommended should be arranged in sequence and given a number corresponding to the item number of the form on which it is based. Example: "(17). Apartment distribution must be changed to conform with recommendations on FHA Form 2401."

2428. **Specification Recommendations.** These should be arranged in sequence and given a number corresponding to the item number of the specification form (FHA Form 2435) on which the recommendation is based.

2429-2434

2429. The recommendations reported on FHA Form 2411 require the exercise of a high degree of professional competence and judgment. They must represent an unbiased opinion, based on experience and knowledge of the planning and specification requirements of the Administration.

Examination Data and Comments

2430. The following instructions shall be complied with in completing FHA Form 2411. The item numerals after the subjects of the following paragraphs correspond to the numerals in the forms.

2431. Completeness of Submission, Item 2. The information required to be shown in the exhibits accompanying FHA Form 2013 represents the minimum necessary to conduct a proper examination of the proposed project. The required exhibits are discussed in detail in paragraph 2156 of this manual. Experience has shown that the omission of any part of this information is likely to cause loss of time in processing.

2432. Conformity with Building Code, Item 3. A copy of the applicable code shall be obtained, if necessary. It is not intended that examination on this score be complete in every detail, inasmuch as the sponsor must assume the obligation of seeing that all code provisions are met. The principal items to check are the following:

- a. Required court and yard sizes.
- b. Required exit facilities.
- c. Required room sizes.
- d. Required stair construction.
- e. Type of construction in relation to use and height.
- f. Required and unusual equipment (e. g., fire standpipes, pressure tanks, smoke consumers, etc.).

2433. Conformity with Zoning Ordinance, Item 4. A copy of any applicable ordinance and map shall be obtained. Principal items to check are the following:

- a. Conformity with use restrictions.
- b. Required set-backs or maximum coverage.
- c. Limitations of height.

If FHA Form 2013, FHA Form 2401, or the topographical survey present evidence of deed restrictions, the plans shall be checked for conformity with them.

2434. Conformity with FHA Property Standards and Minimum Construction Requirements, Item 5. Obviously a complete

examination is ordinarily impossible on the basis of the sketch plans. Principal items to check are:

- a. Court and yard sizes.
- b. Ventilation of dwelling units.
- c. Room sizes.
- d. Construction of stairs and enclosures.
- e. General type of construction.
- f. Roofing and sheet metal.
- g. Material of plumbing lines.

2435. Revision of Plans, Item 6. There shall be stated briefly:

- a. Whether plan revision was proposed by the Administration.
- b. If so, in what measure the revised plans agree with the recommended changes. In case important changes have previously been suggested to the sponsor, and he has failed to adopt them, it shall be determined whether or not the failure to alter the scheme warrants rejection of the application.

Descriptive Data

2436. Area of the Site, Item 7. This refers to the amount of land to be included under the mortgage and includes streets, if these are to be provided on land coming under the proposed mortgage. This information shall be derived from the topographical survey and compared with FHA Form 2401.

2437. Number of Stories, Item 9. This should be counted above the first floor level to the main roof. If there are basement apartments or penthouses, the fact should be noted. Example: "Two- and three-story walk-up apartments (Basement apartments in three-story buildings)."

2438. Type of Construction, Item 10. The type of construction such as F. P. (fireproof), S. F. P. (semi-fireproof), or N. F. P. (non-fireproof), Br. V. (brick veneer), Fr. (frame), etc. shall be noted and a check should be made with the specification examiner after his review to determine whether or not his recommendations would change construction classification.

2439. Families Per Acre, Item 11. Although the Administration establishes limitations of density, a reasonable discretion must be used in the application of such regulations. Unless the density as well as the number of families is so high as to create traffic or public service problems, the best criterion for judging density is the quality and amenity of the accommodations produced. All rental apartments shall be included, but quarters for janitors, managers, or other employees shall be excluded.

2440-2441

2440. Technical Room Count, Item 12. The applicant's room count shall be entered from the FHA Form 2013. In making his own room count, the examiner shall adhere strictly to the method set forth in section III, paragraph 6 of FHA Form 2013, which is as follows:

- a. Living and bedrooms shall count as one whole room each.
- b. Kitchens, or combinations of kitchen and dining alcove, the aggregate area of which is not less than 60 sq. ft., shall count as one room each.
- c. Kitchens less than 60 sq. ft. in area, but which are separated from other rooms by a complete partition with a door, shall count as one-half room.
- d. Strip kitchens, located in a room, a recess off the room, or in a closet space with doors shall not be assigned any room count.
- e. Dining alcoves separated from the kitchen by a partition and a door and having outside light shall count as one-half room.
- f. Dining rooms not less than 110 sq. ft. in area shall count as one room each.
- g. Bathrooms shall not be included in the room count, nor interior foyers whether intended for dining or not.

The examiner may not deviate from the established room count method under any circumstances. Rooms in units to be occupied by tenants are the only rooms to be included in the count. The number of rooms in family units allocated to janitors or other employees as living quarters shall be indicated by placing the figure after the room count in the manner following, "FHA Technical count 150+2 Jan."

2441. Garage Accomodations, Item 13. As applicants are frequently optimistic in their count, this figure should be checked carefully. This is of special importance where common garages are used. In common garages, the assumption of an allowance per car on a square foot basis is usually fallacious where garage space is under residential buildings. Column spacing is of primary importance. If necessary, a sketch study of the car positions should be made or required of the applicant. Garage widths in compounds shall be checked and only the number possible with 9 ft. clear interior widths shall be allowed. Lengths of garages and widths of access drives shall be checked and the count modified if these require reduction in number of garages; otherwise, the required addition to length of compound shall be stated. In outdoor parking spaces, only parking bays, or special areas designated for this use only and not required for circulation shall be included. Under "other buildings" all building

units from which income is expected such as stores, offices, etc. shall be included.

2442. Gross Area of Dwellings, Item 14. For purposes of determining the percent of land coverage, the gross area of dwellings should be taken at the level of the lowest typical floor. To determine the gross area of dwellings per family and per room, the total area of all habitable floors should be divided respectively by the number of family units and of rooms. To determine the percentage of land not covered by any building, deduct from the total area (a) the area of all residential buildings, taken at the grade level, (b) the area of any projections of basement garages beyond the buildings above, (c) the area of all free standing garages and (d) the area of any and all other accessory buildings, such as stores, community buildings, etc. The remainder divided by the total area of the site determines the percentage of land not covered by buildings.

2443. Apartment Distribution, Item 17. Conformity with the recommendations of FHA Form 2401 is desirable. A small percentage of difference is tolerable, but any substantial variance should receive detailed comment in the report. Janitors', managers', or other employees' apartments must not be included in this tabulation.

Comments

2444. Items 18-36 inclusive are of the utmost importance in formulating final recommendations. It should be remembered that necessary changes in plans and specifications are to be negotiated with sponsors at the earliest possible point in processing.

2445. Conformity to Topography, Item 18. In this connection, some of the principal factors to be considered are the following:

- a. The buildings should be so disposed and the land so graded that surface drainage is not pocketed.
- b. If floor elevation is uniform from building to building the amount of foundation wall may be excessive.
- c. If floor levels are stepped, there will probably be exposed upper parts of walls between adjacent building units. If the location of such offsets is not shown, the information should be obtained from the sponsor's architect, as it affects the estimate of cost. The architect may be requested to furnish a sketch elevation illustrating the point.
- d. If zone or central heating systems are specified and a gravity return is to be used, the location of the boiler room must be at the low point. Delivery of fuel must also be considered.
- e. Access from and to roads and walks must not involve excessive climbing by pedestrians going in either direction.

2445-2450

- f. If the layout of buildings is symmetrical, the ground level should be approximately the same at points corresponding and opposite with respect to the axis of symmetry. A group, symmetrical in plan, having one side considerably lower than the other, always produces a disagreeable appearance.

2446. Existing Trees, Item 19. A notation on FHA Form 2401 that there are preservable trees is an indication that such trees will be of value in the developed project. If such notation appears, the kinds and sizes of trees and their approximate number and location should be determined by the quickest possible means unless this information is already shown on the topographical survey.

2447. Extra Foundations, Item 20. If special foundation conditions are noted on FHA Form 2401, and no indication is given in the docket as to their nature and extent, an inquiry should be made and information obtained sufficient at least to determine what buildings will be affected by them.

2448. Exposure of Rooms, Item 21. The information on FHA Form 2401 should be adequate to formulate an opinion in the average case. For large projects, it may be necessary to obtain additional information. On very small plots, the limitations of size may preclude most favorable exposure, and adequate light and air may be all that can be effectuated.

2449. Acceptability of Site Plan, Item 22. This is an important question of judgment. Replanning should not be required because of personal preference but only because of reasons having a sound basis in utility, esthetics, excessive cost or physical configuration of the plot.

2450. Examiners Comments and Proposed Recommendations on Site Planning. In examining the site plan the following outline should be used as a guide and also as a basis for recommendations under Item 1. The recommendations under Item 1 should be numbered to correspond to the item number referred to in the form; Example: "Item 22. Site plan should be revised to eliminate narrow court now shown between buildings Nos. 2 and 3." In each case, it should be stated whether the proposed change is essential or merely preferable. The following outline includes the general criteria to be considered during examination.

- a. *Buildings.* The connection of the building units to form buildings as this affects court widths, light, sun, ventilation, privacy, view, foundations, stair locations, entrances, etc.
- b. *Arrangement of Buildings.* Court widths as they affect light, sun, ventilation, privacy, and view; sideyards, rear yards, and set-backs; relation to adjacent properties either existing or possible in future developments; orientation; accessibility;

general effect of plan; relation to garages, recreational areas, stores, or other community facilities, etc.

c. *Roads, Drives, Service Courts, and Parking.*

(1) *Roads and Drives.* General location in relation to access to buildings; whether or not any are to be dedicated to public use; whether or not drives are adequate or excessive; widths, curves, grades, etc. Verify, "a", that existing roads, streets, and drives are clearly differentiated from new construction to be completed; "b," that all additional road construction and utility extensions, if any, on public or private property other than the proposed project site, necessary to connect the project completely with public street and utility systems, are shown on the plans. If such extensions are deemed necessary, a condition of the Commitment for Insurance is in order, requiring that evidence shall be presented at the time of closing that such necessary construction will be completed prior to the time that the proposed project is ready for occupancy or within a reasonable time thereafter. (See paragraph 2340.)

(2) *Service Courts.* Widths of garage service courts, turn-arounds, fuel delivery, and other building services, grades, etc.

(3) *Parking.* Number of off-the-street parking areas, adequacy of depths of parking bays, convenience of location, etc.

d. *Walks.* Widths of various types of walks, adequacy, distance from apartment windows, grades, steps, etc. Report regarding necessary public sidewalks not on the proposed project site in the same manner as under "Roads and Drives, d (1)" above.

e. *Recreational Areas.*

(1) *For Small Children.* Location, size, screening, fencing, equipment, adequacy, etc.

(2) *Adults or Older Children.* Location, size, etc. as above and note whether or not size of project warrants, etc.

(3) *Other Features.* Tennis courts, swimming pools, etc. as part of (2) or as separate elements and other special features for recreation in project.

f. *Landscape Work.* Check land planning reports carefully and cover any additional items considered necessary such as

screen planting along property lines, existing trees, and other natural features, etc.

- g. *Special.* Cover soil, drainage, utilities, or any other items necessary. As a rule, the presentation of information on utilities will suffice for this item, but in some cases more economical layouts may be possible. Note special soil conditions and drainage problems. If complete information on new utilities within the property is not shown in the preliminary presentation, this section will cover primarily listings of requirements for completion after Commitment for Insurance. Check carefully with FHA Form 2401, with the land planning report, and any other docket material which covers the condition of the site. Frequently, FHA Form 2401 will list such items as "rock outcroppings," etc. and these should be investigated as they relate to the planning of the proposed project.

2451. Customary Types of Accommodations, Item 23.

In response to the second part of this question, only extraordinary features should be noted. These may be either omissions or inclusions. Thus, if service stairs are essential, their omission should be stated. On the other hand, the inclusion of special and unusual features such as hot houses, or gymnasiums should be noted.

2452. Rental Level, Item 24. The examiner does not determine the appropriate rental level of the proposed project. However, his examination of the plans and specifications, together with his past experience, should enable him to say whether, in his opinion, the scope and amenities of the accommodations shown on the plans and the finish and equipment called for by the specifications are appropriate to the general rental level as determined by the appraiser.

2453. Form of Preliminary Specifications. The architectural specifications which are to be furnished by the sponsor's architect as an exhibit to accompany FHA Form 2013 shall be submitted on the outline specification form (FHA Form 2435) provided by the Administration for this purpose. These specifications will be used in making the cost estimate and it shall be made certain that this outline form is followed exactly. Where items do not apply, it shall be stated so by writing "None." These specifications shall conform with all architectural requirements of the Administration. The sponsor's architect shall be advised of any changes and additions to the specifications that will be required. Consequently, the specifications and cost estimate will be presumed to represent an understanding with the sponsor's architect and the sponsor and such specifications will be checked and approved by the Washington Office as the basis for the Commitment for Insurance, if issued. Wherever local custom war-

rants a variance from standard FHA practice, the specifications shall describe the materials or methods to be used and the reason for requesting approval of the variance. These comments and recommendations will immediately follow the specifications and shall refer to each item by number.

2454. Examination of Preliminary Specifications. The following comments and instructions are offered in connection with the examination of preliminary specifications. In general, there are four main checks to be made in examining preliminary specifications, viz:

- a. That they are sufficiently complete to form a basis for cost estimate.
- b. That they agree with the plans accompanying them.
- c. That they are in accordance with FHA requirements.
- d. That they are consistent with the type and rental level of the project.

The specifications should be checked against the requirements of the outline form of specifications. Any missing data should be secured from the sponsor's architect and all ambiguities cleared by him. If it is not practical to obtain this information from the sponsor's architect, the missing items should be filled in from a knowledge of FHA requirements in a manner that would be consistent with the type and grade of construction proposed and with the demands of the typical tenant whom the proposed project is designed to serve.

2455. Alternates in Specifications. No alternates that allow a choice between materials or methods of construction that vary greatly in cost should be permitted in the specifications. If, however, the sponsor's architect insists upon keeping such alternates, a notation should be made advising the use of the least expensive for purposes of establishing an estimate of cost. Where materials or methods of construction are specified that are obviously out of keeping with the type of buildings to be erected, the project architect's attention should be called to the fact that he will be required to specify items that are more consonant with the project. If he wishes, he may retain the original as alternates but it must be distinctly understood that the construction cost estimate will be based on the cheaper.

2456. Changes in Specifications. It is a tendency of most specification writers to specify what it is hoped can be obtained, and, in many cases these hopes cannot be realized when final estimates of construction cost are made. Hence, the sponsor and his architect must be informed that once the mortgage figure has been determined the specifications cannot be cheapened without special permission of the Assistant Administrator for Rental Housing. In no case may the specifications with respect to any item represent a lower standard of

2456-2463

construction than those required by the Minimum Construction Requirements for Rental Housing.

2457. Dual Exit Requirements, Item 25. The nature of the specified provisions for exits has an important influence on planning. Thus, a building code requirement that the exits be "separate and remote" places stringent limitations on the method of planning the building unit. Examples of reply to this question:

- a. One fire resistive stair, one remote fire escape.
- b. One interior and one exterior staircase, both directly accessible from apartment.
- c. Two stairs off public hall, both enclosed, stairs and enclosure fire resistive, one lighted by windows.
- d. One staircase in public hall, one enclosed and accessible from public hall.
- e. Two interior stairs, light well permissive.

2458. Dual Exit Required by Local Custom, Item 26. Although not required by law, dual exits may be necessary in certain localities because of long usage. The necessity for a secondary stair may be the result of prevailing requirements for delivery and waste removal, or of service requirements within the dwelling unit itself. A suggestion that a secondary staircase be added or omitted shall not be based solely on the examiner's personal preference.

2459. Room Sizes, Item 27. Conformity with the statements regarding room sizes as set forth in item H-4 of FHA Form 2401 is desirable. Any variance with such statements shall be commented upon and justified.

2460. Furniture Arrangement, Item 28. Examination on this score need not be extensive. Rental housing accommodations should permit of a variety of furniture arrangement because of recurrent tenancy changes. Judgment should be based on considerations of circulation, wall surfaces, and position of windows.

2461. Storage, Item 29. The requisite space for tenant storage is a variable, depending on locality and local custom. The same is true of laundry facilities. If provision for these items seems to be inadequate inquiries should be made as to local habits and requirements.

2462. Garbage Disposal, Item 30. Local methods and requirements are the ruling consideration. The examiner must assure himself that some customary method is possible with the apartment layouts shown, and this must be set forth in his report. (See FHA Form 2401, page 4, item E.)

2463. Services to Tenants, Item 31. This is a very important consideration and the plans should be checked with recommendations set forth on FHA Form 2401.

2464. Apartment Arrangement, Item 32. This is an important question, the answer to which should be based on an interpretation of the planning principles advocated by the Administration.

2465. Acceptability of Unit Plans, Item 33. See comments on item 22 in paragraph 2449 of this manual.

2466. Examiner's Comments and Proposed Recommendations on Building Plans. The following outline should be used as a guide in examining the building plans and in making the recommendations required in Item 1. The main factors to be considered are as follows:

- a. General aspects of the plan units. If the building units are unusual, contain an excessive number of apartments per floor, are wasteful, contain pocketed rooms, etc., describe features to which exception is taken.
- b. Appropriateness of room and apartment sizes in relation to the rentals and to standards advocated by the Rental Housing Division for similar projects.
- c. Unit Type (designation).
 - (1) *The Unit.*
 - (a) *General* (shape, excessive wall breaks, narrow courts formed by wall breaks in the building unit itself, etc.)
 - (b) *Entrances* (vestibules, lobbies, etc.).
 - (c) *Public Corridors* (widths, excessive areas, light, ventilation, etc.).
 - (d) *Stairs and Stair Halls* (stairs within building envelope or on exterior walls, pitches, winders, landings, light, widths, etc.).
 - (e) *Roofs* (Pitches, dormers, special uses of attic space, ventilation, etc.).
 - (f) *Incinerators* (locations, heights of stacks, door, etc.).
 - (g) *Chimneys* (locations, heights above roofs, etc.).
 - (h) *Wall Sections* (ceiling heights, details, parapets, etc.).
 - (i) *Elevators*, if any, (size, shape, adequacy for servicing the apartments).
 - (j) *Elevations* (expensive detail, fenestration, etc.).
 - (k) *Miscellaneous* (porches, terraces, balconies)
 - (2) *Basements.*
 - (a) *General* (extent, light, areas, windows, relation to finished grade, ventilation, ceiling height, etc.).
 - (b) *Accessibility from Apartments* (whether basement is in building with easy interior access

- from all apartments or from exterior only; relation to service, fuel, deliveries, etc.).
- (c) *Storage* (adequacy, accessibility, ventilation, etc.).
 - (d) *Laundries* (adequacy of equipment and space, dryers, relation to exterior light, ventilation, etc.).
 - (e) *Boiler room and fuel storage* (location, and any special problems).
 - (f) *Janitors' or Managers' Apartments* (comment as under *Typical Floor* below and check maximum allowable distance of floor below grade—two feet).
 - (g) *Rental Apartments* (check as noted under (f) and comment on relation to main entrance and other factors which affect acceptability from point of view of rentals).
 - (h) *Miscellaneous* (service toilets and other special accommodations; note light, ventilation, accessibility, etc.).
- (3) *First Floor.*
- (a) *General* (height of floor above grade, privacy, difference in apartment distribution as compared with typical floors and reasons for room losses, etc.).
 - (b) *Apartments* (use outline for typical floors and cover only apartments which differ from those on typical floors).
 - (c) *Entrance Halls* (adequacy of entrance halls and foyers in relation to the rental level and proposed tenancy).
 - (d) *Special* (stores, offices, and any other special accommodations).
- (4) *Typical Floors.*
- (a) *Apartment designation* ----- No. Rooms -----
 - (b) *Rooms* (sizes, shapes, furniture space, equipment, arrangements, light, ventilation, privacy, pocketed rooms, orientation, circulation, etc.).
 - (c) *Closets* (one coat closet off foyer or near entrance door, one linen closet in bedroom-bath hall, one closet minimum per bedroom, etc.).
 - (d) *Room Relationships* (off-the-foyer circulation, foyers to living room and kitchen, private bath

halls, service between kitchen and dining space; convenient bedrooms; opening into bedroom-bath hall; doors between foyer and bedroom-hall where necessary to achieve privacy, or cased opening of a size to take a standard door; foyers and halls—widths, etc., compactness or wastefulness of plan, etc.).

2467. Accessory Buildings, Item 34. These are a separate item of cost estimation. The exhibits concerning them must be as complete as for the dwelling units.

2468. Complete Replanning, Item 35. See comments on recommendations.

2469. Opinion of Planning, Item 36. As compared with the more detailed comments of the recommendations, the answer to this question should express a general opinion of the quality of the buildings.

2470. Additional Exhibits. List in an attached memorandum any sketch drawings necessary to set forth the sponsors, intentions more fully and which are deemed to be necessary after the Commitment for Insurance and prior to approval in Stage B. Example:

- a. Submit more complete details of swimming pool construction.
- b. Submit typical elevation of service side of buildings, etc.

SAMPLE FHA FORM 2411

FHA Form No. 2411

FEDERAL HOUSING ADMINISTRATION
RENTAL HOUSING DIVISION

ARCHITECTURAL REPORT

Project No. _____ Date _____
Name _____ Location _____

Note.—Before filling out this form the architectural examiner shall examine the data set forth on FHA Form 2401 concerning the project in question.

The changes required in the plans and specifications submitted by the sponsor which will affect the estimate of construction cost should be noted in a separate attached memorandum.

Any additional exhibits to be required after commitment should be set forth in another attached memorandum.

Attached memoranda should supplement recommendations and comments which cannot be set forth in sufficient detail in this form.

RECOMMENDATIONS

1. The plans and specifications dated _____ on the above-captioned project have been examined. The results of this examination are set forth below. On the basis of this report, I recommend as follows:

(Signature)

SAMPLE FHA FORM 2411

EXAMINATION DATA AND COMMENTS

- 2. Do site information, plans, and specifications include all items required by Part I of "Architectural Planning and Procedure for Rental Housing"? If not, note missing items.....
- 3. Do the plans and specifications conform in general to local building code requirements: Note exceptions.....
- 4. To use, height, and area requirements of local zoning ordinance? Note exceptions.....
- 5. To local Property Standards and Minimum Construction Requirements of the FHA for Section 207 (in general)? Note exceptions.....
- 6. If examination is based on revised plans, describe briefly the differences between present and last previous plans and specifications.....

DESCRIPTIVE DATA

- 7. Area of site sq. ft., acres (see 2401).
- 8. Type of building (single-family, row house, etc.):.....
- 9. Number of stories.....
- 10. Type of construction (frame, semi-fire-resistive, etc.):.....
- 11. Number of families per acre.....
- 12. Number rooms: Applicants' count.....
FHA Technical count.....
- 13. Number of cars accommodated in garages
In open parking space on site.....
Does this conform with 2401?.....
Linear feet of stores.....
- 14. Gross area of residential buildings: Per family
per room.....
- 15. Percentage of land coverage (residential only).....
- 16. Average rental: Per room; per family
per garage stall..... (2401).
- 17. Apartment distribution (FHA technical count):.....

Rooms per apartment	1 1/2	2	2 1/2	3	3 1/2	4	4 1/2	5	5 1/2	6
Number of apartments										
Percent of total										

Does this conform with recommendations (2401)?.....

COMMENTS

THE SITE.

- 18. Is topography level of sloping? If sloping, are the buildings arranged on the site so as to fit the topography without excessive differences of level at the building walls?.....
- 19. Are there preservable trees? (2401)..... Are they shown on the plot plan?.....
Will location of buildings permit their preservation?.....
- 20. Are special foundations necessary? (2401).....
- 21. Does exposure of principal rooms take advantage of preferential outlooks and avoid unsightly or other adjacent adverse use? (2401).....
- 22. Is site planning acceptable?..... Minor modifications necessary?.....
Complete replanning required?.....

[Include in recommendations, the recommendations of the Land Planning Consultant]

THE BUILDINGS.

- 23. Are accommodations of types customary in community? If not, state respect in which they are unusual.....
- 24. Are plans and specifications appropriate to a high, low, or median rental level?.....
- 25. Does local ordinance require dual exit facilities? If so, state nature.....
- 26. Are dual exits required by local custom?.....
- 27. Do room sizes in general conform with recommendations in 2401?.....
- 28. Do rooms lend themselves readily to proper arrangement of furniture?.....
- 29. Is provision made for tenant storage outside of dwelling unit?.....
- 30. What means are provided for disposal of trash and garbage?.....
- 31. Do plans and specifications provide space and equipment necessary to furnish to the tenant the customary services? (See 2401.) Note exceptions.....
- 32. Is arrangement of rooms of dwelling units logical and desirable?.....
- 33. Are unit plans acceptable in present form?..... Minor modifications required?.....
Complete replanning required?.....
- 34. Accessory Buildings: If stores or other accessory buildings are included, state whether or not they conform to zoning ordinance.....; whether or not they will be objectionable as seen from any portion of the project.....
- 35. If complete replanning of units or site plan is deemed necessary, state reasons briefly on separate sheet.
- 36. State your opinion of the planning of this project. (Poor, acceptable, mediocre, above average, excellent).....

Examination completed 10..... Examiner (signature)

Approved Date

Approved Date

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PART II
PROCEDURE PRIOR TO COMMITMENT

SECTION 5

PROCEDURE FOR ESTIMATING PROJECT CONSTRUCTION COSTS

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1917

STATE OF NEW YORK

IN SENATE

REPORT OF THE COMMISSIONERS OF THE LAND OFFICE

1917

ALBANY:

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PART II
PROCEDURE PRIOR TO COMMITMENT

SECTION 5

PROCEDURE FOR ESTIMATING PROJECT CONSTRUCTION COSTS

GENERAL CONSIDERATIONS

2501. Purposes of Cost Estimates. Cost estimates serve three well defined purposes in processing applications for mortgage insurance. First, they are essential to the computation of the required annual replacement reserve and estimation of certain operating expenses. Second, the cost estimates as set forth in the final breakdown determine the disbursements of construction funds for construction work as it is performed. Third, the total of the estimates of cost of all construction upon the site constitutes one of the criteria of the maximum permissible amount of mortgage loan insurable by the Administration.

2502. Uniformity of Procedure. It is essential that a uniform cost estimating procedure be used by all Administration personnel engaged in this work. No changes in the procedure described herein will be permitted except as may be directed by the Assistant Administrator for Rental Housing.

2503. Basis of Estimating. Estimates of all construction costs incident to the completion of proposed projects shall be made on the basis of fair local costs of the necessary materials and services and the applicable prevailing wage scale for labor as determined by the Secretary of Labor.

2504. General Requirements. In order that the numerous dependent operations of the Administration may be performed properly, accuracy of information supplied is essential. Estimators must be able to visualize the logical order in which the contractor's field organization will undertake the work. The estimate will be prepared as though for a local contractor and shall take account of material prices, mechanics' prevailing wage scales and the number of man hours required for incorporating the various materials into the structure. The estimated costs and quantities must be reported on the prescribed forms in a clear, concise and orderly manner. The

PROCEDURE PRIOR TO COMMITMENT

2504-2509

following paragraphs will describe the general routine and the use of the forms in the normal sequence in which they are used in the preparation of a construction cost estimate report.

2505. Upon receipt of the project docket an examination of the drawings and specifications and FHA Form 2013, Application for Mortgage Insurance shall be made to ascertain whether sufficient information is available for purposes of cost estimation. When it has been determined that the drawings and specifications present sufficient information, the procedure shall be as outlined below. *Attention is directed to the fact that in no case shall cost estimates include any construction other than construction to be within the boundaries of the project site, connections for utilities from abutting streets, and approaches from abutting streets to private streets in the project.* Estimates of the cost of construction of curbs, sidewalks, and public or private streets outside the boundaries of the project site shall not be included in the estimate of construction cost of the project. In cases where the appurtenant FHA Form 2401 (page 2, "Mandatory conditions") sets forth requirements of off-the-site construction, estimates of the cost of such construction shall be made separately from the project cost estimates.

COMPUTATION OF CUBIC VOLUME

2506. This computation is made in order that the cubic volume of structures, as calculated and furnished by the sponsor on FHA Form 2013, may be checked.

2507. Construction costs are not to be calculated by the cubic volume method. However, after the total dollar cost is estimated by the methods described herein, the cost per cubic foot shall be calculated. The result should be compared with the costs of comparable structures and with the sponsor's estimate as set forth on FHA Form 2013.

2508. General Case. The cubic content of a structure is obtained by computing the volume of the actual space enclosed by:— the outer surfaces of the exterior walls, the roof as described below, and an imaginary horizontal plane located six inches below the bottom of the basement floor slab.

2509. Special Conditions.

- a. The volume of a pitched roof is obtained by first determining the vertical distance from the eave line to peak of roof. One half of this measurement multiplied by the roof's width and the resulting product multiplied by the roof's length equals volume of roof. In case the roof has hip ends, make the necessary deduction (see following diagram).

- b. In case the structure is covered by flat roof, the upper limit of the structure to be included in the volume is an imaginary horizontal plane located at a point six inches above the average height of the roof surface.
- c. In case no basement floor slab exists and the lowest floor is above an unexcavated area, the lower limit of the cubic volume is an imaginary horizontal plane located below the bottom of the floor framing member. Its exact location is determined by the depth of the foundation footing below grade, and is as follows:

<i>Footing depth below grade:</i>	<i>Location of imaginary plane below floor framing</i>
2'-6'' or less.....	0'-6''
2'-7'' to 3'-0''.....	1'-0''
3'-1'' to 3'-6''.....	1'-6''
3'-7'' to 4'-0'' or more.....	2'-0''

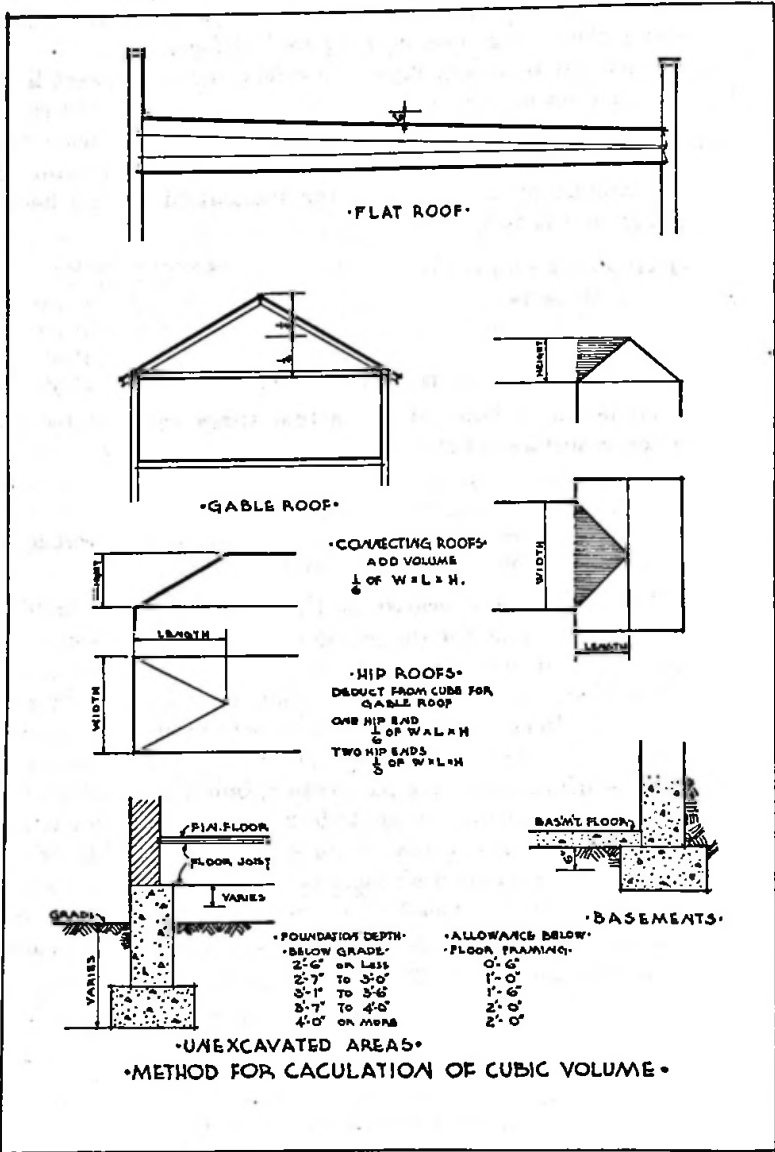
Include the volume of the actual space enclosed by the exterior surfaces of the following:

- | | |
|------------------------|---|
| Bulkheads above roof. | Dormers. |
| Enclosed Porches. | Vaults and Pits. |
| Bay and Oriel Windows. | Chimneys (up to outer surface of roof). |
| Light Shafts. | |

- d. When garages are located in the basement of a dwelling the cubic volume for the garages is estimated by using the out to out of enclosing walls, and the height is established from 0'-6'' below garage floor slab to finished ceiling of garages. In case garages are row type in a separate building, give number of garages included in the row. The volume and the cost of garages and other accessory buildings which are not allocable to dwelling use are to be reported as separate items.
- e. Two-thirds of the actual volume of open porches which are within the structure proper is to be added to the volume of the structure. One-half of the actual volume of open porches which are extensions of the structure shall be added to the volume of the structure.

PROCEDURE PRIOR TO COMMITMENT

2509



QUANTITY TAKE-OFF REPORT

2510. The reason for the preparation of the Quantity Take-off Report is to obtain the quantities of the various types of materials that are involved in the building operation. This is accomplished by itemizing in the report, the various operations of construction, the elements of structure, mechanical equipment and finish that are to be incorporated in the work. Each item will indicate the type of materials required, together with the length, height (or width), thickness and total number of units required to complete the construction of the item.

2511. In taking off quantities the quantity survey method will be used for the following items:

1. *Excavation:* Take-off will list separately:
 - General — earth or rock — Cubic Yard.
 - Piers, pits, trenches — earth or rock — Cubic Yard.
2. *Concrete Walls and Footings:* Take-off will list separately:
 - Concrete — Cubic Feet or Cubic Yards.
 - Forms — Square Feet.
 - Reinforcing Steel — Pounds.
3. *Brickwork and Masonry:* Take-off will be on basis of total quantity with openings deducted. Items will be listed separately:
 - Face Brick — Thousand.
 - Common Brick — Thousand.
 - Glass Brick — Sq. Feet.
 - Back up Blocks — Sq. Feet.
 - Partitions — Sq. Feet.
 - Window sills — Lin. Feet.
 - Boiler Stack & Incinerator Brickwork — Thousand.
 - Flues — Lineal Feet.
 - Stone work of various kinds:
 - Water Table and Belt Courses and Copings — Lineal Feet.
 - Entrance Features — Cubic Feet.
4. *Rough Carpentry:* Take-off will be on basis of total board feet of lumber with allowances for waste. Items will be listed separately:
 - Framing Lumber M Board Feet.
 - Studding M Board Feet.
 - Sheathing and Sub Flooring M Board Feet.
 - Bridging Lineal Feet.
 - Grounds Lineal Feet.
 - Rough Hardware & Miscel. Anchors, etc.
5. *Finished Wood Flooring:* Take-off will be on basis of total square feet of flooring with allowance for waste.
6. *Plastering:* Take-off will list separately:
 - 2 coats plaster on masonry Sq. Yds. or Sq. Ft.
 - 2 coats or 3 coats plaster on wood lath or gypsum lath or metal lath Sq. Yds. or Sq. Ft.
 - Keene cement on lath Sq. Yds. or Sq. Ft.
 - Cement plaster on lath Sq. Yds. or Sq. Ft.

It will not be necessary to take off corner beads or "Kornerite" as separate quantities. The unit prices for plastering can take these items into consideration.

7. *Painting*: Take-off will list separately:

Wall surfaces	Sq. Feet.
Ceiling surfaces	Sq. Feet.
Window frames and sash	Number.
Door frames and doors	Number.

Items which are usually included in the report in addition to those listed above are:

8. *Floors* (on ground): Thickness & Materials — Sq. Feet.
9. *Floors* (suspended): Materials and types such as Concrete Arches; Bar Joists and Concrete slab; Hollow tile; Precast Joists and Concrete slabs; Concrete beams, girders, columns, and slabs (see item #5 for wood floors) — Sq. Feet.
10. *Roofs*: Flat-Materials — Sq. Feet.
11. *Roofs*: Pitched-Materials — Sq. Feet.
12. *Waterproofing*: Various Materials — Sq. Feet.
13. *Dampproofing*: Various Materials — Sq. Feet.
14. *Insulation*: Various Materials — Sq. Feet.
15. *Stairs*: Type and Construction; number of steps; platforms; state if between partitions; open on one side, or open on both sides — No. of Flights.
16. *Fire Escapes*: Type and Construction — No. of Flights.
17. *Railings*: Type — Lin. Ft. or Sq. Ft.
18. *Gratings*: — Sq. Feet.
19. *Clean-out Doors*: Type — Number.
20. *Incinerator Units*: Complete with angle iron, grates, cleanout doors, hopper doors, fire screens — Number
21. *Structural Steel*: — Tons or Pounds.
22. *Steel Lintels*: — Tons or Pounds.
23. *Elevators*: Number of stories; cab allowance; speed and load; type of operation; machinery complete; safety and interlocking devices— No. of elevators.
24. *Doors*: Include number of various types:
 - Wood doors — Including Frame, Trim.
 - Kalamein doors — Including Frame, Trim.
 - Copper doors — Including Frame, Trim.
 - Tin clad — Including Frame, Trim
 - Hollow Metal — Including Frame, Trim.
 - Elevator doors — Including saddles and Frame and Hardware.
25. *Windows*: Include number of various types.
 - Wood — Double hung—Including sash, frame, trim, glazing — Number.
 - Steel Casements — Including sash, frame, trim, glazing — Number.
 - Steel Windows — Including sash, frame, trim, glazing — Number.

- | | | |
|--|---|---------------------|
| 26. <i>Finish Hardware:</i> | — | Number of openings. |
| 27. <i>Weatherstripping and Caulking:</i> | — | Number of openings. |
| 28. <i>Screens:</i> | — | Number. |
| 29. <i>Shades:</i> | — | Number. |
| 30. <i>Venetian Blinds:</i> | — | Number. |
| 31. <i>Plumbing:</i> Will include roughing in and finish | — | No. of fixtures. |
| 32. <i>Hot Water Supply:</i> | — | No. of heaters. |
| 33. <i>Heating System:</i> Radiators — Type of boilers and firing.
Heating — Area Feet.
(See heating formula par. 2516.) | | |
| 34. <i>Electrical:</i> System of wiring and various kinds of outlets | — | Number. |
| 35. <i>Electric:</i> Lighting fixtures | — | Number. |
| 36. <i>Sheet Metal Work:</i> Flashings | — | Lin. Feet. |
| Give width of materials | | |
| Gutters | — | Lin. Feet. |
| Downspouts | — | Lin. Feet. |
| Leader Boxes — Size | — | Number. |
| Scuppers — Size | — | Number. |
| Skylights — Size and Materials | — | No. or Sq. Feet. |
| 37. <i>Wood Base and Picture Moulding:</i> | — | Lin. Feet. |
| 38. <i>Chair Rail:</i> | — | Lin. Feet. |
| 39. <i>Closets:</i> Clothes | — | Number. |
| 40. <i>Closets:</i> Linen | — | Number. |
| 41. <i>Closets:</i> Bed, with beds | — | Number. |
| 42. <i>Book Cases:</i> Size and Type | — | Number. |
| 43. <i>China Closets:</i> Size and Type | — | Number. |
| 44. <i>Kitchen Cabinets:</i> Size and Type | — | Number. |
| 45. <i>Medicine Cabinets:</i> Size and Type | — | Number. |
| 46. <i>Kitchen Ranges:</i> Size and Type | — | Number. |
| 47. <i>Refrigerators:</i> Size and Type | — | Number. |
| 48. <i>Tile floors & wainscot:</i> | — | Sq. Feet. |
| 49. <i>Terrazzo, Linoleum, Rubber Tile, Asphalt or other types of flooring:</i> | — | Sq. Feet. |
| 50. <i>Bath Room Accessories:</i> | — | Number. |
| 51. <i>Miscellaneous:</i> Other items listed on following reference list. | | |

2512. The following is the form of the aforementioned Quantity Take-off Report:

QUANTITY TAKE-OFF REPORT

Project name..... Docket No.
 Location..... Date of Plans.....
 Description: Type A Basement—3 story—flat roof open one end—Building No. B. Date Take Off.....
 Prepared by..... Sheet No.

		Length	Height or width	Thick-ness		
1	Excavation—General—Earth.	53'-6"	33'-0"	5'-0"	8,828	Cu. Ft.
		55'-8"	28'-0"	3'-0"	4,679	Cu. Ft.
					13,507	Cu. Ft.
2	Excavation—Trench—Earth.	340'-0"	2'-0"	1'-0"	500	Cu. Yds.
3	Drain tile 4" T C with 12" gravel and paper.				680	Cu. Ft.
					25	Cu. Yds.
					340	L. F.
4	Concrete footings.....	340'-0"	2'-0"	1'-0"	680	Cu. Ft.
4a	Forms for footings.....	2 340'-0"	1'-0"		680	S. F.
4b	Reinforcing steel 3/8" round rod	2 340'-0"		.376#	256	Lbs.

FHA Form No. 812.
 Federal Housing Administration.

Reference list.—The following is a reference list of items to be taken into consideration when making a cost estimate, and is to be used as a guide:

DWELLINGS

- | | |
|--|---|
| Piling and extra foundations. | Floors—Continued. |
| Excavation: | First-basement ceiling plastered. |
| General. | First-basement ceiling not plastered. |
| Trench. | Typical. |
| Trench walls and floors. | Attic. |
| Foundations: | Hung ceiling. |
| Dwarf walls (to grade). | Roof: |
| Dwarf walls (grade to 1st). | Pitched. |
| Basement walls (to grade). | Flat. |
| Basement walls (grade to 1st). | Structural steel. |
| Finished basement walls—plaster, etc. | Porches and entrance platforms. |
| Drain tile. | Partitions: |
| Areraway walls and floors. | Party walls (below 1st). |
| Exterior walls (1st to top fir. ceiling). | Party walls (1st to top fir. ceiling). |
| Exterior walls (top fir. ceiling to roof). | Party walls (top fir. ceiling to roof). |
| Parapet walls. | Party walls (above roof). |
| Coping. | Party walls (coping). |
| Floors: | Stair enclosures. |
| Basement. | Elevator enclosures. |
| Basement apartments. | Lobby enclosures. |

Partitions—Continued.

- Fire walls.
- Basement.
- Dividing apartments.
- At pipe spaces.
- Dividing rooms.
- Dividing locker rooms.
- Chimney and incinerator foundations.
- Chimney brickwork.

Incinerator:

- Brickwork.
- Units.

Fireplace:

- Brickwork.
- Hearth.
- Mantel.

Stairs:

- Basement.
- Upper—main.
- Upper—service.
- To roof.
- Outside.

Cement steps.

Doors:

- Including buck and trim.

Exterior:

- Main entrance.
- Service entrance.
- Basement entrance.
- Penthouse entrance.

Interior:

- Vestibule entrance.
- Stair hall entrance.
- Apartment entrance.
- Incinerator closet.
- Boiler and fuel rooms.
- Basement.
- Rooms and closets.

Windows:

- Including frame, sash, trim, and glazing.
- Basement.
- Stair halls.
- Rooms.
- Caulking.
- Weatherstripping.
- Shades.
- Venetian blinds.
- Screens.
- Shutters.
- Lintels.

Closets:

- Clothes.
- Linen.
- Broom.
- China.

Beds and bed closets.

Built-in bookcases.

Mirrors in doors.

Kitchen cabinets.

Refrigerators.

Ranges:

- Gas.
- Electric.

Overhead driers.

Bath room:

- Floors.
- Wainscot.
- Accessories.

Medicine cabinets.

Built-in clothes hamper.

Shower stall and doors.

Plastering:

- Painting.
- Finish hardware.

Miscellaneous iron and steel:

- Railings.
- Area gratings'
- Coal chutes.
- Clean-out doors.
- Dampers.
- Ash hoist.
- Access doors.
- Fire escapes.

Sheet metal:

- Flashings.
- Chimney saddle.
- Gutters.
- Scuppers.
- Leader heads.
- Downspouts.
- Skylights.
- Ventilators.
- Scuttles.

Electric work:

- Outlets:
- BX cable.
- Rigid conduit.
- Power.
- Bells.

PROCEDURE PRIOR TO COMMITMENT

2512

DWELLINGS—Continued

Electric work—Continued.	Plumbing fixtures—Continued.
Outlets—Continued.	Laundry driers.
Telephones.	Hot-water heaters.
Radios and antenna.	Heating—type.
Fixtures.	Floor finish:
Exhaust fans.	Tile.
Plumbing fixtures:	Terrazzo.
Tub or tub and shower.	Marble.
Lavatory.	Composition.
Water closet.	Linoleum.
Kitchen sink or combination	Lobby finish and mail boxes.
sink and tray.	Fire extinguishers.
Laundry trays.	

GARAGES

STORES—continued

UTILITIES—continued

Excavation.	Roofs.	Sill cocks.
Dwarf foundation walls.	Partitions.	Gas mains.
Exterior walls.	Stairs.	Electric mains.
Coping.	Store fronts.	
Floors.	Doors.	LANDSCAPING
Roofs.	Windows.	Finish grading.
Partitions.	Sheet metal.	Lawn construction (Pri-
Stairs.	Electric work.	mary and secondary,
Ramps.	Plumbing.	and garage roof lawns).
Doors.	Heating.	Planting of all character.
Windows.	Miscellaneous iron and	Tree protection and sur-
Sheet metal.	steel.	gery.
Electric work.	Other items.	Storm water drainage and
Plumbing.		catch basins for all
Wash racks.	UTILITIES	areas outside the build-
Heating.	Heavy grading and fill of	ings. This to include
Miscellaneous iron and	plot.	pick-up from down-
steel.	Swimming pools.	spouts, drainage for
Other items.	Wading pools.	courts, drives, lawns,
	Bridges.	walks, and installation
STORES	Roads.	of main to connect with
Excavation.	Curbs and gutters.	public storm water
Dwarf foundation walls.	Sidewalks and steps.	mains at property lines.
Basement foundation	Retaining walls and steps.	Lawn hydrants and
walls.	Garage courts.	sprinkling systems.
Exterior walls.	Drives.	Playgrounds, tennis
Parapet.	Yard lighting.	courts, recreation areas.
Coping.	Sanitary sewers.	Fencing of all kinds.
Floors.	Water mains.	
Ceilings.	Fire hydrants.	

BUILT-UP PRICE UNIT REPORT

2513. The "Built-up Price Unit Report" is to record the estimate for price of labor and materials per unit quantity of work for each item shown on the "Quantity Take-Off Report." Items in the "Built-up Price Unit Report" are identical with those recorded in the "Quantity Take-off Report." A complete check list is given on the preceding "Reference List" as an aid in considering all items included in the building operation.

2514. Built-up Price Units for Labor and Materials.

Wage Scale:	Per hour
Bricklayers.....	-----
Carpenters.....	-----
Cement finishers.....	-----
Electricians.....	-----
Laborers—Common.....	-----
Lathers.....	-----
Painters.....	-----
Plasterers.....	-----
Plumbers.....	-----
Steamfitters.....	-----
Steel workers.....	-----
Tile setters.....	-----
Material prices:	
Cement.....	Bbl.
Lime.....	Ton.
Sand.....	Cu. Yd.
Gravel.....	Cu. Yd.
Ready mix concrete.....	Cu. Yd.
Common brick.....	M.
Face brick.....	M.
5' x 4' x 12" hol. tile.....	M pcs.
6' x 12' x 12" hol. tile.....	M pcs.
8' x 12' x 12" hol. tile.....	M pcs.
Flue lining 8' x 13".....	Per L. F.
Lumber:	
1' x 4' # 2 Y. P., per M. B. F.....	-----
1' x 6' # 2 Y. P., per M. B. F.....	-----
2' x 4' # 1 Y. P., per M. B. F.....	-----
2' x 6' # 1 Y. P., per M. B. F.....	-----
2' x 10' # 1 Y. P., per M. B. F.....	-----
Flooring:	
1 ³ / ₁₆ " x 2 ¹ / ₄ " select oak, per M. B. F.....	-----
5/8" x 3 ¹ / ₄ " flat grain Y. P., per M. B. F.....	-----
Concrete, per Cu. Yd. 1-2-4 mix:	
Cement, 1.5 Bbl. @.....	=----- Cu. Yd.
Sand, 0.45 Yd. @.....	=----- Cu. Yd.
Gravel, 0.90 Yd. @.....	=----- Cu. Yd.
Mixing and placing, 1 Hour @.....	=----- Cu. Yd.
<hr/>	
Total.....	\$----- per Cu. Yd.

PROCEDURE PRIOR TO COMMITMENT

2514

Wall forms:

Material.....
 Labor.....

Total..... \$..... per S. F.

Reinforcing steel:

Material.....
 Labor.....

Total..... \$..... per Lb.

Face brick:

Brick..... per M.
 Mortar..... per M.
 Scaffold..... per M.
 Parging..... per M.
 Labor—Mason, hrs. @..... per M.
 Labor—Common, hrs. @..... per M.
 W. C. Insurance and Public Liability..... per M.
 Insurance.....

Total..... \$..... per M.

Common brick:

Brick..... per M.
 Mortar..... per M.
 Scaffold..... per M.
 Labor—Mason, hrs. @..... per M.
 Labor—Common, hrs. @..... per M.
 W. C. Insurance and Public Liability..... per M.
 Insurance.....

Total..... \$..... per M.

Back-up Blocks:

8" x 8" x 16" block..... per 100 pcs.
 Mortar..... per 100 pcs.
 Scaffold..... per 100 pcs.
 Labor—Mason, hrs. @..... per 100 pcs.
 Labor—Common, hrs. @..... per 100 pcs.
 W. C. Insurance and Public Liability..... per 100 pcs.
 Insurance.....

Total..... \$..... per 100 pcs.

x factor 1.1..... = \$..... per S. F.

Partitions 6" T. C.:

6" T. C..... per M. pcs.
 Labor..... per M. pcs.
 Mortar..... per M. pcs.
 Scaffold..... per M. pcs.
 W. C. Insurance and Public Liability.....
 Insurance..... per M. pcs.

Total..... \$..... per M. pcs.

\$..... per Sq. Ft.

Window sills (material)..... \$..... per L. F.

Copings (material)..... \$..... per L. F.

Rough carpentry:

Floor joists, 2" x 10" 16" o. c.-----	M. B. F.
Labor—Carpenter, hrs. @-----	M. B. F.
Labor—Helper, hrs. @-----	M. B. F.
W. C. and Public Liability Insurance-----	M. B. F.
Nails, anchors, etc-----	M. B. F.

Total----- \$----- M. B. F.

Studding:

Studs, 2" x 4"-----	M. B. F.
Labor—Carpenter, hrs. @-----	M. B. F.
Labor—Helper, hrs. @-----	M. B. F.
W. C. and Public Liability Insurance-----	M. B. F.
Nails, etc-----	M. B. F.

Total----- \$----- M. B. F.

Subflooring:

1' x 4"-----	M. B. F.
Labor-----	M. B. F.
W. C. and Public Liability Insurance-----	M. B. F.
Nails, etc-----	M. B. F.

Total----- \$----- M. B. F.

Sheathing:

1' x 6"-----	M. B. F.
Labor-----	M. B. F.
W. C. and Public Liability Insurance-----	M. B. F.
Nails, etc-----	M. B. F.

Total----- \$----- M. B. F.

Oak flooring:

1 ³ / ₁₆ " x 2 ¹ / ₄ sel. oak-----	M. B. F.
Labor, hrs. @-----	M. B. F.
Nails-----	M. B. F.
Sanding-----	M. B. F.
Finishing-----	M. B. F.
W. C. and Public Liability Insurance-----	M. B. F.

Total----- \$----- per M. B. F.
 \$----- per S. F.

Plastering (per square yard in place):

2 coats on masonry-----	per Sq. Yd.
3 coats on rock lath-----	per Sq. Yd.
3 coats on metal lath-----	per Sq. Yd.
Keene cement-----	per Sq. Yd.
Cement plaster on metal lath-----	per Sq. Yd.

Painting:

Wall surfaces, 3 coats lead and oil-----	¢ per Sq. Ft.
Ceiling, kalsomine-----	¢ per Sq. Ft.
Doors-----	each.
Windows-----	each.

PROCEDURE PRIOR TO COMMITMENT

2514-2515

Concrete floors:

Short span concrete slab.....	per Sq. Ft.
Bar joists 10''.....	per Sq. Ft.
Rib lath.....	per Sq. Ft.
2½'' concrete.....	per Sq. Ft.

Total..... per Sq. Ft.

2515. Form of Built-up Price Unit Report. The following is the form of the Built-up Price Unit Report:

BUILT-UP PRICE UNIT REPORT

Project Name: Project No.
 Sheet No.
 From To
 Computed by Checked by Date

	<i>Unit Price</i>
1. Excavation—General—Earth.....	Cu. Yd.
2. Excavation—Trench—Earth.....	Cu. Yd.
3. Drain tile—4'' T. C. with 12'' gravel and paper.....	L. F.
4. Concrete footings.....	Cu. Ft.
4a. Forms for footings.....	S. F.
4b. Reinforcing for footings.....	Lbs.
5. Concrete foundation walls.....	Cu. Ft. or Cu. Yds.
5a. Forms for foundation walls.....	S. F.
5b. Reinforcing steel for foundation walls.....	Lbs.
6. Membrane waterproofing foundation walls.....	S. F.
7. Face brick.....	M.
8. Common brick.....	M.
9. 8'' back-up tile.....	S. F.
10. 6'' T. C. partition blocks.....	S. F.
11. 4'' gypsum partition blocks.....	S. F.
12. Limestone coping.....	L. F.
13. Slate window sills.....	L. F.
14. Limestone entrance feature.....	Lump.
15. Concrete floors on ground—4'' concrete and cement finish.....	S. F.
16. Concrete slab—First floor, short span concrete.....	S. F.
17. Bar joists and concrete slab.....	S. F.
18. Floor framing (wood joists).....	M.
19. Partitions (wood studding).....	M.
20. Bridging.....	L. F.
21. Finish flooring.....	S. F.
22. Structural steel and lintels.....	Tons or Lbs.
23. Stairs—steel—cement treads—pan type.....	Flight.
24. Clean out doors.....	Each.
25. Plastering—2 coats on masonry.....	Sq. Yd.
25a. Plastering—3 coats on metal lath.....	Sq. Yd.
25b. Plastering—3 coats on rock lath.....	Sq. Yd.
26. Roofing—20-year built-up.....	S. F.
27. Roofing—¼'' Bangor slate.....	S. F.
28. Painting—walls and ceilings—3 coats lead and oil.....	S. F.

BUILT-UP PRICE UNIT REPORT—Continued

	<i>Unit Price</i>
28a. Painting—doors and frames.....	Each.
28b. Painting—windows and frames.....	Each.
28c. Painting—exterior metal work.....	Lump.
29. Windows—wood, including frame, sash, glazing.....	Each.
29a. Windows—steel—basement, including frame, sash, glazing.....	Each.
30. Doors—wood, including frame.....	Each.
30a. Doors—kalamein, including frame.....	Each.
31. Finish hardware.....	Ea. opening.
32. Weatherstripping and caulking.....	Ea. opening.
33. Tile floors.....	S. F.
33a. Tile wainscot—4' 0" and 6'0" high.....	S. F.
34. Terrazzo floors.....	S. F.
35. Linoleum.....	S. F.
36. Asphalt tile.....	S. F.
37. Sheet metal—copper flashing.....	L. F.
37a. Sheet metal—gutters.....	L. F.
37b. Sheet metal—down spouts.....	L. F.
37c. Sheet metal—skylights.....	S. F.
38. Plumbing.....	Fixtures.
38a. Hot-water heaters.....	Each.
39. Heating.....	S. F. radiation.
40. Electric wiring.....	Outlet.
41. Electric fixtures.....	Each.
42. Wood base.....	L. F.
43. Closets—clothes.....	Each.
44. Closets—linen.....	Each.
45. Kitchen cabinets.....	Each.
46. Medicine cabinets.....	Each.
47. Ranges—gas.....	Each.
48. Refrigerators—electric.....	Each.
49. Bath-room accessories.....	Each.

Continue numbering all other items to be shown on Built-up Price Sheets.

COST OF HEATING PLANT

2516. The cost of the average heating plant can be determined if the number of square feet of steam or hot water radiation, and the cost per square foot of such radiation are known. The prescribed formula for determining the amount of radiation, required for properly heating a building is given below. This formula is composed of quantities which have been previously determined by the estimator, and it is applicable for structures in any climate.

Square feet of standing radiation—

$$\frac{(G+0.25W+0.03C)T}{A}$$

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G =Total area of windows and exterior doors expressed in square feet. (Approximate this area by obtaining the area of an average sized window; multiply this area by the number of windows. Obtain the total area of exterior doors by the same method.)

W =Total square feet of exterior wall area.

C =Total cubic feet of volume to be heated. (Use outside dimensions of structure for the calculation of volume. From total volume, deduct volume where no heat is required, such as attic space and basements.)

T =The number of degrees of temperature difference between the required inside temperature of the building and the outside temperature, as usually specified in heating specifications. (Example, if 70 degrees is to be maintained in zero weather, $T=70$ degrees.)

A =240 for steam, exposed cast iron or enclosed copper radiation. 180 for steam, enclosed cast iron radiation. 200 for hot water, exposed radiation, 180 for hot water, enclosed radiation.

If an air conditioning system is to be installed, its cost is to be included. The cost of all necessary equipment incident to the heating system should be considered, such as oil burner, or appropriate type of automatic firing device, thermostatic control and any other adjuncts which are of sufficient importance to influence the cost of the system.

SUMMARY REPORT

2517. The purpose of the preparation of the "Summary Report" is to assemble quantity and cost data recorded on the "Quantity Take-off Report" and the "Built-up Price Unit Report." The total cost of the project is obtained at the completion of this report. This report as illustrated herewith is prepared on a "columnar pad" of adequate size.

SAMPLE COPY OF SUMMARY REPORT

Project name..... Project No..... Date of plans.....
 Location..... Date..... Sheet..... of.....
 2 buildings—description.....
 200 apartments.....
 500 rooms.....
 200 row type garages.....

Items	Unit cost				
	Building A, 3-story, flat roof, no basement			Building B, 3-story, pitched roof, full basement	
	Unit cost	Quantity	Cost	Quantity	Cost
1. Excavation—general—earth.....	.60 C. Y.	200 C. Y.	\$120	500 C. Y.	\$300
2. Excavation—trench—earth.....	1.00 C. Y.	25 C. Y.	25	25 C. Y.	25
3. Drain tile 4" T. C. with 12" gravel and paper.....	.14 L. F.	340 L. F.	48	340 L. F.	48
4. Concrete footings 1:2:4 concrete.....	.30 C. F.	500 C. F.	150	680 C. F.	204
4a. Forms for footings.....	.10 S. F.	500 S. F.	50	680 S. F.	68
4b. Reinforcing steel.....	.06 Lb.	170 Lbs.	10	266 Lbs.	16
Etc.....		etc.		etc.	
Total costs.....			\$500,000		\$500,000

RECAPITULATION

Total net cost dwellings.....	\$1,000,000
Overhead 3%.....	30,000
Social security 1½%.....	15,000
Sales tax 1%.....	10,000
(a) Total gross cost dwellings.....	1,055,000
(b) Garages—row type 200 @ \$200.....	40,000
(c) Utilities (upon the site):	
Roads, walks, curbs.....	\$2,000
Sew., elect., gas, water.....	2,000
	4,000
(d) Landscape.....	10,000
Contingency fund—2% of dwellings.....	21,100
Bond Variable from ¼ of 1% to 1½% of total items (a), (b), (c), (d), and contingency fund and builder's fees.....	8,500
Total.....	\$1,133,600
Architect's and builder's fees to be added.	
Cube..... Cu. Ft. @ \$.....	

The same items that are used in the "Quantity Take-off Report" are recorded in the same order. The first available column to the right of the column of items is entitled "unit cost." The unit prices which are recorded in the "Built-up Price Unit Report" are placed in this column. The two columns at the right of the "Unit Cost" column are captioned with the designation of the particular building. Under this heading, the left column is entitled "Quantity." The

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quantities recorded in the "Quantity Take-off Report" are copied in this column in line with the appropriate items. The column at the immediate right of the "Quantities" is entitled "Cost." The cost of an item is obtained by multiplying the unit cost by the quantity. The summation of the cost column gives the "Total Net Cost of the Structure."

2518. The costs of all other structures of the proposed project are obtained by repeating this process in the remaining columns. Construction costs for garages and similar accessory buildings are estimated separately and such costs are recorded in the "Recapitulation" of this report. Other required additions to the recapitulation are described in the following paragraphs.

ADDITIONS TO BARE FIELD COST

2519. Bare field cost is the summation of wages paid to laborers and mechanics, costs of building equipment chargeable to the operation, building permit fees, materials and equipment to be incorporated in the completed structure.

2520. There are certain items which must be added to the bare field costs which have not been considered thus far but which must be computed and added to the total net cost of the structures in order to complete the estimate. They are:

- a. *Job Overhead.* The cost of this item depends upon the size of the job, and working conditions. This cost ranges from 2% to 5% of the bare field cost. The items included as job overhead are: compensation and employers' liability insurance, scaffolding, rented equipment, temporary buildings, telephone, watchmen, and supervision.
- b. *Social Security Tax* is estimated at $1\frac{1}{2}\%$ of the bare field cost, or 3% of the labor.
- c. *Sales tax* on all materials at the prevailing rate established within the jurisdiction in which the project is located.
- d. *Unemployment and other taxes.*

The cost of the above four items are recorded in the "Recapitulation" and are added to the bare field cost. The result obtained is "Total Gross Cost of the Structures" without fees.

2521. To the totals listed in paragraph 2520 are added:

- a. *Cost of garages and accessory buildings.*

When garages are located in the basement of a dwelling, the cost estimate is made on a basis of a total structure, including the space to be used for garage. After the total estimate has been computed, a value of the garage space is

determined by listing separately the following items, which are included in the above total:

Garage area excavation, enclosing garage walls and footings, garage floor, windows, doors, plumbing, heating, electrical work, painting or finish treatment of garage ceilings of fireproof construction.

On projects which are of non-fireproof construction, and on which the specifications require a fire retarding ceiling over garages, this listing shall include the estimate of all ceiling construction except the floor joists in determining a value for the ceiling portion of the garages.

Costs of engineering or required introduction of heavy girders for garage bays shall be ignored in making basement garage cost estimates, but shall be included in the dwelling cost.

The cubic volume for the garage is estimated by using the out to out of enclosing walls, and the height is established from 0'-6" below garage floor slab to finished ceiling of garage.

The above applies only to garage space located directly under the buildings. In the event garages are extended beyond the building lines, that portion so extended must be figured as a separate structure.

In making the recapitulation for the Report of Cost Estimation, the items are set up as follows:

Dwellings (incl. overhead, soc. sec., sales taxes, and garage space for 30 cars in basement under dwelling)=-----	
cu. ft., ----¢-----	= \$-----
Garages in basement under dwelling (incl. in dwelling cost)	
Value \$-----, cu. ft., @----¢-----	
Garages in basement attached to but not under dwelling,	
=----- cu. ft., @----¢-----	
Utilities (within property lines)-----	
Landscaping-----	
Contingency-----	
Bond-----	

Total-----	\$-----

- b. *Cost of Utilities.* Costs of utilities inside the property lines and the house connections to the abutting street mains will be included. The following items are estimated by the cost estimator:

Heavy grading and fill of plot.
Swimming pools.

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Wading pools.
 Bridges.
 Roads.
 Curbs and gutters (within property site only).
 Sidewalks and steps (within property site only).
 Retaining walls and steps.
 Garage courts.
 Drives.
 Yard lighting.
 Sanitary sewers.
 Water mains.
 Fire hydrants.
 Sill cocks.
 Gas mains.
 Electric mains.

- c. *Cost of landscape work* to be obtained from the Land Planning Consultant. The following items are estimated by the Land Planning Consultant:

Finish grading.
 Lawn construction (primary and secondary, and garage roof lawns).
 Planting of all character.
 Tree protection and surgery.
 Storm water drainage and catch basins for all areas outside the buildings. This to include pick-up from down spouts, drainage for courts, drives, lawns, walks, and installation of main to connect with public storm water mains at property lines.
 Lawn hydrants and sprinkling systems.
 Playgrounds, tennis courts, recreation areas.
 Fencing of all kinds.

- d. *Contingency Allowance.* This allowance should approximate a minimum of two percent of "Bare Field Cost" including job overhead, social security and sales taxes.
- e. *The item of bond* shall be computed at the rate of 3/4 of 1% to 1½%, depending on the type of bond selected at the time of submission. The cost of this bond shall be based on the total cost of dwellings, accessory buildings, utilities, landscape work, contingency allowances and builder's fees.

2522. The above five items (paragraph 2521a-e) are added to "Total Gross Cost of Structures" and the total estimated cost of the project is obtained. This total does not include architect's and builder's fees.

REPORT OF COST ESTIMATION

2523. Following the completion of the preparation of an estimate, a report conforming to the following sample shall be prepared.

Project No.
 Name
 Location
 Date

REPORT OF COST ESTIMATION

1. Description of construction:

This project, for which costs have been calculated, consists of dwelling units, of 2 and 3 story, flat and pitched roofs, with and without basements; 78 row-type garages; according to preliminary drawings received under date of, and outline specifications received under date of, and submitted by, Architect.

The following exceptions or deviations (if any) from the outline specifications of the sponsor have been made:

.....

2. Break-down of costs:

Dwellings (inc. job overhead and social security and sales taxes).....	\$.....
Garages—row type @ \$.....	.....
Landscape.....	.....
Utilities.....	.....
Contingency fund.....	.....
Bond— $\frac{3}{4}$ of 1%.....	.....
Total.....	\$.....

Architect's and Builder's fees to be added.
 Cube Cu. Ft. @ \$.....
 Utilities required outside of property lines estimated at \$..... and not included in above utilities estimate, consist of:

Paving "X" Street.....	\$.....
Curbs and sidewalks "Y" Street.....	\$.....
Water main "Z" Street.....	\$.....

Approved (Sig.)

THE STATE OF TEXAS,
COUNTY OF [illegible]

I, [illegible], of the County of [illegible] and State of Texas, do hereby certify that [illegible]

[illegible]

[illegible]

[illegible]

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PART II
PROCEDURE PRIOR TO COMMITMENT

SECTION 6

**PROJECT INCOME ANALYSIS AND APPRAISAL
PREPARATION OF FHA FORM 2264**

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PART II

PROCEEDINGS FROM THE PROCEEDINGS

PROCEEDINGS

PROCEEDINGS FROM THE PROCEEDINGS
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PROCEEDINGS

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PART II

PROCEDURE PRIOR TO COMMITMENT

SECTION 6

PROJECT INCOME ANALYSIS AND APPRAISAL PREPARATION OF FHA FORM 2264

PROJECT INCOME ANALYSIS AND APPRAISAL

2601. A complete and careful study and analysis should be made of FHA Form 2013 (Application), FHA Form 2401 (Appraisal Data and Project Information), together with attached statements relative to estimated income and operating cost items, and all other docketed appraisal information. If the project is found to be generally acceptable, the following described processing becomes a part of "Final Examination," as defined in General Order No. 18.

2602. Estimates of project rental values and operating expenses must be carefully considered in connection with a study of the number of dwelling units, the number of rooms per unit and the quantity and quality of services proposed to be supplied by the project, as indicated by the application, and FHA Form 2401, the sponsor, and the sponsor's architects. This study must include inspection of project plans and specifications and cannot be completed until the plans and specifications have been approved as to architectural consistency with the project rental range estimates on FHA Form 2401 and approved by the Review Committee. The estimates of obtainable rentals, as set forth in the FHA Form 2401, must be very carefully considered in relation to the location of the project site, its environment and estimated income levels of present occupants of the neighborhood and of the probable project occupants, in order to predict the ability and willingness of prospective tenants to pay anticipated project rentals.

2603. It is also required that the above enumerated and other available project appraisal data be compared with similar projects situated in the same or comparable areas and which have been previously processed. At this point of processing and in order to assist in making the necessary determinations, as many comparisons as possible shall be made. Proposed project rentals, unit and room sizes, design and layout shall be compared with all other identical or com-

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parable existing or proposed properties on which information is available. Rentals, trends of city residential growth, family income levels, and other appraisal data contained in housing market analyses, when available, must be compared with similar data expressed on the FHA Form 2401 and other docketed information.

2604. Estimated project rental values, most desirable unit compositions, and items of operating costs as set forth on the FHA Form 2401 must be used in the preparation of FHA Form 2264.

2605. It is advisable to use FHA Form 2264 as a work sheet to correlate conclusions regarding the various required factors of project income analysis and appraisal. After this work sheet has been completed, a recheck of all estimates and computations set forth on the form should be made before final completion of the docketed form.

PREPARATION OF PROJECT INCOME ANALYSIS AND APPRAISAL FORM, FHA FORM 2264

2606. This form is designed to give final expression of project appraisal data and conclusions developed in processing. For the purpose of continuity of valuation development and mortgage determination, the FHA Form 2264 has been divided into the following sections:

- Caption.
- Estimate of Income.
- Estimated Annual Operating Expense.
- Estimate of Taxes.
- Estimated Annual Operating Statement.
- Capitalization of Estimated Net Income.
- Estimated Cost of Improvements (including summation).
- Estimated Fair Market Value of Entire Property (by comparison).
- Appraisal Summary.
- Certification of Value.
- Sources of Estimated Requirements for Completion of the Project (including maximum insurable mortgage).
- Distribution of Estimated Net Income after Operating Expenses and Taxes.
- Analytical Summary.
- Identifying signatures and remarks.

Caption

2607. Date and Project Number. The date the preparation of the form is begun shall be set forth on the caption "Date" line. The "Project number" shall be the complete number assigned the project by the Insuring Office.

2608. The Name of Project and Location shall be taken from the identifying label appearing on the docket binder, except that in cases where original project names have been substituted, the project name being used at the time of the construction of the form shall be stated first, followed by "(Formerly known as: -----)." The "Location" line shall include the compass section and name of the city or town in which the project is to be situated, the county, the state, the name of the general district or subdivision, and the names of abutting streets and intersections. If the project is to be situated in a city or town comprising a part of a metropolitan area, the project location in relation to that area (by compass) shall be indicated. Location data shall be set forth on the form in the order named above.

2609. Type of Project shall be designated by abbreviation of one or a combination of two or more of the following building types, including the number of building stories:

WU Apt. — Sty.. Walk-up Apartment House(s), — Stories.
 Elev. Apt. — Sty.. Elevator Apartment House(s), — Stories.
 Det. H. — Sty.... Detached House(s), — Stories.
 SDet. H. — Sty... Semidetached House(s), — Stories
 Row H. — Sty.... Row House(s), — Stories.

Definitions of the above types are as follows:

Apartment house: A structure, two or more stories in height under one roof, designed for the occupancy of two or more families, and not otherwise defined below.

Detached house: A structure designed for occupancy by a single family and having exterior walls which are independent of any other structure.

Semidetached house: A structure which is divided into dwelling space for only two families by a vertical common wall.

Row house: A structure which is divided into dwelling space for three or more families by vertical common walls.

2610. Construction shall be designated according to types of building materials specified and the following abbreviations shall be used:

Fireproof—FP
 Semifireproof—SFP
 Nonfireproof—NFP

2611-2616

2611. The Number of Rooms and Number of Family Units shall be the room and unit counts as shown on FHA Form 2411. Rooms and units devoted to janitors', manager's or superintendent's use shall be shown separately on each of these two lines. (For example: 160+3 janitor.)

2612. Average Rooms per Family Unit shall be determined by dividing the number of rooms by the number of family units. Janitors' quarters and other nonrevenue producing rooms or units are to be omitted from this calculation.

2613. Estimated Average Rent p. r. p. m. (per room per month) is derived from the line "Total Number of Rooms ----- @ average rental of \$-----" in the "Estimate of Income" section, set forth immediately below the caption.

2614. Average Rent per Family Unit p. m. (per month) is obtained by multiplying the estimated average rent per room per month by the average rooms per family unit.

2615. Accessory Buildings shall include garages, stores, offices, and other income-producing structures. Tool houses, tenants' storage space buildings, and other structures which are included to provide necessary facilities but which do not of themselves produce any revenue, are not to be included under this caption.

Estimate of Income

2616. Income (Dwelling Units). The first part of the "Estimate of Income" section refers exclusively to the rental values of project dwelling units. This schedule must break down all proposed dwelling units into the various unit types:

- a. *The Number of Each Unit Type, the Percent of Total Units* and the number of *Rooms Per Unit* may be obtained from FHA Form 2411. No janitors' or other non-income-producing units shall be included.
- b. *Composition of Units* shall indicate the rooms identified by proposed use, such as, LR-BR-K, etc. Abbreviations designating room use are set forth in paragraph 2352 of this manual.
- c. *Est'd Unit Rent Per M.* refers specifically to the monthly rental value for one unit of the specified type. It will frequently be discovered that project units of identical room count will have a variation in unit rental value, due to more desirable orientation, elevation, or convenience. Where such variations in estimated rental value occur, units shall be separated and considered as separate types. Rental value adjustments may be made in order to

- reflect such variation in unit rental values, provided the resultant total estimated dwelling rental does not vary from the total rents recommended on the FHA Form 2401.
- d. *Monthly Rent at 100% Occupancy* is determined by multiplying the unit rent figure by the number of units.
 - e. *Annual Rent at 100% Occupancy* is the figure resulting from the multiplication of "Monthly Rent at 100% Occupancy" by twelve.
 - f. *The Total Number of Rooms* shall be stated exclusive of janitors' and other non-income-producing rooms. The "average rental" per room per month is the quotient resulting from the division of the total estimated "Monthly Rent at 100% Occupancy" figure by the total number of rental rooms.

2617. Accessory Income (Garages, Stores, etc.). The second part of "Estimate of Income" section refers to "Accessory Income" from garages, stores, offices, and other income-producing spaces or structures. Estimated store rentals, if any, should be itemized according to location and store area, and should be expressed as a unit and not as a front foot or square foot rental value estimate. However, square or front foot store measurements should be shown. (For example: Corner Store, 2,000 sq. ft. \$_____ per month.) Such accessory income shall, for appraisal purposes, be limited to an amount not to exceed 10% of the total estimated gross income of the project at 100% occupancy. (See paragraph 2143 of this manual.) Additional income anticipated from submetering of electricity, gas, telephone service, rental of laundry equipment, maid or valet service, etc., is not to be included in project rental value estimates.

2618. Total Estimated Income at 100% Occupancy will indicate the total project rental value derived from all admissible sources.

2619. At this point in processing the project rental value conclusions shall again be checked with those stated on page 3, item "C. Monthly Rentals—Competitive Units and Project Estimate" of the FHA Form 2401.

Estimated Annual Operating Expense

2620. The accurate estimation of annual operating expense is equally as important in the appraisal of project value as an accurate estimate of income. All data for estimating operating costs at item "E" on page 4 of FHA Form 2401 must be carefully analyzed in relation to the project under consideration. Information relative to services typically provided by competitive units, as shown at item

"D" of the same form shall also be carefully considered. Estimates of operating expenses can be made valid 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. Differences in type of building materials, construction, and design also must be considered in relation to operating costs. Therefore, comparison must be made whenever available. Estimates of operating costs made by engineers, cost estimators, or other competent persons after study of project plans, specifications and locations also may be accepted.

2621. In addition to data provided on FHA Form 2401, paragraph 2125 of this manual requires inclusion in the docket of "copies of memoranda relating to estimates of operating expense, including estimates and rates from public utility companies, fuel companies, contractors, etc." Such memoranda should tend to support estimates of operating expense set forth in Schedule E of FHA Form 2013, which also must be analyzed before final preparation of operating cost estimates. All operating cost data must be carefully compiled and preserved for use in the development of estimates in connection with projects subsequently received.

2622. The third section, at the bottom of the first page of the form, "Estimated Annual Operating Expense" requires estimates of yearly dollar cost of the various items of expense which will constitute a total required yearly budget for the operation of the property. These items are to be broken down, first, as a "Unit Basis of Estimate" (per room, per family unit, or for the total project); secondly, the estimated annual dollar amount per unit used; and finally, the "Amount Per Item," which is obtained by multiplying the amount per unit by the number of units proposed for the project when a unit smaller than the total project is used. Totals are obtained by adding the figures set forth in the "Amount Per Item" column and extending the sum into the "Total" column. Operating expense allocable to non-revenue-producing rooms or units shall be included in these estimates. For purposes of convenience and segregation of types of the various expenses, the itemized expense list is divided into five parts as follows: "Renting Expense;" "Administrative Expense;" "Operating Expense;" "Maintenance Expense;" and a final summation, including a "Reserve for Replacements."

2623. **Renting Expense** includes estimated annual costs to obtain tenants for the project. These costs are divided into "Advertising" and "Commissions," both of which are to be estimated on a total project basis.

- a. *Advertising.* The estimate for advertising must include consideration of the size of the proposed project. If a relatively large number of family units is contemplated it may be necessary for management to use radio advertising in addition to daily newspaper advertising and to publish a considerable quantity of pamphlets and other printed matter for distribution to prospective tenants and to continue incurring such advertising expense during the years subsequent to opening. However, in the case of smaller projects, newspaper advertising may be the only cost necessary for consideration under this item. If, in the latter cases, management by an established property management concern is contemplated and rent collection fees charged customarily include payment of advertising costs by the management concern, this fact must be noted on the line provided for the statement of advertising costs.
- b. *Commissions* will include anticipated fees to be paid brokers and others for obtaining tenants. Such fees should be estimated on the basis of customary local schedules and in relation to the anticipated tenant turnover and the number of family units. Brokerage costs for obtaining new tenants are more frequently incurred in smaller projects managed by realty management concerns than in the larger projects having owning corporation management. However, if it is customary in the district in which the project is to be situated for management concerns to make a management charge based on a percentage of rent collections with no specific charges for obtaining new tenants, consideration of commissions may be omitted.

2624. Administrative Expense refers to the estimated costs of operation of the business aspects of the project. All "Administrative Expense" items are to be estimated on a total project basis. Here again, the size of the project constitutes an important factor. If mortgagor management is contemplated, each item of "Administrative Expense" generally will be estimated. However, if the project is so small as to make mortgagor management impracticable, the percentage charge customarily made by competent local real estate management concerns may be applied to the gross income expectancy of the project in order to determine the probable total administration expense. Costs generally included in administration expense items are as follows:

- a. *Management* covers the salary of the owner's representative. Frequently this representative also is provided with a dwelling unit in the project. However, paragraphs 2611 and 2612

- of this text require the removal of non-revenue-producing rooms or units from project rental value estimates and, consequently, only actual salary or other monetary remuneration shall be included in the management cost estimate.
- b. *Superintendent*. The same method of estimation shall be employed for "Superintendent" as that used in "Management."
 - c. *Clerical* refers to stenographers, bookkeepers, and other general office personnel, if required.
 - d. *Telephone and telegraph*. Charges for these two items attributable to the general office administration expense only are to be included in this item. Inasmuch as requirements set forth at paragraph 2143 of this manual preclude the inclusion of possible additional income anticipated from tenant telephone and other services in project rental value estimates, no estimated tenant telephone or telegraph service charges shall be included in the statement of operating expense.
 - e. *Legal and audit*. "Legal" here refers to estimated annually recurring costs of legal services in connection with rent and possession suits, collections and advice to management, etc. Audits of all projects insured under Section 207 must be made in accordance with requirements set forth in the applicable Administrative Rules and Regulations, FHA Forms 2012 or 2012a
 - f. *Office expense* will include estimates of annually recurring costs of stationery, postage and miscellaneous office supplies, as distinguished from office personnel and salaries treated above.
 - g. It will be noted that a blank line immediately under "Office expense" has been included in the form. Here may be inserted any other items of administrative expense peculiar to the project under examination.

2625. Operating Expense has reference to materials and services which are to form a part of the physical operation of the project. The prescribed unit bases of estimate are set forth in the following paragraphs which explain each of the operating expense items:

- a. *Elevator power*. It is necessary that information be obtained from public utility and elevator companies operating in the same area in which the project is to be situated. Elevator capacity, type and height of shaft are the prime determinants of the amount of elevator power consumption which must in turn be applied to local power costs in order to develop valid

estimates for this item. Elevator power costs shall be estimated on a per elevator car basis when such equipment is specified for the project.

- b. *Elevator maintenance* refers to estimated costs of lubrication, replacements of cables, shoes, and other parts and adjustment and repair requirements. This item must not be confused with total elevator equipment replacement made necessary due to obsolescence, which is provided for under "Reserve for Replacements." Elevator companies generally offer several different types of contracts to elevator owners for provision of elevator maintenance for a flat monthly charge per car. However, these contracts frequently do not include charges for replacement of elevator parts. In setting up estimates for this item it shall be ascertained that the maintenance cost estimates obtained from FHA Form 2401 include elevator maintenance contracts providing for cable maintenance to which should be added estimated yearly costs of parts replacement. This item also shall be estimated on a per car basis.
- c. *Heating and ventilating* includes estimated costs of supplying adequate heat during the normal heating season to *all* family units proposed for the project, adequate hot water to all hot water taps provided for in the plans and any ventilating costs not included in blower power consumption cost provided for under "Miscellaneous power" expense, below. If the heating plant and hot water production facilities are designed to service stores, basement garages, laundries and other areas, additional estimates must be made to include such additional services. Orientation and exposure of buildings, window area, the inclusion or absence of wall insulation and weather stripping and total square feet of designed radiation will provide important guides to the estimation of this item. Information relative to the delivered prices of various heating fuels will be provided at "E. Data for Estimating Operating Costs," page 4 of FHA Form 2401. Estimates of the cost of this item shall be made on a per room basis and in relation to the kind of fuel to be used.
- d. *Janitorial expense* includes cleaning materials and equipment, electric light globes, small tools, etc. This item must not include any janitor's salary, which is set forth under "Payroll," described in subparagraph "i," following. Estimates of janitorial expense shall be shown on the form on a per room basis.

- e. *Lighting and miscellaneous power* includes all estimated costs of electric current required for owner supplied illumination and power. In projects where typical rental conditions will prevail, tenants will pay for all illumination used in family units, the project owners being obliged to pay for illumination provided for public halls, stairways, boiler and laundry rooms, entrances, driveways, and yards. Valid estimates of costs of illumination to be supplied by owners to typical projects may be made by study of the project plans in order to determine the total number of proposed light outlets and a summation of the total wattage requirements of the various capacity globes required. This total must be adjusted for hours of daily use and the result applied to locally prevailing electric current rates which are required to be stated at item "E. Data for Estimating Operating Costs," page 4 of FHA Form 2401. If local custom and proposed project rentals require that owners supply tenants with family unit lighting current, the same type of estimate may be made to include the added service except that it must be borne in mind that when management supplies electric current for domestic uses, the amount of such current used invariably rises above minimum tenant requirements and lighting cost estimates must be adjusted accordingly. "Miscellaneous power" includes an estimate of the cost of power for stokers, oil burners, circulating pumps, blowers, and any other services supplied to tenants which require power to be paid for by the owners. If the total of all power requirements (including elevator power, if any) will exceed normal line capacity, a "demand charge" may be required and must be included in the estimates if such charge is made in the community. Estimates of lighting and miscellaneous power shall be reported on the form on a per room basis.
- f. *Water*. Typical project conditions require owners to supply all water consumed. This includes tenants' domestic requirements, laundry, boiler water, yard sprinkling, and water facilities for garages, if provided. No change in volume of water consumed is indicated where tenants are obliged to pay the costs of heating water. In projects where, by local custom, tenants have individual meters and pay water consumption costs, necessary adjustments shall be made in the estimation of this expense item. Information relative to typical family water consumption and cost per annum is provided at Item "E. Data for Estimating Operating Costs," on page 4, FHA Form 2401. Water consump-

- tion shall be reported on the form on a per family unit basis.
- g. *Gas*. This item generally will include only costs of operating gas fired incinerators, clothes driers, and possibly water heating equipment. If local custom and proposed project rents require owners to supply gas to tenants for domestic cooking or heating purposes, this item shall be adjusted accordingly. It is noted that when owners supply gas to tenants for domestic purposes, tenants' consumption does not tend to rise materially above normal use, as has been otherwise noted in "Lighting," above. Estimates of this item shall be set forth on the form on a per family unit basis.
- h. *Garbage and rubbish removal* costs are related to costs of hauling services in the community and to considerations of whether or not such services are provided free of charge by the community. If it is proposed to heat the project by the use of coal, costs of resultant ash hauling must be considered. If the project is to be equipped with incinerators, practically all combustible rubbish may be disposed of without the necessity of hauling. Therefore, local conditions and project design and size will be the prime factors in estimating this item which is to be reported on the form on a total project basis. Information relative to this item is provided at "E. Data for Estimating Operating Costs" on page 4, FHA Form 2401.
- i. *Pay roll* refers to operating personnel and will include wages for power-plant engineers, janitors, maintenance men, handymen, groundskeepers, watchmen, and all other operating personnel except administrative personnel, set forth above. The annual amount of this item will depend largely upon the size and design of the project and the type of services proposed to be rendered to tenants. If provision for disposal of garbage and combustible rubbish from rental units directly to incinerators is made, janitor requirements will be less than in cases where garbage and rubbish must be carried through halls and stairways to some outside point of disposal. Provision for automatic supply of fuel to heating plants tends to reduce the cost of power-plant engineer or janitor service, depending upon the size of the project. It is necessary that each position be classified by name (janitor, yardman, etc.) and that the number of employees estimated to be necessary for each classification, and the monthly and annual rate of remuneration be entered in the "Operating Pay Roll" schedule at the lower right hand corner of page 1 of FHA Form 2264. Part-time employees also shall be

- shown on this schedule. The total per annum remuneration is to be shown opposite the word "Total" at the bottom of the schedule. No personnel employed as painters or interior decorators shall be included in the "Pay Roll" item. If custom requires that quarters be furnished in addition to wages paid, indicate unit or units assigned in the "Operating Pay Roll" schedule. However, paragraphs 2611 and 2612 of this manual require the removal of non-revenue-producing rooms or units from project rental value estimates and consequently only actual salary or other monetary remuneration shall be included in the pay roll cost estimate, but computation of social security tax provided for under "Miscellaneous Operating Taxes" at page 2 of FHA Form 2264 shall include the estimated annual *value* of such living quarters if provided. Social security taxes are not to be included in the "Pay Roll" item. Pay roll estimates shall be reported on the form on a per room basis.
- j. It will be noted that a blank line immediately under "Pay roll" has been included in the form. Here may be inserted any item of operating expense peculiar to the project under examination.

2626. Maintenance Expense.

- a. *Decorating* reflects estimates of the annual budget required to maintain a definite program of painting walls and trim, public halls, stairways, building exteriors, refinishing of floors. Decorating cost estimates must include consideration of the quality and quantity of decorating which must be provided for the particular type of tenants anticipated. Immediately to the right of the Estimated Annual Operating Expense statement, the form provides two schedules for reporting decorating cost estimates. The method followed in filling in the estimates will be determined by the size of the project and the type of management proposed. If the project is considered to be large enough to employ decorating personnel on a monthly salary basis, the top decorating schedule will reflect only the estimated annual dollar cost of decorating materials and the line "Materials and Labor (Contract price)" will be stricken out. The decorating employees' positions, the number of such employees, the monthly and annual rate of compensation, shall be set forth in the "Decorating Pay Roll" schedule. If living quarters are to be furnished to such personnel in addition to wages paid, the unit or units assigned shall be indicated and the value of units computed as provided for in sub-paragraph i,

paragraph 2625. The summation of the totals of both schedules will develop the estimated annual decorating cost for such type of project. If the project is considered to be of a size or type not warranting the regular employment of decorating personnel, only the top decorating schedule shall be used. In this case, the line "Materials Only (Labor on Decorating Pay Roll)" shall be stricken out and the estimate made on a "Contract Price" basis, which will include materials, labor and contractor's profit. In either method of computation indication of the probable frequency of necessity for redecorating tenant space, public space, exteriors of buildings and accessory buildings, must be shown on the top decorating schedule. For example: "Tenant space (every 2 years) \$1,500." It must be noted that in this cited example the \$1,500 item refers to an *annual* charge and, therefore, a \$3,000 tenant space redecorating cost has been estimated to occur every two years. The same care must be taken with regard to each of the three items following "Tenant space." Probable frequency of tenant turnover has an important bearing on the cost of decorating tenant space. Unusual climatic conditions, such as the presence of excessive smoke, or exposure to salt air, mildew, or rapid temperature variations, should be expressed at "Exterior buildings." When only the top decorating schedule is employed, this schedule develops the total estimated decorating cost. In all cases, the decorating expense item shall be reported on the form on a per room basis.

- b. *Repairs* includes maintenance cost of all physical parts of the project not otherwise estimated and which is not in the nature of complete replacement. In general a repair removes physical deterioration or restores service which was interrupted by failure of a part of a unit of the structure or the equipment, as distinguished from full replacement of the unit, which is provided for under "Reserve for Replacements," set forth below. Obviously buildings constructed with high grade materials, fixtures and equipment will have less cost of repairs than those constructed of poorer materials. Therefore, project specifications must be considered when making repair estimates. However, it should be borne in mind that fireproof, semifireproof and nonfireproof structures are all subject to the same general items of repair costs resulting in approximately the same repair expense. This item shall be reported on a per room basis.
- c. *Exterminating*. Type of tenancy, local conditions, and type of construction affect this estimate, which is to be reported

on a per room basis. Estimates of local exterminating contractors may be used.

- d. *Insurance.* Paragraph 2356 of this manual requires project insurance rate information to be reported at Item F, Insurance, page 4 of the appurtenant FHA Form 2401, and in memorandum form if additional insurance is contemplated or required. The amount of requisite insurance coverage and the premium charge therefor must be computed, in order that insurance costs may be incorporated in the project operating statement. The amount of fire insurance coverage must be based on the estimate made of "Total for all improvements" less costs of excavations, building footings, building foundations, basement or cellar floors, basement piers, columns and other elements of construction to be situated *below ground level*. If living units are included in basements, that portion of the building occupied by the living units shall be included in insurable construction costs. If no basements or cellars are specified for project structures, construction costs of elements below surface of the ground shall be excluded from the computation. Project walks, drives, retaining walls and utilities also will be excluded. The resultant figure (total cost of construction of all project structures above ground level) shall then be applied to the fire insurance rate stated on the appurtenant FHA Form 2401. If fire insurance coverage in the full amount of the estimated insurable cost of construction is to be figured, a 100% co-insurance (fire insurance) rate may be used. Fire insurance coverage must be in an amount *not less than 80%* of the estimated insurable construction cost as defined above. In cases involving minimum permitted insurance coverage an 80% co-insurance rate may be used, but it must be made certain that the amount of the computed fire insurance coverage equals *at least 80%* of the estimated construction cost above ground level. Windstorm insurance coverage must be related to the same construction costs as those outlined above. However, in many communities, windstorm insurance (and also earthquake insurance) is customarily carried in amounts representing a smaller percentage of construction cost than that required in the case of fire insurance. In many communities, windstorm coverage may be as low as 50% of estimated construction cost. In such instances, a 50% co-insurance windstorm rate may be used, except when extended coverage (supplemental contract or extended coverage) is used. In the latter case, the extended coverage

(covered by Extended Coverage Endorsement No. 4 and known as "Supplemental Contract" covering the perils of windstorm, cyclone, tornado, hail, explosion, riot attending a strike, riot, aircraft, smoke and vehicles) must be in an amount equal to the amount of the fire insurance coverage. Costs of public liability, boiler, workmen's compensation, and other casualty insurance customarily required in the community, shall be computed according to the applicable rates.

- e. *Grounds Expense (materials only)* includes replacement of shrubbery and top soil, lawn seed, fertilizer, and replacement of hose, lawn-mowers and other equipment not listed as "Janitorial expense." The extent of planted area and type of treatment will govern this estimate, which refers to materials only. This item may be reported on the form on a per acre basis in the case of large projects or on a per square yard basis when project land areas are comparatively small. The Land Planning Consultant shall be consulted relative to the probable amount of this item.
- f. *Furniture and furnishings* includes estimated annual costs of maintenance and replacement of shades, venetian blinds, hall carpets, fire extinguishers, mats, rubber stair-treads, mail boxes, buzzer equipment, shower curtains, employees' uniforms, entrance furniture, and project office furniture, if any. These enumerated items are not included in the "Reserve for Replacements." They must be totalled and reported on the form on a per room basis. This estimate bears a direct relation to the extent and type of service offered to the tenant and can be developed by a study of the project plans and specifications and the architectural and cost estimation reports.
- g. *Miscellaneous.* This item, together with the blank line set forth immediately below it, provides an opportunity for the insertion of any item of maintenance expense not otherwise provided for or peculiar to the project under examination.

2627. Total Operating Expenses. The figure for "Total Operating Expenses" results from a summation of the totals set forth at "Renting Expense," "Administrative Expense," "Operating Expense," and "Maintenance Expense," immediately above. This total shall be divided by the project room count (including employee quarters), and the quotient put into the second column of the Operating Expense statement, immediately following P. R. P. A." (per room per annum).

2628. Reserve for Replacements provides for the segregation out of annual income of a fund sufficient to meet the estimated costs of *replacement* of equipment or structural items, such as refrigerators, plumbing fixtures, electric fixtures, laundry equipment, elevators, roofs, boilers, etc. Estimates of the amount of annual reserve required for each item are determined by the cost and the estimated useful life of the item, assuming that replacement will be made by an item similar in type and quality with that originally installed, less a 10% allowance for salvage on ranges, refrigerators, boilers, oil burners and stokers, if included in the specified project equipment. The following "breakdown" of replaceable items generally included in rental housing projects shall be used as a basis for estimating total annual reserve requirements:

Breakdown of estimated annual reserve for replacements

(Sinking-fund basis)

Item	Estimated useful life in years	Total cost of items for project	Percent of item subject to replacement cost	Replacement sinking fund factors at 3 1/2% interest	Annual allocation for replacements
Ranges:					
Gas.....	12	\$..... x	90% x	0.0685=	\$.....
Electric.....	12	..... x	90% x	.0685=	.....
Refrigerators.....	12	..... x	90% x	.0852=	.....
Kitchen sinks.....	20	..... x	100% x	.0354=	.....
Lavatories and fittings.....	20	..... x	100% x	.0354=	.....
Toilets and valves.....	20	..... x	100% x	.0354=	.....
Tubs and fittings.....	20	..... x	100% x	.0354=	.....
Electric fixtures.....	12	..... x	100% x	.0685=	.....
Heating system:					
Boilers.....	25	..... x	90% x	.0257=	.....
Oil burners.....	12	..... x	90% x	.0852=	.....
Stokers.....	12	..... x	90% x	.0852=	.....
Domestic h. w. storage tank.....	15	..... x	100% x	.0518=	.....
Air-conditioning equipment.....	12	..... x	—% x	.0685=	.....
Ventilating equipment, fans and blowers.....	15	..... x	—% x	.0518=	.....
Laundry equipment:					
Trays and fittings.....	20	..... x	100% x	.0685=	.....
Dryers.....	20	..... x	100% x	.0354=	.....
Elevator equipment:					
Cabs and doors.....	20	..... x	100% x	.0354=	.....
Mechanical equipment.....	20	..... x	—% x	.0354=	.....
Roofing and flashings.....	25	..... x	—% x	.0257=	.....
	15	..... x	—% x	.0518=	.....
Rough plumbing (Estimate of the useful life of this item applicable only to this project.....	20	..... x	—% x	.0354=	.....
	30	..... x	—% x	.0194=	.....
	40	..... x	—% x	.0118=	.....
	50	.....		.0000	.....
Incinerators.....	50	.....		.0000	.....

Total amount to be allocated annually in reserve for replacements... \$.....
 Total amount \$..... divided by room count (including rooms in employees' quarters) equals \$..... per room per annum.

The "Total Cost of Items for Project" will be obtained from the Report of Cost Estimation and the "Annual Allocation for Replacements" for all items will be obtained by multiplying the "Total Cost of Items for Project" by the "% of Item Subject to Replacement Cost" and the product multiplied by the "Replacement Sinking Fund Factors at 3½% Interest." The resulting total will be entered under "Annual Allocation for Replacements." The "Replacement Sinking Fund Factors at 3½% Interest," as set forth in the "breakdown," shall be used in each instance except for "Air Conditioning Equipment," "Ventilating Equipment," "Elevator Mechanical Equipment," "Roofing and Flashing" and "Rough Plumbing" items. It is required that the useful life of the excepted items be estimated according to the kind of materials or equipment specified for the project and conditions prevailing in the community in which the project is to be situated. Reserves for store fronts and equipment not listed in the "breakdown," if specified for the project, shall be computed by the use of the applicable sinking fund factor. The "Total Amount to be Allocated Annually in Reserve for Replacements" will be the summation of the totals for all items set forth under "Annual Allocation for Replacements." This amount shall be divided by the total room count (including employees' quarters) and reported on the form on a total and a per room basis. A copy of the "breakdown," showing itemized computations, shall be attached to each docketed FHA Form 2264.

2629. Total Expense and Reserve results from addition of "Total Operating Expenses" and "Reserve for Replacements" in per room per annum and total figures.

Estimate of Taxes

2630. Item G, "Taxes," at page 4 of FHA Form 2401 provides extensive real estate tax information and estimates. In the absence of error, these data shall be used as a basis upon which to form conclusions as to the probable assessment and tax which will be levied on the project when complete. Page 2 of FHA Form 2264 makes provision for reporting such conclusions as follows:

2631. Improvements refers to the probable assessment and annual tax to be levied on all structures proposed to be built upon the project site and indicated as "Main Buildings," "Garages," and "Other," outlined as follows:

- a. *Assessor's Reproduction Cost* refers to the probable building cost estimate made by the assessor as a base upon which to develop a determination of annual tax to be levied on buildings.

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- b. *Percent Debased or Equalized.* In many communities it is the custom of taxing bodies to apply an arbitrary percentage of reduction to the assessor's reproduction cost. If this or a similar custom prevails in the community in which the project is proposed to be situated, the indicated computations shall be made.
- c. *Assessor's Valuation* will be the amount remaining after the "Percent Debased or Equalized" has been applied to "Assessor's Reproduction Cost."
- d. *Percent of Assessment.* It is also frequently customary for taxing authorities to apply a further percentage adjustment of the assessor's valuation. If this computation is applicable to the project, the proper percentage shall be indicated at this point.
- e. *Assessed Value* is the resultant estimate after computations explained immediately above have been made.
- f. *Tax Rate Per \$1,000* shall be reported as that rate currently established by taxing authorities and as reported at item G-7 on page 4 of FHA Form 2401. However, if tax information supplied on FHA Form 2401 clearly indicates an impending change in taxing methods or rates, this condition shall be considered when making annual real estate tax estimates.
- g. *Annual Tax* estimate results from the multiplication of the "Assessed Value" (pointed off three decimal places) by the "Tax Rate per \$1,000."
- h. *Total Annual Tax for Improvements* is a summation of the figures set forth under "Annual Tax."

2632. Land.

- a. *Estimated assessed value upon completion of improvements.* Item G-3 of FHA Form 2401 requires that an estimate relative to this item be made. In the absence of error, this estimate shall be given preponderant weight.
- b. *Estimated tax rate (normal land tax)* requires a statement of the tax rate applicable to land. In the majority of cases this tax rate will be the same as that applicable to improvements. If there is evidence that the land tax rate varies from the rate applicable to improvements, the proper land tax rate shall be inserted at this line on a per \$1,000 basis.
- c. *Estimated Total Land Tax* will be the figure resulting from the application of the land tax rate to the estimated assessed land value.

- d. A blank line has been inserted into the form at this point to permit the reporting of any continuing real estate taxes peculiar to the community in which the project is proposed to be situated. Special assessments and other relatively short term taxes, if any, will not be reported at this place in the form but will be set forth under "Remarks" at the bottom of page 3 of the form and at "Other fixed charges (special assessments, etc.)," page 4, under "Distribution of Estimated Net Income after Operating Expenses and Taxes." (See paragraphs 2667 and 2678d.)
- e. *Total Estimated Real Estate Tax per Annum* will be shown as the sum of "Total Annual Tax for Improvements" and "Estimated Total Land Tax."
- f. If the procedure employed by the local taxing authority is different from that provided for on the form, and cannot be expressed thereon, a memorandum of applicable tax computations shall be attached to the top of page 2 of the form, in lieu of the "Estimate of Taxes" section.

2633. Miscellaneous Operating Taxes includes annually recurring taxes, other than real estate taxes, which are incident to the operation of the property regardless of ownership.

- a. *Social Security tax* estimates will be based on the estimated total pay roll of the project. This computation will be made on salaries and wages to "Management," "Superintendent," "Clerical," "Decorating Pay Roll," and "Operating Pay Roll," as set forth in the "Estimated Annual Operating Expense" statement, page 1 of the form, plus the value of project dwelling rooms or units, if any, allocated to such project personnel. All computations will be made on a yearly basis. The currently established social security tax rate is 3% of the total of the items above enumerated.
- b. *Other special local taxes* refers to state sales tax, which may be computed upon the estimated cost of materials used annually in the operation of the project (provided the sales tax on such materials has not been paid at the source), occupational, gross revenue, and other taxes required to be paid to the state, township, county, municipality, etc. as a result of the operation of the property. These taxes vary widely in different areas and must be determined by inquiry.
- c. *Total Miscellaneous Operating Taxes* is obtained by a summation of the "Miscellaneous Operating Taxes," set forth immediately above.

- d. *Total taxes (excluding Income, Capital Stock and Franchise Taxes)* is a summation of the "Total Estimated Real Estate Tax per Annum" and the "Total Miscellaneous Operating Taxes."

Estimated Annual Operating Statement

2634. This section of the form constitutes the first step in the correlation of all project data which have been developed and the primary conclusions regarding such data expressed in the preceding sections of the form. Estimated project income and expense figures are set forth at this point in order to develop estimates of net income (after operating expenses and taxes) which will in turn be used to develop the estimate of capitalized value of the project in its entirety. This section is divided as follows:

2635. Income. Estimated income from dwelling units, garages, stores and other admitted sources, if any, is obtained from "Total Estimated Income at 100% Occupancy," as shown at the bottom of "Estimate of Income" section on page 1 of the form. This income shall be set forth in the Annual Operating statement under "Annual Income at 100% Occupancy" and the "Total Estimated Income" shall be set forth on the line provided therefor. "Estimated Occupancy %" is arrived at by a consideration of relative information set forth on FHA Form 2401, by computations made by the sponsor on FHA Form 2013 and by comparison with the experience of comparable properties, if available. This estimate must be made consistent with requirements set forth in paragraph 2144 of this manual, except that in the FHA Form 2264, this item must be expressed as an occupancy percentage and not as a vacancy deduction. For each of the different types of project income, as provided in the form, "Gross Income Expectancy" (effective gross income) figures will result from the multiplication of the "Annual Income at 100% Occupancy" by the "Estimated Occupancy %." These figures shall be totaled on the line provided immediately below for this purpose.

2636. Operating Expenses and Taxes are derived from the "Estimated Annual Operating Expense" statement on page 1 and "Estimate of Taxes" statement at the top of page 2 of the form. The "Operating" line shall show the total number of project rooms, the amount of operating expense per room per annum, and the total estimated operating expense. The same procedure shall be used for "Reserve for Replacements" which also is obtained from the "Estimated Annual Operating Expense" statement at page 1 of the form. "Total Taxes (excluding Income, Capital Stock and Franchise Taxes),"

as set forth in the "Estimate of Taxes" section of the form, are to be entered on the line provided. "Total Operating Expenses and Taxes" results from a summation of the three items immediately above. "Estimated Net Income, after Operating Expenses and Taxes" will be the remainder after deduction of "Total Operating Expenses and Taxes" from "Gross Income Expectancy."

Capitalization of Estimated Net Income

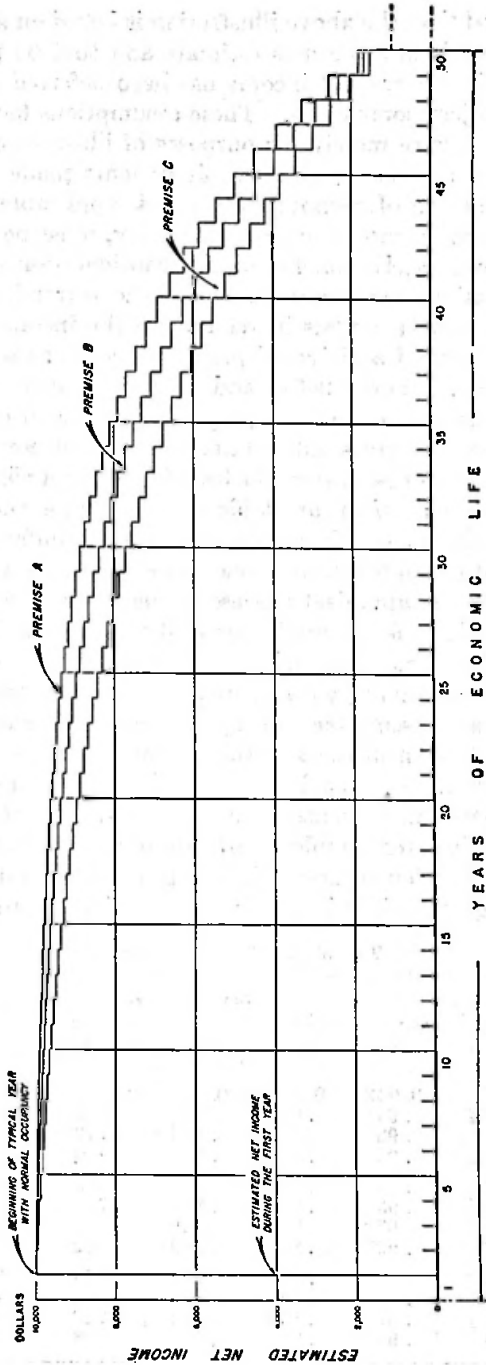
2637. In this section of the form, the "Estimated Net Income after Operating Expenses and Taxes" is developed into a capitalized value of the total project, including land, buildings, and all other project assets. The development of the capitalization process on an annuity basis requires the introduction of four important assumptions, as follows:

- a. The income premise.
- b. The capitalization rate.
- c. The economic (net income-productive) life of structures.
- d. In instances when it is estimated that a one year or greater interval of time will elapse between completion of the project and consummation of the projected rental program, a period of typical income deferment.

2638. The **Annuity Premise** is that net project income, beginning at the end of the first year, will be received in successive annual installments at the end of future years and that such installments will continue as long as it is estimated the project will have net income-producing capacity (economic life). Further, the premise is that the annual installments will include the gradual return of the capitalized value (depreciation) and pay an annual interest return (at the rate selected) to capital value remaining from year to year unreturned. The prediction of a decline in the annual volume of net income to be received in future installments has been included in the Annuity Premises A, B, and C, (Table II, following) which are more fully discussed in the following paragraph of this manual. All of the annuity factors are based on the Inwood Coefficient, which does not require re-investment of annually returned capitalized value, as distinguished from the Hoskold Coefficient or Sinking Fund method. The annuity premises contained in the following Table II factors follow the above concept except that provision is made for the return of 90 percent of capitalized value in annual installments and, in addition, an interest return to capital value computed on the total amount of capital value remaining from year to year unreturned until 90 percent of the capitalized value has been returned. At that time, the estimated end of the economic life of the structures will have been

reached and net project income will be sufficient only to pay an interest return on the remaining project value which, it is estimated will consist principally of land and will be equal to 10 percent of the estimated capitalized value of the project at completion. This 10 percent remaining value is an arbitrary assumption; however, the possibility of capture of such remaining value is so long deferred into the future (from date of project completion to estimated end of economic life of project structures) that other remaining value assumptions, of, say, 5 percent or 20 percent, would result in only very minor changes in the estimate of capitalized value of the project at completion.

2639. Table II, Annuity Factors, following this paragraph, also provides for the selection of one of three premises of the future trend of the *volume* of annual net income which it is estimated the project will produce. *Premise A* assumes that annual project net income will remain approximately constant during the early life of the project, and that the annual net income will decline at an accelerating rate as accumulated project age develops increasing obsolescence, with consequential decline in rental value, and probable increasing cost of operation due to accumulation of physical deterioration, all of which operate to effect a decline in the future annual net income to be received by project owners. *Premises B and C* assume more rapid declines of net income than those expressed in *Premise A*, otherwise all three of the premises contain the same assumptions. The following figure illustrates the premised net income trends:



ESTIMATED NET INCOME

It will be noted that the above illustration is based on a maximum 50 year economic life of structures estimate and that 60 percent of the estimated typical year's net income has been deferred one year from the date of project completion. These assumptions have been incorporated in the figure merely for purposes of illustration and are not to be considered as being typical. Judgments made in connection with the estimation of economic life spans, applicable premise, and amount and term of income deferment, if any, must be arrived at for each project separately and by careful consideration of the project location in relation to city growth, neighborhood trend, design, layout and proposed project rentals in relation to the income levels, social grade and customs of anticipated project tenants, as set forth in the appurtenant FHA Form 2401, and other docketed data. If the proposed project will constitute a proper improvement of the land and the project location gives substantial evidence of continued desirability for the use proposed, then the use of Premise A will be indicated. However, if a study of all available data indicates the presence, or strong probability of the development of future, unfavorable trends, hazards, or other unfavorable conditions, compensations must be introduced into the appraisal process by means of the selection of a shorter project income-productive capacity (economic life) or a more rapidly declining income capacity (Premises B or C), or both. The capitalization rate employed also must reflect any unfavorable conditions which are discernible (see paragraph 2640) unless full recognition has been given in the selection of the economic life or income premises, or both. It must be realized that the formation of judgments which determine the use of the various factors of capitalization can be made only after complete and careful study of *all* project data and that the expression of these judgments at this point in the appraisal process bears great weight in the final estimation of project value.

TABLE I.—Discount factors

Capitalization rate (percent)	Number of years				
	1 year	2 years	3 years	4 years	5 years
6	0.943	0.890	0.840	0.792	0.747
6¼	.941	.886	.834	.785	.739
6½	.939	.882	.828	.777	.730
6¾	.937	.878	.822	.770	.721
7	.935	.873	.816	.763	.713
7¼	.932	.869	.811	.756	.705
7½	.930	.865	.805	.749	.697
7¾	.928	.861	.799	.742	.689
8	.926	.857	.794	.735	.681
8¼	.924	.853	.788	.728	.673
8½	.922	.849	.783	.722	.665
9	.917	.842	.772	.708	.650

TABLE II.—Annuity factors, premise A, remaining value 10 percent of capitalized value at beginning of typical year

Capitalization rate (percent)	Economic life (years)	Number of years typical year's income is deferred					
		None	1 year	2 years	3 years	4 years	5 years
6	20	9.118	8.289	7.515	6.794	6.121	5.494
	25	10.620	9.755	8.944	8.186	7.477	6.814
	30	11.872	10.891	10.145	9.361	8.625	7.936
	35	12.899	11.991	11.136	10.334	9.580	8.872
	40	13.729	12.809	11.943	11.128	10.361	9.639
	45	14.392	13.463	12.589	11.766	10.990	10.259
	50	14.915	13.982	13.102	12.273	11.491	10.754
6½	20	8.960	8.131	7.360	6.642	5.974	5.354
	25	10.402	9.538	8.731	7.977	7.273	6.617
	30	11.595	10.706	9.873	9.094	8.364	7.682
	35	12.566	11.660	10.809	10.012	9.264	8.563
	40	13.345	12.427	11.465	10.754	9.994	9.280
	45	13.962	13.035	12.165	11.346	10.578	9.856
	50	14.444	13.513	12.637	11.813	11.039	10.311
6¾	20	8.806	7.978	7.209	6.495	5.833	5.219
	25	10.192	9.329	8.524	7.775	7.077	6.427
	30	11.330	10.442	9.613	8.837	8.114	7.438
	35	12.248	11.343	10.496	9.704	8.963	8.269
	40	12.979	12.062	11.204	10.399	9.645	8.940
	45	13.553	12.629	11.762	10.950	10.187	9.473
	50	13.999	13.069	12.197	11.379	10.612	9.892
6%	20	8.657	7.830	7.063	6.353	5.695	5.087
	25	9.989	9.127	8.325	7.580	6.888	6.245
	30	11.074	10.188	9.361	8.591	7.874	7.206
	35	11.944	11.040	10.197	9.409	8.674	7.989
	40	12.630	11.715	10.860	10.061	9.314	8.616
	45	13.165	12.242	11.379	10.572	9.817	9.111
	50	13.577	12.649	11.781	10.969	10.208	9.497
7	20	8.512	7.685	6.921	6.215	5.562	4.960
	25	9.792	8.932	8.133	7.392	6.705	6.069
	30	10.828	9.943	9.120	8.354	7.643	6.982
	35	11.652	10.750	9.910	9.128	8.399	7.720
	40	12.297	11.384	10.532	9.738	8.998	8.308
	45	12.796	11.875	11.016	10.214	9.466	8.767
	50	13.177	12.252	11.387	10.580	9.826	9.123
7¼	20	8.370	7.545	6.783	6.080	5.433	4.837
	25	9.603	8.743	7.947	7.210	6.529	5.899
	30	10.592	9.708	8.883	8.127	7.421	6.767
	35	11.372	10.472	9.635	8.857	8.135	7.464
	40	11.979	11.068	10.219	9.430	8.697	8.014
	45	12.445	11.526	10.670	9.874	9.132	8.442
	50	12.798	11.874	11.013	10.212	9.465	8.770
7½	20	8.233	7.408	6.649	5.950	5.308	4.717
	25	9.419	8.560	7.767	7.035	6.359	5.735
	30	10.364	9.481	8.664	7.908	7.208	6.561
	35	11.103	10.205	9.372	8.599	7.883	7.219
	40	11.675	10.765	9.921	9.137	8.409	7.734
	45	12.110	11.193	10.341	9.550	8.814	8.132
	50	12.437	11.516	10.659	9.862	9.123	8.435

PROCEDURE PRIOR TO COMMITMENT

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TABLE II.—Annuity factors, premise A, remaining value 10 percent of capitalized value at beginning of typical year—Continued

Capitalization rate (percent)	Economic life (years)	Number of years typical year's income is deferred					
		None	1 year	2 years	3 years	4 years	5 years
7%	20	8.100	7.276	6.519	5.824	5.186	4.602
	25	9.241	8.384	7.593	6.865	6.194	5.577
	30	10.144	9.263	8.449	7.697	7.003	6.363
	35	10.846	9.949	9.119	8.351	7.641	6.984
	40	11.384	10.476	9.635	8.856	8.135	7.468
	45	11.791	10.876	10.028	9.242	8.513	7.838
	50	12.095	11.175	10.322	9.531	8.798	8.118
8	20	7.970	7.147	6.392	5.701	5.068	4.489
	25	9.070	8.213	7.425	6.701	6.035	5.424
	30	9.932	9.053	8.241	7.495	6.806	6.173
	35	10.599	9.703	8.876	8.113	7.410	6.760
	40	11.106	10.200	9.362	8.589	7.874	7.213
	45	11.487	10.573	9.728	8.948	8.226	7.558
	50	11.769	10.851	10.002	9.216	8.490	7.818
8½	20	7.844	7.022	6.269	5.581	4.953	4.380
	25	8.903	8.047	7.262	6.542	5.882	5.277
	30	9.728	8.850	8.042	7.299	6.616	5.989
	35	10.361	9.467	8.644	7.885	7.187	6.545
	40	10.840	9.935	9.101	8.332	7.624	6.971
	45	11.196	10.285	9.444	8.668	7.952	7.293
	50	11.459	10.543	9.697	8.917	8.197	7.532
8½	20	7.721	6.899	6.149	5.465	4.842	4.275
	25	8.742	7.887	7.104	6.388	5.733	5.135
	30	9.531	8.654	7.849	7.111	6.434	5.813
	35	10.133	9.241	8.420	7.667	6.974	6.339
	40	10.584	9.682	8.851	8.087	7.384	6.739
	45	10.918	10.009	9.172	8.401	7.692	7.039
	50	11.163	10.249	9.407	8.632	7.918	7.261
9	20	7.485	6.665	5.920	5.243	4.629	4.073
	25	8.433	7.581	6.804	6.096	5.451	4.865
	30	9.158	8.283	7.484	6.755	6.088	5.481
	35	9.702	8.812	7.998	7.255	6.574	5.952
	40	10.105	9.205	8.382	7.628	6.937	6.306
	45	10.399	9.493	8.663	7.902	7.206	6.568
	50	10.612	9.702	8.867	8.102	7.401	6.759

TABLE II.—Valuation factors, premise B, remaining value 10 percent of capitalized value at beginning of typical year

Capitalization rate (percent)	Economic life (years)	Number of years typical year's income is deferred					
		None	1 year	2 years	3 years	4 years	5 years
6	20	8.850	8.049	7.302	6.605	5.956	5.351
	25	10.296	9.458	8.674	7.940	7.254	6.613
	30	11.517	10.651	9.838	9.076	8.362	7.694
	35	12.536	11.648	10.814	10.031	9.296	8.606
	40	13.376	12.473	11.623	10.824	10.073	9.367
	45	14.063	13.148	12.287	11.476	10.713	9.996
	50	14.618	13.695	12.825	12.006	11.235	10.508
6½	20	8.699	7.899	7.153	6.460	5.815	5.216
	25	10.089	9.252	8.470	7.740	7.059	6.425
	30	11.255	10.389	9.579	8.821	8.113	7.451
	35	12.220	11.333	10.502	9.724	8.994	8.312
	40	13.010	12.108	11.262	10.467	9.723	9.024
	45	13.651	12.737	11.880	11.074	10.318	9.608
	50	14.165	13.244	12.378	11.564	10.799	10.081
6¾	20	8.553	7.752	7.009	6.319	5.678	5.085
	25	9.890	9.053	8.273	7.547	6.871	6.243
	30	11.002	10.137	9.330	8.577	7.874	7.218
	35	11.917	11.031	10.203	9.429	8.706	8.030
	40	12.661	11.760	10.917	10.127	9.389	8.698
	45	13.259	12.347	11.493	10.693	9.943	9.241
	50	13.737	12.817	11.954	11.146	10.388	9.678
6%	20	8.410	7.610	6.868	6.182	5.546	4.958
	25	9.697	8.860	8.083	7.360	6.689	6.067
	30	11.759	9.895	9.091	8.341	7.644	6.995
	35	11.627	10.742	9.917	9.148	8.430	7.761
	40	12.327	11.428	10.588	9.803	9.071	8.387
	45	12.887	11.977	11.126	10.330	9.587	8.893
	50	13.330	12.412	11.553	10.750	9.999	9.296
7	20	8.272	7.472	6.732	6.049	5.417	4.835
	25	9.510	8.674	7.899	7.180	6.514	5.898
	30	10.525	9.662	8.860	8.115	7.423	6.780
	35	11.349	10.465	9.643	8.878	8.166	7.504
	40	12.009	11.111	10.274	9.494	8.768	8.091
	45	12.533	11.624	10.776	9.986	9.249	8.562
	50	12.945	12.028	11.173	10.375	9.630	8.936
7½	20	8.137	7.338	6.600	5.920	5.293	4.716
	25	9.329	8.494	7.721	7.006	6.345	5.735
	30	10.300	9.438	8.638	7.897	7.211	6.575
	35	11.082	10.200	9.380	8.620	7.914	7.259
	40	11.705	10.808	9.974	9.199	8.479	7.810
	45	12.195	11.288	10.444	9.659	8.928	8.248
	50	12.579	11.664	10.812	10.019	9.281	8.594
7¾	20	8.007	7.207	6.471	5.794	5.172	4.600
	25	9.155	8.320	7.549	6.838	6.182	5.577
	30	10.083	9.222	8.425	7.688	7.006	6.377
	35	10.826	9.945	9.128	8.372	7.672	7.024
	40	11.414	10.518	9.658	8.917	8.203	7.541
	45	11.874	10.968	10.127	9.347	8.622	7.950
	50	12.231	11.318	10.470	9.632	8.950	8.271

PROCEDURE PRIOR TO COMMITMENT

TABLE II.—Valuation factors, premise B, remaining value 10 percent of capitalized value at beginning of typical year—Continued

Capitalization rate (percent)	Economic life (years)	Number of years typical year's income is deferred					
		None	1 year	2 years	3 years	4 years	5 years
7%	20	7.879	7.080	6.346	5.672	5.054	4.488
	25	8.985	8.151	7.382	6.675	6.024	5.425
	30	9.874	9.013	8.219	7.486	6.810	6.186
	35	10.580	9.700	8.887	8.135	7.440	6.798
	40	11.135	10.241	9.414	8.648	7.940	7.284
	45	11.567	10.663	9.825	9.050	8.332	7.667
	50	11.900	10.989	10.144	9.361	8.636	7.964
8	20	7.755	6.957	6.224	5.554	4.941	4.380
	25	8.821	7.988	7.221	6.517	5.871	5.278
	30	9.672	8.812	8.021	7.292	6.621	6.004
	35	10.344	9.465	8.654	7.907	7.218	6.583
	40	10.868	9.976	9.151	8.390	7.688	7.040
	45	11.274	10.371	9.537	8.767	8.055	7.397
	50	11.585	10.675	9.834	9.056	8.337	7.673
8½	20	7.635	6.836	6.106	5.439	4.830	4.274
	25	8.663	7.829	7.065	6.365	5.724	5.136
	30	9.477	8.619	7.829	7.104	6.439	5.828
	35	10.116	9.239	8.431	7.688	7.005	6.376
	40	10.613	9.721	8.900	8.144	7.447	6.806
	45	10.994	10.093	9.262	8.496	7.790	7.140
	50	11.285	10.377	9.539	8.766	8.054	7.396
8¾	20	7.518	6.719	5.991	5.327	4.722	4.172
	25	8.509	7.676	6.914	6.218	5.581	5.000
	30	9.289	8.431	7.645	6.924	6.263	5.659
	35	9.898	9.021	8.217	7.478	6.800	6.178
	40	10.368	9.478	8.660	7.908	7.217	6.583
	45	10.726	9.827	9.000	8.238	7.539	6.895
	50	10.998	10.092	9.258	8.490	7.784	7.134
9	20	7.292	6.494	5.770	5.113	4.517	3.976
	25	8.215	7.383	6.626	5.937	5.310	4.739
	30	8.932	8.076	7.295	6.582	5.932	5.339
	35	9.485	8.611	7.812	7.082	6.415	5.805
	40	9.907	9.020	8.208	7.465	6.786	6.165
	45	10.225	9.329	8.508	7.756	7.068	6.439
	50	10.463	9.561	8.734	7.976	7.281	6.646

TABLE II.—Annuity factors, premise C; remaining value 10 percent of capitalized value at beginning of typical year

Capitalization rate (percent)	Economic life (years)	Number of years typical year's income is deferred					
		None	1 year	2 years	3 years	4 years	5 years
6	20	8.557	7.789	7.072	6.403	5.779	5.199
	25	9.929	9.124	8.371	7.667	7.009	6.394
	30	11.097	10.263	9.481	8.748	8.062	7.419
	35	12.086	11.228	10.423	9.667	8.958	8.293
	40	12.918	12.041	11.216	10.442	9.715	9.032
	45	13.612	12.720	11.881	11.092	10.350	9.653
6½	20	8.414	7.645	6.930	6.264	5.644	5.068
	25	9.734	8.929	8.178	7.477	6.823	6.214
	30	10.851	10.017	9.236	8.507	7.826	7.189
	35	11.789	10.932	10.129	9.376	8.672	8.014
	40	12.574	11.697	10.875	10.105	9.383	8.707
	45	13.224	12.333	11.497	10.712	9.976	9.286
6¾	20	8.275	7.506	6.792	6.129	5.513	4.942
	25	9.546	8.741	7.991	7.293	6.644	6.040
	30	10.614	9.780	9.001	8.275	7.598	6.968
	35	11.505	10.648	9.846	9.098	8.399	7.747
	40	12.245	11.369	10.550	9.783	9.067	8.397
	45	12.855	11.965	11.131	10.351	9.621	8.937
7	20	8.140	7.371	6.658	5.997	5.386	4.820
	25	9.364	8.559	7.811	7.116	6.471	5.872
	30	10.385	9.551	8.775	8.052	7.380	6.755
	35	11.232	10.375	9.576	8.832	8.138	7.492
	40	11.931	11.056	10.239	9.477	8.766	8.103
	45	12.504	11.614	10.783	10.007	9.283	8.607
7½	20	7.882	7.112	6.401	5.746	5.143	4.587
	25	9.018	8.212	7.467	6.779	6.142	5.554
	30	9.953	9.119	8.347	7.631	6.968	6.355
	35	10.719	9.863	9.069	8.332	7.648	7.014
	40	11.344	10.470	9.658	8.904	8.204	7.554
	45	11.849	10.962	10.137	9.370	8.657	7.994
8	20	7.758	6.987	6.278	5.626	5.027	4.476
	25	8.853	8.047	7.304	6.618	5.986	5.404
	30	9.749	8.915	8.144	7.432	6.774	6.166
	35	10.478	9.622	8.830	8.097	7.418	6.791
	40	11.069	10.196	9.387	8.637	7.942	7.299
	45	11.545	10.658	9.836	9.073	8.366	7.710
8½	20	7.626	6.855	6.146	5.494	4.895	4.344
	25	8.711	7.871	7.128	6.420	5.788	5.206
	30	9.607	8.747	7.974	7.244	6.596	5.997
	35	10.336	9.451	8.630	7.873	7.164	6.566
	40	10.927	10.022	9.191	8.407	7.697	7.044
	45	11.403	10.487	9.645	8.836	8.126	7.454
9	20	7.500	6.729	6.020	5.368	4.769	4.218
	25	8.585	7.729	6.986	6.292	5.660	5.088
	30	9.481	8.609	7.836	7.106	6.474	5.883
	35	10.210	9.304	8.483	7.740	7.031	6.440
	40	10.801	9.873	9.042	8.276	7.567	6.976
	45	11.277	10.337	9.501	8.697	7.988	7.397
9½	20	7.374	6.603	5.894	5.242	4.643	4.092
	25	8.459	7.603	6.860	6.184	5.552	4.980
	30	9.355	8.471	7.698	6.958	6.326	5.735
	35	10.084	9.146	8.325	7.592	6.903	6.312
	40	10.675	9.717	8.886	8.130	7.441	6.850
	45	11.151	10.177	9.345	8.583	7.894	7.303
10	20	7.248	6.477	5.768	5.116	4.517	3.966
	25	8.333	7.477	6.734	6.072	5.440	4.888
	30	9.229	8.305	7.532	6.798	6.166	5.594
	35	9.958	8.957	8.136	7.402	6.713	6.141
	40	10.549	9.528	8.707	7.972	7.283	6.711
	45	11.025	10.003	9.181	8.446	7.757	7.185

PROCEDURE PRIOR TO COMMITMENT

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TABLE II.—Annuity factors, premise C, remaining value 10 percent of capitalized value at beginning of typical year—Continued

Capitalization rate (percent)	Economic life (years)	Number of years typical year's income is deferred					
		None	1 year	2 years	3 years	4 years	5 years
7%	20	7.637	6.866	6.159	5.509	4.914	4.368
	25	8.693	7.887	7.146	6.463	5.835	5.258
	30	9.551	8.718	7.949	7.241	6.587	5.985
	35	10.246	9.391	8.601	7.872	7.198	6.576
	40	10.806	9.933	9.127	8.381	7.692	7.055
	45	11.254	10.368	9.549	8.791	8.089	7.440
	50	11.611	10.716	9.886	9.118	8.407	7.748
8	20	7.519	6.749	6.043	5.396	4.804	4.263
	25	8.538	7.732	6.992	6.313	5.690	5.117
	30	9.361	8.528	7.761	7.056	6.407	5.811
	35	10.023	9.168	8.381	7.655	6.987	6.371
	40	10.553	9.682	8.878	8.136	7.452	6.821
	45	10.976	10.091	9.275	8.521	7.825	7.182
	50	11.311	10.417	9.590	8.827	8.121	7.470
8½	20	7.405	6.634	5.929	5.286	4.698	4.161
	25	8.388	7.582	6.844	6.168	5.548	4.982
	30	9.177	8.344	7.580	6.878	6.234	5.643
	35	9.808	8.954	8.169	7.447	6.784	6.174
	40	10.311	9.441	8.639	7.902	7.223	6.599
	45	10.710	9.827	9.013	8.263	7.573	6.937
	50	11.025	10.132	9.308	8.549	7.850	7.205
8¾	20	7.293	6.522	5.819	5.178	4.594	4.063
	25	8.242	7.437	6.700	6.027	5.412	4.850
	30	8.999	8.167	7.404	6.706	6.067	5.481
	35	9.602	8.748	7.965	7.247	6.589	5.985
	40	10.079	9.209	8.411	7.677	7.004	6.385
	45	10.455	9.573	8.762	8.017	7.332	6.703
	50	10.751	9.859	9.039	8.285	7.591	6.953
9	20	7.079	6.308	5.608	4.972	4.396	3.874
	25	7.963	7.159	6.426	5.759	5.152	4.601
	30	8.661	7.830	7.072	6.380	5.750	5.176
	35	9.211	8.359	7.581	6.870	6.221	5.629
	40	9.641	8.774	7.980	7.255	6.592	5.936
	45	9.978	9.098	8.273	7.557	6.883	6.266
	50	10.240	9.351	8.537	7.792	7.110	6.485

2640. The Capitalization rate represents an estimate of the rate of return required from a rental housing project in order to attract capital seeking investment. This rate is determined largely by the estimated degree of risk to capital inherent in the project seeking capital investment. A capitalization rate may be considered as a total or summation of its several component parts. A "perfect" or "ideal" investment would, of course, be able to attract capital at the lowest possible rate of return. Such an ideal or perfect investment would have the following attributes:

- a. Absolute safety of principal.
- b. Absolute certainty of payment of return (interest, dividends, etc.)
- c. Absolute regularity of payment of return (interest, dividends, etc.).
- d. 100% liquidity (ability to convert into cash quickly and at small cost).
- e. No burden of management (of the investment itself, such as bookkeeping, collection, etc. or of the assets which produce the return).

As investments offered to the investing public depart from the above perfect or ideal criteria, rates of return offered to investment capital must be increased to compensate for added risks or burdens. Capitalization rates applicable to net incomes derived from real estate and other investments also vary from time to time according to the volume of capital seeking investment, national economic conditions, and the rates offered by all other types of investments, including real estate mortgages, seeking capital competitively in the open market. The capitalization rates included in the Annuity Factors set forth in Table II are on an "overall" and not a "split rate" basis, by reason of the fact that all producing assets of the project (land, buildings, etc.) are considered to comprise a single entity in the production of estimated net income to be received from the project in its entirety and as a single producing economic good. Basic capitalization rates currently applicable to projects proposed for FHA mortgage insurance may be varied within the limits indicated in order to reflect considered opinions of increased or decreased risks to capital investment arising by virtue of project location, suitability of project plans and layout, rental trends, and other appraisal data developed during project processing.

2641. Economic life, as used in connection with rental housing projects offered as security for Federal Housing Administration insured mortgages, may be defined as the estimated length of time which will elapse between the date of completion of the project and the time when project structures will no longer produce a net income above that required to support a 10% remaining value. (NOTE.—In the case of structures with accumulated age, the estimated productive life span is referred to as *remaining* economic life.) It will be noted from the above definition that the sole determinant of economic life, in rental housing project valuation, is ability to produce a stream of net dollar annual income and, therefore, refers to economically useful life and has no reference to physical life except that it assumes the structures will endure physically longer than they will economically. In the absence of definite evidence to the contrary,

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and especially in cases of ordinarily sound construction, this assumption will be made. Estimates of economic life must include consideration of project location in relation to the trend of desirable residential growth in the community, probable susceptibility or resistance of the project to more than normal accrual of obsolescence and other inherent or environing factors which might tend to shorten, sustain, or prolong the net income-producing capacity of the project. Large projects covering several acres or more of land tend to develop their own environment; therefore, are more able to resist the encroachment of undesirable environing influences with consequential prolongation of net income-producing capacities. Conversely, smaller projects developed on typical plots are subject to the same general influences which determine the economic lives of similar properties located in the neighborhood.

2642. The following definition of "depreciation" with the segregation of its component factors, will indicate that economic lives of structures are not largely determined by type of building construction, such as fireproof, semifireproof and nonfireproof, except that more solid construction develops a greater assurance that structures will endure physically throughout their contemplated economic lives, as noted above. "Depreciation" may be defined as loss of value from any cause. The three principal factors of depreciation are:

- a. *Physical deterioration* of structures and equipment arising from the action of the elements, normal use (wear and tear), abuse, etc. Obviously this factor refers only to the component physical parts of a project and is provided for, in major part at least, by the establishment of annual charges and reserves for repairs and replacements.
- b. *Functional obsolescence* refers to loss in value which may be suffered by over or under capacity of the project or any of its component parts (excessive number of units for absorption by the community in the present or the future, too large or too small room sizes, excessive hall or other space developing a cost not justified by income, inadequate heating plant, etc.) and changes in the arts. This factor is also provided for in part by the establishment of a "Reserve for Replacement" of obsolete equipment but provision cannot be made against the possibility of need for future changes in project design and layout; hence the desirability of originally designed units having a high degree of livability and the avoidance of fadism. Careful architectural examination, land planning consultation and appraisal procedure required by the Federal Housing Administration, will tend to reduce "Functional obsolescence" to a minimum.

- c. *Economic obsolescence* refers to the effect on value caused by external economic conditions, such as declines in the general social and income position of neighborhood occupants, changes in the use of the subject or environing land, changes in national or community economic conditions and the exercise of municipal or other police powers affecting property rights, etc. This factor seldom can be controlled by any single property except in part, as in the case of large projects, above noted. Even though property owners are able to maintain their properties in excellent physical condition and a high degree of efficiency and livability, a decline in neighborhood desirability, city-wide economic conditions, etc., will inevitably have an adverse effect upon the net income-producing capacities of their properties.

Each of the three factors of depreciation must be considered when making estimates of probable economic lives of project structures.

2643. Provision for depreciation is made in relation to time of occurrence, as follows:

- a. *Future (or anticipated) depreciation* refers to estimated loss of value which will be suffered by a property during its future life.
- b. *Accrued depreciation* refers to loss in value which existing properties have experienced from date of completion to the date of the depreciation computation. Estimates of this accrual on comparative properties are useful only as a guide to judgment in making estimates of the probable rate at which depreciation will accrue in the future, and which in turn will assist in the estimation of probable economic lives of project structures.

Charges to offset estimated future depreciation generally are made on an annual basis. Inasmuch as the Annuity Premises provide for a return of capital value during the estimated economic lives of structures (except as to the 10% assumed remaining value, above noted) and that the capital return is tantamount to depreciation, no separate depreciation charge is required.

2644. **Income Deferment.** Relatively large rental housing projects proposed for insurance under Section 207 frequently will require an interval of one year or longer after completion in order to obtain tenants and consummate proposed rental programs. During this period of project development, estimated project occupancy will not be achieved and the estimate of typical project income, as expressed at "Estimated Net Income after Operating Expenses and Taxes" in the "Estimated Annual Operating Statement" section of

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the form, will not be realized. Therefore, an opportunity is given to defer a portion of typical project income for from one to three years after date of project completion pursuant to experience previously developed by comparable projects. If such deferment is assumed, the discount factor set forth at Table I, for the number of years of deferment and at the same capitalization rate used in the Annuity Factor, shall be applied to the percentage of typical year's income assumed, according to the following example:

If it is assumed that the first year's net income from the project will be only 60% of the typical year and that full typical year's income will be achieved the second year after completion of the project, and the capitalization rate will be 7½%, the first blank line on the form would be filled in as follows:

Typical year's income	×	Percent assumed	=	Estimated first year's income	×	Discount factor	=	Result
\$100, 000		60%		\$60, 000		. 930		\$55, 800

The second and third lines immediately following may be used for additional deferment of typical year's income, if indicated. "Typical year's income" × the "Capitalization factor" will be used for the development of the balance of capitalized value. Referring to the above example, this computation is expressed as follows: "Typical year's income . . . \$100,000 × Capitalization factor 11.516 (Table II, Premise A, 7½%, 50-year economic life, deferred one year) = \$1,151,600 plus \$55,800 = 'Capitalized Value of Estimated Net Income' . . . \$1,207,400." The Annuity Factor employed (Table II) shall be selected from the column showing the number of years of typical net income deferment. In cases where no deferment is estimated, the Annuity Factor shall be selected from the first column shown on Table II.

2645. Capitalized Value results from the application of the income Premise, capitalization rate and economic life estimates to the estimated net income. In the mechanics of capitalization, the estimated net income (typical year's income) may be considered as the original *volume* of annual net dollars estimated to be produced by the project; the Income Premise (A, B, or C, Table II) is the estimated future *trend* of that volume; the estimated economic life of the structures represents the *duration* of that volume (above that required to support a 10% remaining value) and the capitalization rate represents the composite rating of the degree of risk to investment and other component capitalization rate factors previously discussed, which is applicable to the project under examination. The computations required in the capitalization of estimated income section of the form result in an estimate of capitalized value of the project in its *entirety*.

Remarks

2646. Immediately following the "Capitalization of Estimated Net Income" section of the form, space is provided for the justification and explanation of the use of income premise, capitalization rate and economic life estimates applied to the net income of the project under examination. Each of the factors must be discussed in the order named, *in every* case. No FHA Form 2264 will be considered to be completed or acceptable to the Washington Office unless such justification and explanation have been made. Remarks need not be in complete detail but must clearly outline and indicate reasons for selection of the specific income premise, capitalization rate, and economic life used in the capitalization process. If additional space is required, a memorandum should be attached to the form at the bottom of page 2.

Estimated Cost of Improvements

2647. This section of the form incorporates estimates of costs of construction prepared in accordance with the requirements set forth in section 5 part 2 of this manual.

2648. Fees.

- a. *Builder's Fee.* In arriving at a conclusion regarding the rate of "Builder's fee" it must be borne in mind that builder's overhead has been included in the field cost estimates. Therefore the builder's fee estimated here will be net. The amount of the fee will be computed upon the total of all entries under "Improvements to Land" and "Structures," except "Contingency allowance" and "Surety bond," at a rate which is in keeping with local practice, size of project and the character and amount of services rendered.
- b. *Architect's Fee.* The rate of "Architect's fee" is estimated by a method of computation similar to that used in arriving at "Builder's fee" with due consideration being given to the standards of fees and practice of recognized professional societies. The amount of the fee will be computed at the rate chosen upon the total of all entries under "Improvements to Land" and "Structures," except "Contingency allowance" and "Surety bond," plus the amount of the "Builder's fee." The estimate of "Architect's fee" will include the fees of the landscape architect and fees for the services of mechanical engineers or other services required by the architect in the design and supervision of construction of the proposed project.

2649. Total Estimated Cost of Structures Plus Fees will be a summation of the estimated construction costs set forth under "Structures" and "Fees."

2650. Total for all Improvements will be a summation of "Total cost of structures plus fees" and total of "Improvements to Land (Within property lines)."

2651. Carrying Charges; Financing; Organization. These items refer to costs to be incurred incident to construction and have no reference whatever to estimated costs of operation of the project subsequent to completion of construction. The various items comprising these charges are set forth on the form in exactly the same sequence as they are on the FHA Form 2013 (Application for Mortgage Insurance). They are to be estimated as follows:

- a. *Interest* represents the amount estimated to accrue during the anticipated period of construction on the basis of the stipulated annual interest rate and computed on one-half of the amount of the proposed mortgage. One-half of the mortgage amount is used as an estimate of the median amount of the indebtedness during the period of construction as the loan is disbursed from time to time.
- b. *Taxes* (real estate) as here entered refer to the amount of state, county, and municipal taxes which will accrue against the real estate during the period of construction only.
- c. *Insurance* (fire, windstorm, liability, etc. during construction) refers to the estimated cost incurred during the period of construction of the project for insurance protection for the benefit of the mortgagor and mortgagee against losses by fire, windstorm, and other hazards customarily insured against in the community. The estimate must also include the cost of owner's contingent liability insurance during the construction period.
- d. *FHA mortgage insurance premium* shall be computed at the rate of one-half of one percent of the face amount of the proposed mortgage. This estimate is tentative until the amount of the insurable mortgage is finally determined subsequent to completion of the appraisal process.
- e. *FHA examination fee* shall be computed at the rate of three-tenths of one percent on the face amount of the proposed mortgage. Method of payment of the "Examination Fee" is set forth in the applicable Administrative Rules, FHA Form 2012 or 2012a.
- f. *Financing expense.* If financing expense is charged, it shall be computed on the face amount of the proposed mortgage at the rate agreed upon between the sponsor and the mort-

- gagee, but subject to limitations set forth in the applicable Administrative Rules and Regulations under Section 207, FHA Form 2012 or 2012a. This estimate, when required, also is subject to final insured mortgage determination, except in cases where agreements between sponsors and mortgagees provide for the payment of a financing fee less than the administratively prescribed maximum.
- g. *Title and recording expense* shall be an amount estimated to cover recording fees, mortgage and stamp taxes, if any, and costs of survey and title insurance. (See applicable Administrative Rules and Regulations.)
 - h. *Legal expense* is an amount estimated to be sufficient to furnish adequate counsel and legal services to the sponsor during the period of organization and construction.
 - i. *Organization expense* and *Other estimated expenses* shall be entered only after adequate explanation by the sponsor in the exhibits.

In the absence of obviously excessive charges or errors, the amounts of the last four items set forth immediately above as shown on the appurtenant FHA Form 2013 will be acceptable estimates, except that "Organization expense" and "Other estimated expenses" are required to be adequately explained.

- j. *Total Carrying Charges; Financing; Organization* will be a summation of the enumerated items.

2652. Total Estimated Cost (Exclusive of Land and Required Construction off the Site) results from the addition of "Total Carrying Charges; Financing; Organization" to "Total for All Improvements" set forth immediately above it.

2653. Fair Market Price for this Parcel of Land in Fee Simple (From FHA Form 2401). The amount set forth for this item will be the estimate of the "fair price on the current market for this parcel of land in fee simple" as set forth on FHA Form 2401. This price will include the "Mandatory conditions," if any, set forth on the latter form. No other amount may be entered here, except that estimated costs of demolition of existing structures may be deducted from the land price estimate set forth on FHA Form 2401 when such costs are indicated on that form. The square foot area and price per square foot shall be entered on the line provided.

2654. Total (Summation) is the sum of the two figures set forth immediately above. This total is sometimes referred to as a "summation appraisal." It must be noted that "summation" here refers entirely to a summation of "Total estimated cost" plus a fair land price established by comparison and taken from FHA Form 2401.

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"Summation" has no direct relation to project value as developed by the capitalization process outlined above. The applicability of "summation" to the final estimate of project value is discussed in paragraphs 2658-2660 of this manual.

Estimated Fair Market Value of Entire Property

2655. Comparisons of the project under examination with comparable existing properties, when available, constitute important guides in the final determination of project value. When making such comparisons care must be taken to make certain that properties used in comparison actually are comparable with the project under examination with regard to location, size, type, and facilities and services offered tenants. Properties securing Federal Housing Administration insured mortgages and which are *in operation* are desirable for purposes of comparison. It will be noted that this section of the form requires the listing of the location, number of families, number of rooms, total rents, age of buildings, comparative location (which may be stated as "inferior," "equal," or "superior") and the FHA project number, if any, of all existing properties used in the comparative process. The form does not require a statement of the estimated value of comparative properties. If no comparisons are available, there shall be stated under "Location": "No comparisons available." Estimates of total project value developed by this means shall be entered on the line provided in this section. Valuation by comparison, when available, must be made strictly pursuant to the requirement set forth in paragraphs 2661 to 2665 inclusive.

Appraisal Summary

2656. This section of the form develops the "bracket" of value estimates within which will be made the final estimate of project value set forth in "Certification of Value," immediately following. The estimate of "Capitalized Value of Estimated Net Income" as developed in the "Capitalization of Estimated Net Income" section of the form (page 2) will be entered at "Capitalization." The summation developed at the last line under "Estimated Cost of Improvements" section of the form (page 3) will be entered at "Summation" and the valuation developed by comparison in the "Estimated Fair Market Value of Entire Property" section of the form (page 3), if made, will be entered at "Comparison."

Certification of Value

2657. The "Certification of Value" requires a final estimate of project value on completion. The three approaches to the final estimation of project value, which have been set forth in the "Appraisal Summary" section of the form, are here required to be resolved into a final estimate of fair value of the property (project) on completion. The value determined may be identical with that entered at "Capitalization," "Summation," or "Comparison" in the "Appraisal Summary." Determinations, however, must be guided by a careful consideration of significant data reported on page 1 and at Item B, "Comparison Grid for Determining Relative Desirability of Project and Comparable Sites," on page 2 of the appurtenant FHA Form 2401. These data must be carefully interpreted before the final determination of project value is entered at the "Certification of Value" section of FHA Form 2264. It must be noted particularly whether the subject site is reported on FHA Form 2401 to be "superior," "equal," or "inferior" with regard to important factors of comparison included in the "Comparison Grid."

2658. If the Comparison Grid (FHA Form 2401) indicates the subject site as being a *superior* site in the community, it may, in the absence of definite evidence to the contrary, be assumed to have particular and permanent advantages and, hence, may have maximum income-producing capacity when developed by the project structures. In such case, it may be found that the estimated capitalized value of the project will exceed the "summation" appraisal. Capitalized value is always of prime significance in the valuation of income-producing realty because of its expression as the present worth of the future income-producing capacity of a property. In the instant case it may be given preponderant weight in the selection of the final valuation estimate provided that the advantages of location which have developed the "superior" rating by comparison in the FHA Form 2401 are of a permanent nature. Therefore, it is possible that the final estimate of value may exceed the "summation." In no instance may the final estimate of value reported on the form exceed the "summation" by more than ten per cent.

2659. If the Comparison Grid (FHA Form 2401) indicates the subject site as being *equal* in desirability with other sites used in comparison, it must then be considered as being competitive with them and offering no especial advantages of location. Therefore, it is possible that other equally desirable projects may be developed which will be fully competitive with the project under examination. Since "competition tends inexorably to sheer off earnings in excess of those required to support cost of reproduction," summation will be the

preponderant factor in determining the upper limit of assignable value in this instance, subject, of course, to downward revision and possible rejection of the project in the event capitalization develops a value substantially less than summation. The National Housing Act as Amended, FHA Form 107, Section 207 (c), states: "No mortgage shall be accepted for insurance under this section (207) unless the Administrator finds that the property or project, with respect to which the mortgage is executed, is economically sound." If the estimated cost of reproduction of the proposed project (summation) exceeds the estimate of capitalized value by more than five per cent thereof, the "economic soundness" of the project must be seriously questioned. If valid reasons exist for a discrepancy greater than five per cent, a final estimate of value may be stated and the reasons therefor given in detail in memorandum form attached to the bottom of page 3 of the form. This latter procedure will occur only in very unusual cases.

2660. If the Comparison Grid (FHA Form 2401) indicates the subject site as being "*inferior*" to other comparable sites and still has been reported as being acceptable for use as a site for the project under examination, the factors set forth in the grid which have developed the "*inferior*" rating must be carefully weighed in order to determine the relative importance of the reported inferiority. If the subject site is reported as being "*inferior*" with regard to city-wide, neighborhood, or site factors which are considered to be of prime importance to the subject project, the project may be rejected. However, if the "*inferior*" ratings are developed by factors of relatively inconsequential import to the project and there is evidence of strong and continuing rental demand in the subject district, the site may be considered to be acceptable. However, a site which is reported to be "*inferior*" to all other sites with regard to important factors used in comparison must be rejected. Final determination of value in connection with projects developed on sites falling in the "*inferior*" rating categories which are considered to be acceptable, is subject to the same limitations of use of the capitalization and summation approaches as those set forth in paragraph 2659 of this manual.

2661. The estimate of value by comparison, as provided for in the preceding section of the form, is of prime importance in the determination of the final value estimate when sufficient comparative data are available to permit the formation of a conclusive opinion. This estimate is especially significant with regard to projects consisting of comparatively small rental housing properties to be located in metropolitan areas previously developed or currently being developed with income-producing residential properties. "Value by comparison" refers to the sum which typical rental-housing property owners

are warranted in paying for a property for long-term ownership. Therefore, it presumes a price which is justified by the long-term benefits (net income) to be collected as a right of property ownership. "Value by comparison" is frequently referred to as the "substitution theory" or the "principle of substitution." It refers primarily to a consideration of the lowest price which a typical buyer, who is well informed of current market conditions and who is acting without compulsion, would be justified in paying for a property and is limited by the lowest price which such buyer would be obliged to pay for an equally desirable existing property and by the cost to reproduce an equally desirable property.

2662. Based on the foregoing concept, "value by comparison" is defined as an estimate of the "sum that represents the present worth of the future benefits derivable from a property by typical owners through long-term ownership, provided such sum is not more than the price at which equally desirable properties can be replaced by typical, well-informed, intelligently acting purchasers." The qualifications of this definition require that three separate estimates be made for the purpose of making an estimate of "value by comparison," namely:

- a. estimate of value by capitalization,
- b. estimate of replacement cost of entire property (summation),
- c. estimate of available market price.

Previous paragraphs in this manual refer to estimates a and b. "Available market price" is the highest price that typical buyers in the open market will pay for a property on terms usual in the community but assuming that such buyers have knowledge of and will pay no more than the lowest price at which equally desirable properties can be bought on the same terms and conditions. The estimate is based on transactions for all cash to the seller, through the use by buyers of available financing, except financing ("take back") by the seller.

2663. "Available market price" assumes a free and competitive market of sufficient activity to provide data regarding numerous recent sales of comparable properties. The price paid for a single comparable property or the price paid under foreclosure or forced sale does not constitute a sufficient criterion for the estimation of "available market price." When testing known sale prices for acceptability as data in the estimation of the "available market price" of the subject property, careful comparisons must be made of the environmental influences of each property used in the comparison. This necessitates many comparisons relating to the characteristics, environments, desirability, and especially the net income-producing

capacities of the subject property and of comparable properties involved in the known sales and listing transactions or negotiations. It is also necessary that the following information regarding sales of comparable properties be had:

- a. The date of sale and general economic conditions then prevailing in the community.
- b. The terms of sale.
- c. The actuating motives of buyers and sellers.
- d. The relative intelligence of buyers and sellers.
- e. The relative skill of buyers and sellers in negotiating and bargaining for the transaction.

2664. Obviously, the value of a rental housing property springs primarily from its ability to produce net income. Therefore, if a "value by comparison" in an amount in excess of the estimate of capitalized value were found, it would indicate that the current market is capitalizing net income at a rate lower than that used in the capitalization process; that the current market is anticipating higher rentals or a longer net income term (economic life) and, therefore, greater total net income; or that some unstable or erroneous relation between current market price and value existed. When income, operating expense, taxes, income premise, capitalization rate and replacement costs of the entire subject property are competently estimated on the FHA Form 2264, "value by comparison" will not exceed "capitalized value" or "summation value." *In no instance may the final estimate of value as stated under "Certification of Value" exceed the valuation developed by capitalization.*

2665. It will be noted that the location of the project site in comparison with other comparable sites has been given great weight in the selection of the principal approach to the final valuation estimate; therefore, it is incumbent that an especially careful study be made of all docketed and other available information relative to this item. Well-designed projects of comparatively large size and which meet the requirements of anticipated tenants with regard to rents charged and services offered; frequently have the effect of enhancing the desirability of the neighborhood in which they are situated, with consequentially increased neighborhood land values. Location, design, size, and management constitute important attributes of any rental housing project. Capable management may be assumed but the attributes of location, design and size must be considered during all stages of the appraisal process and particularly at the time of determination of the final value estimate.

2666. After determination of the final estimate of value of the project in its entirety and in consideration of its total estimated net income-producing capacity, and the statement of the estimate of

fair value in the space provided in the form, a "breakdown" of the value into "Land (including land improvements within property lines)" and "Structures (main buildings, garages, etc.)" is required. This "breakdown" is without significance in the prescribed valuation procedure and is made solely for convenience and to conform with custom. The "breakdown" is made by deducting from "Total Estimated Cost Exclusive of Land," the total of "New Utilities and Landscape Work" and entering the remainder on the line opposite "Structures (main buildings, garages, etc.)." This remainder will be subtracted from the total estimated fair value set forth immediately above in the "Certification of Value" section of the form and the remainder entered on the line opposite "Land (including land improvements within property lines)." "Total, (as above)" results from the addition of the two amounts entered and will be identical with the total estimated value. It will be noted that this "breakdown" has no connection whatever with the so-called "land residual" or "building residual" methods of capitalization but is made solely for the purposes stated above. Paragraph 2340 of this manual requires that the benefits, if any, of off-the-site construction shall be reflected in the estimate of "fair price on the current market" for the land as set forth on FHA Form 2401. Such benefits also are necessarily reflected in the estimates of obtainable rents and occupancy percentage. Therefore, these benefits are in turn reflected in the capitalization and summation value estimates. When the Administration is put on notice during appraisal processing that a future special assessment for off-the-site construction or other charges will be made, the "Fair Value of the Property, on completion" will be set forth under "Remarks" and the total known amount of the special assessment or other lien will be deducted therefrom. The amount remaining after deduction of the lien shall be the amount used as a basis to compute the maximum amount of FHA insurable mortgage and the other mortgage pattern computations required on page 4 of the form. Annual payments to be made on account of the special assessment or other lien having priority over the proposed FHA insured mortgage shall also be recorded on the form, pursuant to requirements of paragraph 2678d.

2667. Remarks. The reasons for final opinion of fair value of the property on completion as set forth under "Certification of Value" shall be explained under "Remarks." A brief outline shall be given of the considerations which have been given preponderant weight in formulating the judgment leading to the final estimation of the project value on completion. An example of such an outline might be the statement that: "Capitalization develops value slightly in excess of summation; however project will be competitive with existing properties. Therefore summation is considered to be principal

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approach to value and has been so used;" or: "Project site has been favorably reported on FHA Form 2401 and is considered to be acceptable for development. Capitalization develops value less than summation but within the zone of tolerance (5%). Capitalization has been given preponderant weight in the final determination of valuation estimate." The above examples are not to be considered as typical but are given merely to illustrate the requirement of explanatory statements.

General

2668. Page 3 of the form will be completed by the insertion of the date of completion of the appraisal process, the date of review, and the signatures of Administration personnel who prepared, checked and approved the form. It is necessary that all docketed copies of the form be dated and signed. Page 4 of the form has no connection with the project value appraisal process but is devoted to the final determination of the amount of the mortgage proposed to be secured by the project and insurable by the Federal Housing Administration.

Sources of Estimated Requirements for Completion of the Project

2669. This section of the form requires an itemization of the sources of estimated requirements to assure completion of the project, exclusive of land.

2670. **Total Estimated Cost (Exclusive of Land, and Required Construction off the Site)**, as set forth on page 3 of the form, shall be entered on the line provided.

2671. **Cash.** Total cash required to balance the deal, after the mortgage and other equity amounts have been determined, shall be set forth in the space provided at the extreme right. Of this total, an amount at least equal to the total of "Carrying Charges; Financing; Organization," will be set forth in the bracket, "(\$----- to be escrowed at closing)."

2672. **Other Equity** (fees, and materials), as shown in "Schedule A, Sources of Equity," page 2 of the appurtenant FHA Form 2013, and as defined in paragraph 2129 of this manual, shall be entered on the line provided.

2673. **Mortgage Loan Proceeds (Not to Exceed 80% of Fair Value)** and possibly further limited by the ratio of "Estimated net income" to "Debt service requirements," as set forth in the "Analytical Summary," page 4 of the form, subject to mortgagee's statement set forth on the appurtenant FHA Form 2013 and further limited by the requirement that the mortgage amount may not exceed the estimated "Total for All Improvements"; shall also be entered on the line provided. It is necessary that the total of "Cash,"

"Other Equity," and "Mortgage Loan Proceeds" balance with the "Total estimated cost (exclusive of land and required construction off the site").

2674. Working Capital (or Deposit) in an amount not less than 3% of the "Mortgage Loan Proceeds" shall be entered on the line provided, when an FHA-insured mortgage in excess of \$100,000 (large scale) is contemplated. The sponsor of a project involving a mortgage of \$100,000 or less (small scale) will be required to deposit with the mortgagee a sum equal to six months' interest on the mortgage, plus FHA mortgage insurance premium for one year, in lieu of "Working capital."

2675. Total Estimated Requirements (Exclusive of Land and Required Construction off the Site) results from the addition of all the items set forth immediately above. If the amount of mortgage loan insurable must be changed from the amount originally applied for by the sponsor, or if other equity must be changed thereby requiring changes in the estimated "Cash" or "Other Equity" figures the changes must be negotiated with the sponsor.

Distribution of Estimated Net Income After Operating Expenses and Taxes

2676. This section of the form determines the amount of estimated annual net income necessary to be paid on the mortgage account (debt service requirements), and makes a provision for the computation of the probable corporate taxes, and allocation of net income to "stock dividend" and "surplus" accounts.

2677. Estimated Net Income, After Operating Expenses and Taxes, as set forth on the last line of the "Estimated Annual Operating Statement" section, page 2 of the form, shall be entered on the line provided.

2678. Annual Fixed Charges. In every case, "Annual Fixed Charges" shall be computed on the basis of charges to accrue during the first year of the term of the mortgage regardless of the method of amortization selected by the sponsor, as follows:

- a. *Interest* shall be computed on the full amount of the proposed mortgage at the contracted rate—within the limits prescribed by the Administrator—and agreed upon between the sponsor and the mortgagee.
- b. *Mortgage insurance* shall be computed at the rate of one-half of one percent on the full amount of the proposed mortgage.
- c. *Amortization of loan* shall be computed on the full amount of the mortgage, at the rate developed by the requirements set forth in paragraph 2108 of this manual.

2678-2681

d. *Other fixed charges (special assessments, etc.)*. If there are special or other assessments, such as annual assessments levied by sub-division trustees, improvement bonds, sewer taxes, or other charges which must be paid out of income and which have not been previously provided for in the form, they must be entered here if full payment cannot, or is not contemplated to be made prior to the recordation of the FHA insured mortgage. In many cases special assessments are required to be paid by ten or less annual installments. However, the annual payments on such assessments and on all other fixed charges must be included at this point even though they will not continue for a period as long as the term of the proposed mortgage. Appraisal procedure for the determination of the amount of insurable mortgage to be secured by projects situated upon leased fees requiring the inclusion of ground rent as a fixed charge, will be supplied by the Washington Office. No charge for ground rent will be entered at "Other Fixed Charges" on the FHA Form 2264.

2679. Total Debt Service Requirements is developed by the addition of the items of "Annual Fixed Charges."

2680. Cash Available for Income Taxes, Dividends, and Surplus is the amount remaining after the deduction of "Total Debt Service Requirements" from "Estimated Net Income, after operating expenses and taxes."

2681. Estimate of Capital Stock, Franchise and Income Taxes is made by the computation of the following items:

a. *Gross income expectancy* as set forth in the "Estimated Annual Operating Statement" section on page 2 of the form, shall be entered here and the following items deducted therefrom:

(1) *Depreciation* which shall be computed on an amount determined by deducting from "Total Estimated Cost (exclusive of land and required construction off the site)" as set forth in the "Estimated Cost of Improvements" section, page 3 of the form, the following items: "landscape work," "financing expense," "title and recording expense," "legal expense," "organization expense," and "other estimated expenses." The percentage of annual depreciation applicable to the resultant amount will be determined by the estimated economic life assigned to the project structures in the "Capitalization of Estimated Net Income" section, page 2 of the form. However,

- the annual depreciation percentage rate may in no case exceed two and one-half percent.
- (2) *Total operating expenses* as set forth under "Operating Expenses and Taxes" of the "Estimated Annual Operating Statement" section, page 2 of the form, shall be entered here. "Reserves for Replacements" must not be included in this item.
 - (3) *Real estate and other miscellaneous taxes* as set forth on the last line of the "Estimate of Taxes" section, page 2 of the form, shall be entered here.
 - (4) *Interest per annum* refers to the total annual amount of interest computed on the full amount of the FHA insured mortgage.
 - (5) *FHA insurance premium per annum* shall be computed at the rate of one-half of one per cent of the full amount of the FHA insured mortgage.
 - (6) *Financing (prorated annually for term of mortgage)*. This item will be computed by dividing "Financing expense" set forth under "Carrying Charges; Financing; Organization" in the "Estimated Cost of Improvements" section, page 3 of the form, by the total number of years of the mortgage term.
 - (7) *Total deductions from gross income expectancy* is obtained by the addition of the totals set forth opposite the above items.
- b. *Taxable Income* is the remainder after subtraction of "Total deductions from gross income expectancy" from "Gross income expectancy." This amount constitutes the basis for the computation of corporate, state and federal income taxes. The rates of such taxes vary according to the different state and federal laws. Current information relative to the rates for computation of such taxes shall be maintained.
- c. *Federal capital stock tax* will be computed on the project equity (i. e., the amount remaining after deduction of the mortgage amount from the estimated "fair value on completion") plus "working capital (or deposit)."
- d. *Franchise tax* refers to various state and other taxing authority charges against project-owning corporations. Information relative to the tax rates applicable to this item must be developed by inquiry in the community in which the project is proposed to be situated. Subject to the requirements of the various state statutes, it is computed in the same manner as that set forth in c. above.

2681-2686

- e. *Other corporate tax* will include state capital stock tax, business privilege tax, or other corporate tax, for which the project-owning corporation will be liable. Information relative to such taxes and the tax rates applicable must be developed by inquiry in the community in which the project is proposed to be situated.
- f. *State income tax*, if any, is computed on the "taxable income" at the rate and in the manner prescribed by the applicable state income tax laws. The rates of such taxes vary in the different states. They must be ascertained by inquiry.
- g. *Federal income tax* is computed by applying to the "taxable income" the rate prescribed in the currently effective Internal Revenue Act. The rate and method of computation of this tax vary from time to time, according to amendments to the Act. Information on the computation of this tax will be obtained from the Collector of Internal Revenue.
- h. *Total Corporate Taxes* is a summation of the various corporate taxes set forth immediately above.

2682. Cash Available for Dividends and Surplus is the amount remaining after deduction of "Total Corporate Taxes" from "Cash Available for Income Taxes, Dividends, and Surplus."

2683. Dividend on Stock shall be computed on the estimated value of the equity on completion of the project. This amount cannot exceed the difference between the "Fair Value of the Project on completion" and the amount of the mortgage loan, plus "Working capital (or deposit)." (See applicable Administrative Rules and Regulations.) Occasionally it may be necessary to reduce the annual dividend on stock below the maximum amount permitted in order to develop the minimum requirements set forth for "Estimated Surplus."

2684. Estimated Surplus shall be computed in accordance with the requirements set forth in Paragraph 2154, sub-paragraph b of this manual.

Analytical Summary

2685. The "Analytical Summary" consists of digests of important relationships between the estimated fair value of the project, the estimated net income, the estimated operating expenses, and the proposed mortgage together with its annual charges. To facilitate analysis, these relationships are expressed in ratios and in dollar amounts as follows:

2686. Estimated Fair Value on Completion; per room, \$-----; per Family Unit, \$-----. The per room amount is arrived at by dividing the fair value of the project, as set forth in the "Certification of Value" page 3 of the form, by the total room count

(excluding non-revenue-producing rooms). The amount per family unit is determined by dividing the fair value by the number of units, (also excluding non-revenue-producing units).

2687. Amount of Mortgage Allocable to Dwellings Only; per Room, \$.....; per Family Unit, \$...... This amount (per room) is developed by the following formula:

- A=Field cost of accessory buildings (garages, stores, etc.).
- D=Field cost of dwellings plus field cost of accessory buildings (Both from "Structures," page 3 of the form.)
- M=Mortgage amount
- N=Number of rooms (excluding non-revenue-producing rooms).

Formula:
$$\frac{M - \left(\frac{A}{D} \times M\right)}{N}$$

Allocable mortgage amount per family unit will be the amount developed by the formula times the average number of rooms per family unit.

2688. Ratio: Mortgage \$..... to Estimated Fair Value on Completion \$...... The mortgage and fair value amounts shall be entered at the spaces provided and the ratio expressed in percentage determined by the division of the former sum by the latter.

2689. Point of Technical Default is required to be expressed in percentage. This formula develops the point at which project income will be sufficient only to meet all charges against the property, i. e., the sum of operating expenses plus reserve for replacements, taxes, (excluding income and corporate taxes), and the requirements for annual fixed charges. It is computed by the use of the following formula:

- I=Total estimated income at 100% occupancy.
- A=Operating expenses plus reserve for replacements.
- B=All real estate and miscellaneous taxes.
- C=Mortgage interest plus amortization plus FHA insurance premium and other fixed charges, if any.

Formula:
$$\frac{A+B+C}{I} = \text{Percentage}$$

The resultant percentage when applied to the total estimated income at 100% occupancy will determine the amount of income necessary to sustain the project at the point of technical default.

2690. Point of FHA Loss is required to be expressed in percentage. This formula develops the point at which project income will be sufficient only to maintain the requirements upon the Administration in the event the project is taken in foreclosure and operated by the Administration. Under these circumstances, the debentures issued in substitution for the original mortgage may be in an amount less than the original principal amount. However, in computing this criterion the face amount of the mortgage shall be used since the date of default, if any, cannot be predetermined. "Point of FHA loss" will be computed according to the following formula:

- I = Total estimated income at 100% occupancy.
- A = Operating expenses plus reserve for replacements.
- B = All real estate and miscellaneous taxes.
- M = Full principal amount of the mortgage.
- D = Amortization rate.
- $2\frac{3}{4}\%$ = Amount of interest paid on debentures.
- E = Other fixed charges.

$$\text{Formula: } \frac{A+B+(D \times M) + (2\frac{3}{4}\% \times M) + E}{I} = \text{Percentage}$$

The resultant percentage when applied to the total estimated income at 100% occupancy will determine the amount of income necessary to sustain the project at the point of FHA loss.

2691. Ratio: Estimated Net Income \$..... to Debt Service Requirements \$..... must also be expressed as a percentage and is computed by dividing the amount of "Estimated Net Income" as set forth at the last line of the "Estimated Annual Operating Statement," page 2 of the form, by the amount of "Debt Service Requirements" set forth in the "Distribution of Estimated Net Income after Operating Expenses and Taxes" section, page 4 of the form.

2692. Ratio: Income From Dwellings @ 100% Occupancy to all Income at 100% Occupancy, in percentage, is computed by dividing the total income from dwelling units by the "Total Estimated Income at 100% Occupancy," as stated in the "Estimate of Income" section, page 1 of the form. This percentage may not be less than 90%.

2693. Ratio: Total Operating Expenses and Taxes \$..... to Gross Income Expectancy \$..... is computed in percentage by adding together Operating Expenses (not including Reserve for Replacement), page 1 of the form, and Real Estate and Miscellaneous Operating Taxes, page 2 of the form, and dividing the total by the "Gross Income Expectancy" amount taken from the

"Estimated Annual Operating Statement" section, page 2 of the form.

2694. Ratio: Debt Service Requirements \$----- to Gross Income Expectancy \$----- in percentage, is computed by dividing "Total Debt Service Requirements," set forth in the "Distribution of Estimated Net Income after Operating Expenses and Taxes" section, page 4 of the form, by the amount of "Gross Income Expectancy" taken from "Estimated Annual Operating Statement" section, page 2 of the form.

2695. Ratio: Mortgage \$----- to Total for all Improvements \$-----, in percentage, is computed by dividing the full amount of the mortgage by the "Total for all Improvements" amount, set forth in the "Estimated Cost of Improvements" section, page 3 of the form. This percentage may not be more than 100%.

Identifying Signatures and Remarks

2696. Space is provided here to express on the form information relative to the mortgage analysis or other pertinent information not otherwise provided.

2697. The signatures and titles of Administration personnel who prepared, checked and approved the mortgage analysis, together with the date of the operation, must be set forth on the lines provided.

2698. The space for "Remarks" provided immediately below gives additional opportunity for comment.

SAMPLE FHA FORM 2264

FHA Form No. 2264
(Revised Nov. 1, 1939)

**FEDERAL HOUSING ADMINISTRATION
PROJECT INCOME ANALYSIS AND APPRAISAL**

Date	Project No.	
Name of project	Number of rooms	Number of family units
Location	Average rooms per family unit	
.....	Estimated average rent p. r. p. m. \$.....	
Type of project	Construction	Average rent per family unit p. m. \$.....
Accessory buildings .....	.....

ESTIMATE OF INCOME

INCOME (Dwelling Units):

Number of each unit type	Percent of total units	Rooms per unit	Composition of units (L. R., 2 B. R., K., etc.)	Est'd unit rent per M.	Monthly rent at 100% occupancy	Annual rent at 100% occupancy
.....	\$.....	\$.....	\$.....
Total Number of Rooms				@ average rental of \$..... p. r. p. m.	\$.....	\$.....

ACCESSORY INCOME (Garages, stores, etc.):

Number	Type	Estimated rent per M.	Annual rent at 100% occupancy
.....	\$.....	\$.....
Total Accessory Income			\$.....
Total Estimated Income at 100% Occupancy			\$.....

ESTIMATED ANNUAL OPERATING EXPENSE

Unit basis of estimate	Am't per unit	Am't per item	Total	DECORATING																
Renting Expense:				Materials only (Labor on "Decorating Pay Roll"), Materials and Labor (Contract price). (Strike out inapplicable line above)																
Advertising																				
Commissions																				
Administrative Expense:				Tenant space (every ... years) \$.....																
Management				Public space (every ... years)																
Superintendent				Exterior bldgs. (every ... years)																
Clerical				Accessory bldgs. (every ... years)																
Telephone and telegraph				Total																
Legal and audit				\$.....																
Office expense																				
Operating Expense:				DECORATING PAY ROLL																
Elevator power				<table border="1" style="width:100%; border-collapse: collapse;"> <thead> <tr> <th style="width:20%">Position</th> <th style="width:10%">No.</th> <th style="width:15%">Monthly Rate</th> <th style="width:15%">Per Annum</th> </tr> </thead> <tbody> <tr> <td>.....</td> <td>.....</td> <td>.....</td> <td>.....</td> </tr> <tr> <td>.....</td> <td>.....</td> <td>.....</td> <td>.....</td> </tr> <tr> <td colspan="3">Total</td> <td align="right">\$.....</td> </tr> </tbody> </table>	Position	No.	Monthly Rate	Per Annum	Total			\$.....
Position	No.	Monthly Rate	Per Annum																	
.....																	
.....																	
Total			\$.....																	
Elevator maintenance																				
Heating and ventilating																				
Janitorial expense																				
Lighting—Misc. power																				
Water																				
Gas																				
Garbage and rubbish removal																				
Pay roll (see schedule)																				
Maintenance Expense:				OPERATING PAY ROLL																
Decorating (see schedules)				<table border="1" style="width:100%; border-collapse: collapse;"> <thead> <tr> <th style="width:20%">Position</th> <th style="width:10%">No.</th> <th style="width:15%">Monthly Rate</th> <th style="width:15%">Per Annum</th> </tr> </thead> <tbody> <tr> <td>.....</td> <td>.....</td> <td>.....</td> <td>.....</td> </tr> <tr> <td colspan="3">Total</td> <td align="right">\$.....</td> </tr> </tbody> </table>	Position	No.	Monthly Rate	Per Annum	Total			\$.....				
Position	No.	Monthly Rate	Per Annum																	
.....																	
Total			\$.....																	
Repairs																				
Exterminating																				
Insurance																				
Grounds Exp. (materials only)																				
Furniture and furnishings																				
Miscellaneous																				
Total Operating Exp. P. R. P. A.		XXXX																		
Reserve, Replacements P. R. P. A.		XXXX																		
Total Expense, Res. P. R. P. A.		XXXX																		

SAMPLE FHA FORM 2264

(2)

ESTIMATE OF TAXES

IMPROVEMENTS:

	Assessor's reproduction cost	Percent debased or equalized	Assessor's valuation	Percent of assessment	Assessed value	Tax rate per \$1,000	Annual tax
Main Bldgs.....	\$.....	%	\$.....	%	\$.....		\$.....
Garages.....							
Other.....							
Total Annual Tax for Improvements.....							\$.....
LAND:							
Estimated assessed value upon completion of improvements.....					\$.....		
Estimated tax rate (normal land tax).....					\$.....	per	
Estimated Total Land Tax.....							\$.....
Total Estimated Real Estate Tax per Annum.....							
MISCELLANEOUS OPERATING TAXES:							
Social Security tax.....					\$.....		
Other special local taxes.....							
Total Miscellaneous Operating Taxes.....							
Total Taxes (excluding Income, Capital Stock and Franchise Taxes).....							

ESTIMATED ANNUAL OPERATING STATEMENT

	Annual income at 100% occupancy	Estimated occupancy %	Gross income expectancy
INCOME (see schedule page 1):			
Dwelling units.....	\$.....		\$.....
Garages.....			
Stores.....			
Total Estimated Income.....			\$.....
Gross Income Expectancy.....			
OPERATING EXPENSES AND TAXES:			
Operating..... rooms @ \$..... p. r. p. s.		\$.....	
Reserve for replacements..... @ \$..... p. r. p. s.			
Total Taxes (excluding Income, Capital Stock and Franchise Taxes).....			
Total Operating Expenses and Taxes.....			
Estimated Net Income, After Operating Expenses and Taxes.....			

CAPITALIZATION OF ESTIMATED NET INCOME

[Declining annuity method includes return of capital]

Annuity Premise which assumes 10% remaining value at end of economic life.
 Capitalization rate Economic life Period of typical income deferred.....
 years.

Year	Typical Year's income	Percent assumed	Estimated year's income	Discount factor	
1st.....		X	X	X	
		X	X	X	
		X	X	X	
					\$.....
Typical year's income \$..... X Capitalization factor.....					\$.....
Capitalized Value of Estimated Net Income.....					\$.....

REMARKS

[Justify annuity premise, capitalization rate, and economic life used above]

.....

(3)

ESTIMATED COST OF IMPROVEMENTS

IMPROVEMENTS TO LAND (Within property lines):

New utilities \$
 Extra foundations
 Landscape work, net acres @ per acre
 Total \$

STRUCTURES:

Dwellings cu. ft. @ \$ per cu. ft.
 Garages @ \$
 Stores
 Contingency allowance
 Taxes (Social Security, sales, etc.)
 Construction bond % on \$

FEES:

Builder \$ @ %
 Architect \$ @ %
 Total cost of structures plus fees
 Total for all improvements
 =====

CARRYING CHARGES; FINANCING; ORGANIZATION:

Interest mo. @ % on \$
 Taxes (real estate)
 Insurance (fire, windstorm, liability, etc., during construction)
 FHA mortgage insurance premium %
 FHA examination fee 0.3% of \$
 Financing expense %
 Title and recording expense
 Legal expense
 Organization expense
 Other estimated expenses

Total Carrying Charges; Financing; Organization
 =====

Total Estimated Cost (exclusive of land and improvements beyond property lines)

Fair Market Price for This Parcel of Land in Fee Simple (from FHA Form 2401):
 square feet @ per sq. ft.
 =====

Total (Summation)
 =====

ESTIMATED FAIR MARKET VALUE OF ENTIRE PROPERTY:

By comparison with other like properties (when available) \$
 (If valuation by comparison is available, include comparative data below—FHA-insured properties operating in same area may be used.)

Location	Number families	Number rooms	Total rents	Buildings ago	Comparative location	FHA Project No.
1.....						
2.....						
3.....						
4.....						

APPRAISAL SUMMARY

CAPITALIZATION \$ SUMMATION \$ COMPARISON \$

CERTIFICATION OF VALUE:

I HEREBY CERTIFY That I have read Section 512 (a) of the National Housing Act, as amended; that I have no personal interest, present, or prospective, in the property, the proceeds of a mortgage proposed to be secured by the property or the applicant therefor; that, based upon the information contained in this report, it is my opinion that the Fair Value of the Property, on completion in accordance with Plans and Specifications as approved by the Administrator, free and clear of all unpaid special assessments or other liens, if any, will be Dollars (\$), which may be divided as follows:

Land (including land improvements within property lines) \$
 Structures (main buildings, garages, etc.)
 Total (as above) \$

Remarks: (Explain reasons for final opinion of fair value of the property on completion as set out under "Certification of Value" above.)

Date (Signed)
 Date (Signed)
 ;(Approved)

(4)

SOURCES OF ESTIMATED REQUIREMENTS FOR COMPLETION OF THE PROJECT

Total estimated cost (exclusive of land and required construction off the site).....	\$.....
Cash (\$..... to be escrowed at closing), balance to be accounted for at closing.....	\$.....
Other equity.....	.....
Mortgage loan proceeds (not to exceed 80% of fair value).....	.....
Total.....	\$.....
Plus working capital (or deposit)—to be escrowed at closing.....	.....
Total estimated requirements (exclusive of land and required construction off the site).....	\$.....

DISTRIBUTION OF ESTIMATED NET INCOME AFTER OPERATING EXPENSES AND TAXES

ESTIMATED NET INCOME, after operating expenses and taxes.....	\$.....
ANNUAL FIXED CHARGES:	
Interest, \$..... @..... %.....	\$.....
Mortgage insurance..... %.....	.....
Amortization of loan @..... %.....	.....
Other fixed charges (special assessments, etc.).....	.....
Total Debt Service Requirements.....	.....
Cash Available for Income Taxes, Dividends, and Surplus.....	.....
ESTIMATE OF CAPITAL STOCK, FRANCHISE, AND INCOME TAXES:	
Gross income expectancy.....	.....
Less: Depreciation.....	\$.....
Total operating expenses.....	.....
Real estate and other miscellaneous taxes.....	.....
Interest per annum.....	.....
F. H. A. Insurance premium per annum.....	.....
Financing (prorated annually for term of mortgage).....	.....
Total deductions from gross income expectancy.....	.....
Taxable Income.....	.....
Federal capital stock tax on \$..... @ \$..... per \$1,000.....	.....
Franchise tax.....	.....
Other tax.....	.....
State income tax @..... %.....	.....
Federal income tax @..... %.....	.....
Total Corporate Taxes.....	.....
Cash Available for Dividends and Surplus.....	.....
DIVIDEND ON STOCK..... % on \$.....	.....
ESTIMATED SURPLUS.....	.....

ANALYTICAL SUMMARY

Estimated fair value on completion; per room, \$.....; per family unit.....	\$.....	.....
Amount of mortgage allocable to dwellings only; per room, \$.....; per family unit.....	\$.....	.....
Ratio: Mortgage \$..... to estimated fair value on completion \$.....	.....	%
Point of technical default.....	.....	%
Point of F. H. A. loss.....	.....	%
Ratio: Estimated net income \$..... to debt service requirements.....	\$.....	%
Ratio: Income from dwellings @ 100% occupancy to all income at 100% occupancy.....	.....	%
Ratio: Total operating expenses and taxes \$..... to gross income expectancy.....	\$.....	%
Ratio: Debt service requirements \$..... to gross income expectancy.....	\$.....	%
Ratio: Mortgage \$..... to total for all improvements \$.....	\$.....	%

REMARKS:

Made by..... Date.....	Checked by..... Date.....
Title.....	Title.....
Approved.....	Date.....
Title.....	

REMARKS:

Approved.....	Date.....
---------------	-----------

PART III
PROCEDURE SUBSEQUENT TO COMMITMENT
SECTION 1
ARCHITECTURAL EXAMINATION SUBSEQUENT TO
COMMITMENT

CONTENTS

	Paragraphs
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PART III

PHYSIOLOGICAL RESEARCH IN CONJUNCTION

SECTION I

AND GENERAL INVESTIGATION OF THE
PHYSIOLOGICAL

SECTION II

1. The first part of the report deals with the general principles of the investigation and the methods used. It is divided into two main sections, the first of which deals with the general principles and the second with the methods used. The first section is divided into three parts, the first of which deals with the general principles of the investigation and the second with the methods used. The second section is divided into two parts, the first of which deals with the methods used and the second with the results of the investigation.

PART III

PROCEDURE SUBSEQUENT TO COMMITMENT

SECTION 1

ARCHITECTURAL EXAMINATION SUBSEQUENT TO COMMITMENT

GENERAL CONSIDERATIONS

3101. The conditions of the Commitment for Insurance will set forth any required changes in the plans and specifications. If the conditions require a replanning of either the plot plan or the unit plans, revised sketches, in triplicate, must be submitted to the Administration for approval, and working drawings should not be started until the revised sketches have been approved.

3102. A requirement in the Commitment for Insurance that either the plot plan or unit plans be revised in sketch form is an indication that there are basic objections to the plans as presented. On the other hand, it should be assumed that, as the project was processed on the sponsor's drawings, they were at least sufficiently good to serve as a quantity basis for cost estimation.

3103. To expedite replanning, it is desirable to have a personal conference with the sponsor and his architect in order to explain to them the reasons for revision and to offer suggestions as to methods of correcting planning faults. If this is not possible, an explanatory letter should be forwarded to the sponsor, giving the objections in detail and offering suggestions. These may be illustrated by rough free hand sketches.

3104. Copies in triplicate of revised sketch plans are required. When revised sketch plans are received, they should be examined carefully to determine:

- a. Whether the required changes have been made in a satisfactory manner.
- b. Whether the revised drawings conform to the property standards for rental housing.
- c. Whether the acceptable features of the original plans have been retained.
- d. Whether costs of construction will be changed materially.

3105. Unless the Commitment for Insurance has required a reduction of the scope of the project, or a change in the unit distribution, the revised plans must contain a number of apartments

3105-3109

and of rooms equivalent to those shown on the plans on which the Commitment for Insurance was based. *The substitution of basement rooms for rooms on upper floors is not an equivalent.* The number of garages and the number and size of stores or other income-producing buildings must be the same as on the drawings approved for Commitment for Insurance. No change which would affect the essential income potentialities of the buildings may be made except with the approval of the Assistant Administrator for Rental Housing, inasmuch as such change may necessitate revision of the mortgage amount. Room sizes on the revised plans should be substantially the same as on the "commitment plans," unless a change in size has been required, in which case the change should be verified carefully.

3106. If the revised sketch plans do not meet Administration requirements a further restudy shall be requested. If they are satisfactory, the sponsor shall be notified in writing that the working drawings may be based on them. No categorical approval of the layout should be given at this point unless the drawings are at a scale acceptable for working drawings and are in sufficient detail to constitute in effect a submission under Stage B of the examination.

3107. Should the Commitment for Insurance require no replanning of major elements, the sponsor should be requested in writing to submit the drawings required for Stage B.

APPROVAL OF SEMI-FINAL DRAWINGS (STAGE B)

3108. The semi-final drawings presented in Stage B of the examination may be in pencil and at the scales of the final drawings. Plot plans must be drawn at a scale of not less than forty feet to the inch; building plans, elevations, and sections not less than one-eighth inch to one foot; details not less than one-half inch to one foot. These layouts shall present a complete picture of what the details of the project will be. The drawings shall be submitted in triplicate and shall include plot plan, unit plans, elevations, and sections. After examination, one set of these prints shall be returned, marked either with an approval as to layout or with such changes as may still be deemed necessary. If changes are of minor importance, the layout may be approved subject to their incorporation in the final plans. If important modifications are necessary, a resubmission may be required. When approval of the layout in its final form is given, the sponsor shall be advised of the approval of the layout in its entirety, and thereafter no changes in layout shall be required of him.

3109. In Stage B, copies (in duplicate) of the specifications in draft form shall be obtained for purposes of correction or approval and for the settlement of any moot questions as to their contents or form.

3110. During this stage the sponsor shall submit semi-final drawings and specifications for landscape work. Upon their receipt they shall be checked for general conformity with the approved plot plan and for those portions of the work which are included in the general construction contract, as noted in paragraph 2407. Having made this check, the drawings and specifications shall be transmitted to the Land Planning Consultant, if available, who shall examine them in detail and either note his approval or make such recommendations for changes as he may deem advisable. He shall further examine these plans and specifications for conformity with the plans and specifications or cost estimate and list of quantities and requirements prepared prior to the commitment. On receipt of the recommendations of the Land Planning Consultant, the sponsor may be advised of the necessary changes to be incorporated in the final landscape plans and specifications.

3111. In examining semi-final drawings, all the minor details of planning must be given careful scrutiny so that when they are approved the preparation of the contract drawings may be largely a matter of drafting and dimensions. Examples of the details to be examined are as follows:

- a. Conformity of layouts with approved sketch plans.
- b. Proper location and size of windows, in plan, elevation, and section.
- c. Proper width of stairs; proportion of treads and risers; hand-rails; headroom.
- d. Conformity of structural methods and details with requirements of the Administration.
- e. Doors where required, properly located and with correct swing.
- f. Detailed arrangement of kitchen and bathroom fixtures with respect to their adequacy, size, and position.
- g. Closet sizes and arrangement.
- h. Adequacy of laundry facilities, storage space, and other basement elements.
- i. Planning and construction of garages, stores, and other accessory buildings.

3112. Examination of Semi-final Specifications. The sponsor's architect should present a rough draft of the specifications at the same time that the semi-final plans are submitted. In some cases the semi-final specifications are not received until the final plans are presented. When the specifications are received, they must be checked for:

- a. Compliance with requirements of the Commitment for Insurance.

3112-3115

- b. Conformity with the preliminary specifications on which the Commitment for Insurance was based.
- c. Compliance with all Administration requirements.
- d. Completeness. Under this heading, the most important thing to be determined is that the specifications are specific and not general. All items of the work shall be carefully described, both as to materials to be supplied and methods to be used. For example, all excavation to be done should be specified under the trade that is to perform the work. Sometimes, the sponsor's specifications will state under "Excavation," that the plumbing contractor is to do all excavating of pipe trenches, yet no such requirement appears under the plumbing section of the specifications. All such references must be checked to see that they are definitely provided for under the heading mentioned.

3113. The estimate of cost for the specific project is based upon the outline specifications on which the Commitment for Insurance was issued. If changes in specifications are proposed after Commitment for Insurance, they may not be approved except by authority of the Assistant Administrator for Rental Housing, unless it is evident that no substantial difference in cost, quality, operating expense or rental value is involved. This is especially true in cases where the proposed changes involve a reduction in cost, in view of the possibility that such reduction in cost may render the proposed mortgage amount, as set forth in the Commitment for Insurance, in excess of the limitations imposed by the National Housing Act. As noted regarding the preliminary specifications, no alternate will be permitted except those which would be betterments, if used. See paragraph 2455.

3114. During this stage of the examination, frequent contact with the sponsor and his architect shall be maintained in order to hasten the completion of the drawings and specifications. When the layout has been approved, a letter shall be written to the sponsors urging early submission of final plans and specifications and offering cooperation to that end. The object of this stage of the procedure is to avoid delay at the time the contract is otherwise ready for closing.

3115. On approval of the semi-final architectural drawings, one of the submitted copies shall be returned to the sponsor marked "Approved for conformity of layout only with the terms of the Commitment dated _____". If there are minor exceptions which can readily be incorporated in the final drawings, the phrase "with the exceptions noted on these drawings" shall be added, and the prints shall be marked accordingly.

3116. In most cases, only a qualified approval can be given of the rough draft specifications and the approval must be worded with care to avoid misinterpretation.

3117. In approving semi-final landscape plans and specifications, the same type of qualified approval should be given as for the architectural plans and specifications.

APPROVAL OF FINAL CONTRACT DRAWINGS (STAGE C)

3118. When the final plans and specifications are submitted, they must be carefully checked:

- a. For conformity with the approved layout and draft specifications.
- b. For conformity of specifications with standards of the Administration.
- c. For completeness, adequacy and clarity.

3119. These are contract documents and as such must set forth in complete detail information as to design, construction, equipment, and fixtures, with adequate scale drawings. Incomplete drawings and specifications shall not be accepted.

3120. If, on receipt of final drawings and specifications, the submission is incomplete or unsatisfactory with respect to a, b, or c of paragraph 3118, the sponsor shall be notified at once, advising him that the contract cannot be closed on the basis of the plans and specifications as submitted.

3121. When the final landscape plans and specifications are received, they shall be transmitted at once to the Land Planning Consultant who shall check them for conformity, completeness, and adequacy. If they are satisfactory, he shall certify that the plans and specifications conform with the semifinal plans as modified and with the intention of the plans and specifications or the estimate and quantity list approved prior to the commitment. An itemized cost estimate for use in finally clearing the payment breakdown which is to be attached to the closing instruments shall also be prepared.

3122. The following is a "*List of Drawings Required for Final Submission*" which constitutes the minimum requirements. Other drawings may be required to cover special cases.

a. *Cover Sheet*—printed in black line on white paper.

- (1) Title of project.
- (2) Index of drawings, numbered consecutively.
- (3) Tabulation of buildings, apartments, roads, and garages with capacity.

- (4) Name and space for signatures of insurer (Federal Housing Administration), mortgagee, owner, architect, contractor, and bonding company, if any.
- (5) Date line.

b. *Plot Plan.*

- (1) Location of all buildings indicating where basements and boiler rooms exist, and which buildings have flat roofs and which pitched roofs.
- (2) Existing and finish grades, especially at buildings; contours where necessary with all controlling grades.
- (3) Location, size, and direction of all utilities (both existing and proposed) with depth of sewers, both in the streets and within the property line. Show fire hydrants.
- (4) Location and sizes of all walks, drives, parking areas, and play areas. Show garage court paving.
- (5) Yard lighting.
- (6) Basement and first floor elevations.
- (7) Natural features, such as rock outcroppings, streams, ponds, etc.
- (8) Surfacing of all adjacent streets, and of roads on the site. Both existing and proposed work shall be indicated.
- (9) Show steps, ramps, retaining walls, and enclosure walls.
- (10) Show bridges, wading pools, and swimming pools.

c. *Planting Plan.*

- (1) Buildings, roads, parking areas, walks, play and recreation areas, pools, banks, terraces, fences, guard rails, streams, woods and natural features, roof lawns and gardens, and other landscape features.
- (2) Elevations of terraces, walks, drives, and first floor grades.
(NOTE.—The above data should be secured by the landscape architect from the plot plan.)
- (3) Indication of location, quantity, and size of all plants, shrubs, and trees using scientific names conforming to "Standardized Plant Names;" the outline of all planting beds to be prepared and planted; and the center of all specimen shrubs and trees whether free standing or within groups.

- (4) Existing trees to be transplanted—give their names, sizes, and new locations.
- (5) Primary lawn areas. Secondary lawn areas. Areas to be sodded.
- (6) Planting list in alphabetical order giving total number, size, and quality of each plant item. The square foot area of sod and of primary and secondary lawn. Indicate plant material to be of "specimen" quality, balled and burlapped (B & B), or platformed (P), etc.
- (7) North point.
- (8) The plans should not be larger than 30 in. x 42 in. and should not be at a scale smaller than 20 ft. to the inch.

d. *Grading and Drainage Plans.* (If required.)

- (1) All building ground grades and controlling grades and locations of drives, walks, courts, garage roof lawns, recreation areas, and top and bottom of outside steps, terraces and slopes, walls and fences.
- (2) Proposed grading contours at one-foot intervals in solid line. Existing contours with dotted line. Established bench mark.
- (3) Yard and roof drainage, controlling grades and dimensions of all tile lines, culverts, catch basins, drain inlets, turf and masonry gutters, and all curbs. Indicate disposal. Indicate existing facilities to be used.
- (4) Location of sill cocks, and lawn hydrants with pipe sizes. Layout of lawn sprinkling system.

e. *Landscape Details.* Detail plans for any landscape structures to be provided under the Landscape Contract, including structural details of such features as catch basins, fences, playgrounds, tennis courts, recreation areas and their equipment.

f. *Plans.*

- (1) Typical unit plans of different types at $\frac{1}{4}$ in. scale, giving dimensions, kitchen and bathroom layouts, electrical outlets, etc.
- (2) The following plans of separate buildings or building groups, at $\frac{1}{8}$ in. scale, giving full interior and exterior dimensions, apartment relationship, etc.
 - (a) Basements, or foundations, where no basements occur.

- (b) First floors.
- (c) Typical floors.
- (3) Roof plans, showing drainage and ventilation.
- (4) Garages and special buildings.

g. *Elevations.*

- (1) All elevations must be shown.
- (2) Indication of materials, heights, etc.
- (3) Relation to grades, finish, and natural.

h. *Details, at 1/2 in. scale or larger.*

- (1) Typical exterior and bearing wall sections, showing footings, foundations, floor and roof construction, cornices, parapets, wall vents, flashing, windows, etc.
- (2) Typical window section at large scale.
- (3) Front entrances, one of each variety, plans, elevations, and sections.
- (4) Typical rear entrance.
- (5) Typical stairs, showing stringers, treads, risers, newels, balusters, handrails, etc.
- (6) Typical kitchen cabinets, plans, elevations, and sections.
- (7) Plan of typical bathroom layout.
- (8) Special exterior and interior details; bay windows, dormers, cupolas, gates, lamp posts, fireplaces, built-in furniture, etc.
- (9) Entrance lobbies.

i. *Schedules.*

- (1) Doors.
- (2) Windows.
- (3) Interior finishes.

j. *Structural Plans.*

- (1) Footings and foundations.
- (2) Framing plans.
- (3) Details.
- (4) Schedules for beams, columns, lintels, etc.

k. *Mechanical Plans.*

- (1) Heating layout and diagrams with complete boiler room plan and section.
- (2) Plumbing and drainage layout and vertical diagram.
- (3) Electrical distribution system and schedules.

3123. The final plans and specifications shall be scrutinized to determine the approximate time that will be required for the completion of the architectural work. This will depend on:

- a. The extent of the changes which have been required in the semi-final drawings and semi-final specifications.
- b. The clarity and completeness of the final drawings and specifications.
- c. The likelihood of further changes being required and the time necessary to make and check them.
- d. The time element in the architectural examining program.
- e. The time required for the land planning examination.

3124. As soon as it can be done, copies of plans and specifications shall be forwarded to the proper parties for examination of the following:

- a. Land Planning.
- b. Conformance with breakdown of costs.
- c. Adequacy for purposes of constructing the buildings.
- d. Plumbing, heating, and mechanical work, etc.

3125. It is not possible to give complete instructions for the examination of final drawings and specifications as the examiner must be guided mainly by professional knowledge. The following list of instructions and comments covers only a few salient factors:

- a. Check drawings and specifications with any reports made after examination of semifinal plans and specifications.
- b. Examine drawings and specifications for completeness of presentation for a proper contract set. Refer to list of drawings and details required with Commitment for Insurance.
- c. Check plans for dimensions of:
 - (1) Walks, drives, parking areas, distance of walk from building.
 - (2) Stairhall and corridor minimum widths.
 - (3) Minimum room sizes and passage widths.
 - (4) Minimum door widths.
 - (5) Minimum closet depths.
 - (6) Stair headroom.
 - (7) Minimum ceiling height.
- d. Check all details such as wall sections, framing details, roof construction, kitchen cabinets and other equipment for conformity with Commitment for Insurance and with good practice.
- e. Check the plot plan to see that all necessary new road work, sidewalks, and utilities on the property itself are shown and are indicated as part of the work under the contract; and road work, sidewalks, and utilities on public or other private

- property shall be separately indicated as may be necessary in order that the project shall have complete connection with the public street and utility systems. Street paving and utilities must be specified to conform with local regulations. If utilities and street improvement outside the subject site are to be installed, evidence must be presented that these will be done and completed by the time the project is ready for occupancy, or within a reasonable time thereafter.
- f. At the closing, minor last minute revisions in the drawings may be made thereon in white ink. These revisions must be made in each set and initialed by the sponsor's architect, the architect acting for the Administration, the mortgagee, the mortgagor, the contractor, and the bonding company.
 - g. Last minute revisions or changes in the specifications may be made in the body of the specifications in ink. These changes must be made in each set and initialed by each of the interested parties named above. A preferable method is to enumerate and describe all changes in the form of an addendum to be inserted at the beginning of each set of specifications at the time of closing.
 - h. Notes on Closing.

- (1) Number the sets of drawings and specifications from 1 to 7, and mark set No. 1 as the master set. (This set shall be sent to Washington.) The cloth set shall not be numbered.
- (2) Give date of signing of drawings by Administration representative.
- (3) The master set of drawings and specifications only shall be initialed on the back of each sheet by all the signatories of the title page.
- (4) In cases where, for any reason, it has not been possible for the Land Planning Consultant to examine the final plans and specifications completely, he may be requested to attend the closing in order to make the final examination.
- (5) After examination, the landscape plans and specifications shall be identified as part of the contract documents in the same manner as for the architectural drawings.

3126. Prior to closing, the applicant shall furnish seven sets of the drawings and specifications (including plans and specifications for landscape work, grading, and drainage), in the form finally approved and an additional set of plans printed on cloth. With

these documents, evidence is required of the granting of a building permit by the local authorities.

3127. The title page of each set of drawings and specifications shall be in black line on white background, and shall contain spaces especially designated for the signatures of representatives of the Administration, of the mortgagor, of the mortgagee, of the contractor, of the mortgagor's architect, and of the bonding company. An index of the contract drawings designated both by name and number shall also appear on this sheet.

3128. Specifications should be double spaced on letter-size paper. They are preferred in mimeograph or ditto form, but if blue-printed, thin paper should be used. General conditions of the American Institute of Architects are to be included, and also a special sheet of general conditions prescribed by the Federal Housing Administration. The page following the title page should carry an alphabetical index of paragraph headings. The title of the branch of the work should appear at the bottom or top of each page of the specifications (carpentry, masonry, etc.).

3129. If the final contract drawings have not been previously identified by all parties to the contract, an architect of the Administration shall be present at closing for the purpose of identifying the contract drawings and specifications, adjusting any necessary minor changes, and of preparing consequent addenda to the contract documents.

The first part of the report deals with the general situation of the country and the progress of the war. It is followed by a detailed account of the military operations in the West, the East, and the Balkans. The report also discusses the economic and social conditions of the country and the progress of the war.

The second part of the report deals with the military operations in the West. It describes the progress of the German offensive in the West, the British and French counter-offensives, and the final stages of the war in the West.

The third part of the report deals with the military operations in the East. It describes the progress of the German offensive in the East, the Russian counter-offensives, and the final stages of the war in the East.

The fourth part of the report deals with the military operations in the Balkans. It describes the progress of the German offensive in the Balkans, the British and French counter-offensives, and the final stages of the war in the Balkans.

The fifth part of the report deals with the economic and social conditions of the country. It describes the progress of the war in the economic and social fields, and the impact of the war on the country.

The sixth part of the report deals with the progress of the war in the West, the East, and the Balkans. It describes the progress of the German offensive in the West, the British and French counter-offensives, and the final stages of the war in the West, the East, and the Balkans.

The seventh part of the report deals with the economic and social conditions of the country. It describes the progress of the war in the economic and social fields, and the impact of the war on the country.

The eighth part of the report deals with the progress of the war in the West, the East, and the Balkans. It describes the progress of the German offensive in the West, the British and French counter-offensives, and the final stages of the war in the West, the East, and the Balkans.

The ninth part of the report deals with the economic and social conditions of the country. It describes the progress of the war in the economic and social fields, and the impact of the war on the country.

The tenth part of the report deals with the progress of the war in the West, the East, and the Balkans. It describes the progress of the German offensive in the West, the British and French counter-offensives, and the final stages of the war in the West, the East, and the Balkans.

PART III
PROCEDURE SUBSEQUENT TO COMMITMENT
SECTION 2
COST ESTIMATION PROCEDURE

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COMMISSIONERS OF THE
LAND OFFICE
TO THE
LEGISLATIVE ASSEMBLY
OF THE
STATE OF CALIFORNIA
FOR THE YEAR
1911

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PART III
PROCEDURE SUBSEQUENT TO COMMITMENT

SECTION 2

COST ESTIMATION PROCEDURE

PREPARATION FOR CLOSING

3201. Shortly after issuance of the Commitment for Insurance, the Washington Office will prepare a tentative breakdown of cost estimates based upon drawings and specifications and FHA Form 2283, Financial Analysis, Construction Stage, as developed at the time of commitment. Such breakdown will be prepared in a type-written original and one copy. The original, together with a copy of FHA Form 2283, Financial Analysis, Construction Stage, will be forwarded to the field. The other copy of the breakdown will be retained in the files of the Washington Office.

3202. Preliminary to closing, the final drawings and specifications will be cleared and identified on the basis of the terms of the Commitment for Insurance, and at that time the tentative breakdown shall be reconciled with the final drawings and specifications including landscaping (see paragraph 3121). In reconciling the payment breakdown minor adjustments in the tentative estimates may be made. Minor adjustments of the Payment Breakdown are to be defined as follows:

- a. Those which add to one trade that which is deducted from another trade and therefore does not affect the total construction cost.
- b. Any deductions from a trade which are added to the Contingency Fund.
- c. Any additions to a trade which are deducted from the Contingency Fund without decreasing the Contingency Fund to less than approximately 1% of the total field cost of buildings and land improvements.

If any adjustment results in a decrease in the "Total Cash Requirements" amount on the tentative breakdown or affects the rental income of the project, the matter shall be submitted, together with comments and recommendations, to the Assistant Administrator for Rental Housing. Appropriate instructions will be given by the Assistant Administrator.

3203. When justified by final acceptable changes in the architectural drawings and specifications, or to compose reasonable differences in cost estimates between the Administration and the sponsor, desirable changes in the "Other equity value," if any, set forth on the breakdown may be made. However, changes, if made, shall be subject to the following requirements:

- a. If the tendered construction contract total exceeds the Administration's total estimate set forth on the breakdown, and the contractor agrees to accept and the sponsors agree to pay additional cash or corporate stock for the excess, adjustment may be made therefor, *provided* the resulting spread between "capitalization" and "summation" values as set forth on the appurtenant FHA Form 2264 does not exceed the administratively prescribed limit.
- b. If the tendered construction contract total is less than the Administration's total estimate set forth on the breakdown, adjustment may be made, *provided*:

- (1) That the decrease does not exceed the amount of "Other equity value" set forth on the breakdown so that "Total Cash Requirements" may not be reduced.
- (2) That the reduced "Total for all Improvements" be in an amount not less than the amount of the mortgage to be insured.
- (3) That the resulting spread between "capitalization" and "summation" values as set forth on the appurtenant FHA Form 2264 does not exceed the administratively prescribed limit.
- (4) That the mortgage does not exceed 80% of the "Estimate of value, on completion of the project."
- (5) If clearly indicated as desirable, minor adjustment of cash requirements without change in "Total cash requirements" may be made by allocation of cash released by virtue of reduced construction contract total to the contingency fund, provided that in no case may the contingency fund exceed 4% of the FHA estimate of the total field cost of buildings and land improvements (also see paragraph 3202 c).

3204. In no case shall a change be made which involves an adjustment in the amount of the breakdown total exceeding 3% above or below such total, without reference to the Assistant Administrator for Rental Housing for approval. Any authorized changes must be recorded upon the breakdown. No new FHA Form 2264 shall be prepared.

3205. If the tentative payment breakdown contains an amount for "Bond Premium" and sponsors decide to furnish a type of "assurance of completion" acceptable to the Administration, which type involves a lesser cost than the amount provided in the tentative breakdown, then such amount shall be reduced to the lesser cost and the difference shall be added to the Contingency Fund. If the new approved "assurance of completion" involves an increased cost, then such amount shall be increased to the greater cost and the difference shall be deducted from the Contingency Fund (also see paragraph 3202 c).

3206. Except as modified by the Building Loan Agreement or the Construction Contract, payments on account of each trade or stage will be made according to the value of the items included therein and completed at the time of application for payment. The primary purpose of the breakdown as an exhibit to the contract documents is to provide for equitable disbursements during construction in accordance with value of construction performed. It is, therefore, evident that if excessive values are given to the earlier trades or stages, funds will be advanced at a rate proportionately faster than actual construction. Hence, after such earlier trades or stages have been completed and payments made on account thereof, the funds on hand may not be sufficient to cover actual construction yet to be done. Extreme care must be exercised in adjusting the breakdown so that disbursements made thereunder will afford adequate protection to the Administration and so that at the same time the contractor will receive disbursements fairly in line with his actual costs. In some instances the total charges of the contractor may agree with those of the breakdown but the costs of the individual trades may vary. Where the Administration's cost estimates for early trades are less than those of the contractor's, the contractor frequently requests an adjustment (without a change in the total) so that he may receive payment more nearly approximating his actual costs. Due consideration should be given to such matters in order to avoid subjecting the contractor to excessive burdens of carrying himself during certain periods of construction when disbursements received do not cover actual costs to him. However, care should be taken to see that disbursements will not be made in excess of the value of work performed from time to time during construction.

3207. The tentative Payment Breakdown will be prepared in the form illustrated by Exhibits "A" or "B." The trade items will be listed in the left-hand column in the general order in which they occur in the "Summary Report." To the right of the trade item column will be appropriately entitled columns for each type of dwelling structure, with the cost estimates for the respective

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trade items tabulated below. The totals of the individual trade items and the aggregate total of the individual trade items for each type of dwelling structure will be carried into a final column on the right side of the breakdown so as to give a column of totals. To the total of "Dwellings" are added the estimated values of all other items. Such items usually consist of accessory buildings (such as garages); landscaping; roads, walks and grading; and sewer, water, gas and electricity. The resulting total is the "Value of Physical Improvements." From such total shall be deducted the "Other Equity Value" amount, if any. The resulting total is "Construction Cash." To such total are added "Contingency Fund" and "Bond Premium." The resulting total is "Contract Cash Sum." To such total are added "Contractor's Cash Fee" and "Architect's Cash Fee." The resulting total is the "Total Cash Requirement." The FHA Form 2283, Financial Analysis, Construction Stage, used in preparing the tentative breakdown, is based upon FHA Form 2264, Project Income Analysis and Appraisal. FHA Form 2283 shows the "Other Equity Value" "Contingency Fund," "Contractor's Cash Fee," "Architect's Cash Fee," and other amounts set forth in the tentative breakdown. Prior to closing, a new FHA Form 2283 based on final closing instruments will be received, for use in preparing the final breakdown. The tentative breakdown figures shall be adjusted and set forth in the final breakdown so as to conform with the new FHA Form 2283. However, as stated in paragraph 3202, if any adjustment results in a change in the "Total Cash Requirement" amount on the tentative breakdown or affects the rental income of the project, the matter shall be submitted, together with appropriate comments and recommendations, to the Assistant Administrator for Rental Housing. No provision is made for a "holdback" in the breakdown. The contract documents are drawn so as to provide for such "holdback."

3208. Ordinarily, the use of "Payment Breakdown" on the basis of breakdown by construction stages, in lieu of breakdown by trades, will not be included in administratively prescribed project processing technique. The stage breakdown divides the various trade items into well defined stages of construction (generally four stages) for the disbursement of funds subsequent to the completion of each stage. The use of this method can be considered only in projects involving the construction of a group of small, detached, building units.

COST ESTIMATION PROCEDURE

EXHIBIT A

Applicable to projects consisting of multifamily or apartment units, mortgage to be insured under sec. 207

Name of project Project No.
 Location Date

PAYMENT BREAKDOWN

	Building No. 1	Building No. 2	Building No. 3	Building No. 4	Total
Excavation.....	\$1,276.00	\$927.00	\$1,276.00	\$927.00	\$4,406.00
Concrete walls and footings.....	2,534.00	2,188.00	2,534.00	2,188.00	9,444.00
Masonry.....	21,223.00	5,438.00	21,223.00	5,438.00	53,322.00
Dampproofing and waterproofing.....	102.00	174.00	102.00	174.00	552.00
Concrete floors and cement work.....	1,861.00	1,343.00	1,861.00	1,343.00	6,408.00
Rough carpentry.....	12,710.00	8,910.00	12,710.00	8,910.00	43,240.00
Millwork and finished carpentry.....	3,840.00	1,781.00	3,840.00	1,781.00	11,242.00
Finished wood flooring.....	7,988.00	3,453.00	7,988.00	3,453.00	22,882.00
Structural steel, steel lintels, and miscellaneous iron.....	2,554.00	578.00	2,554.00	578.00	6,264.00
Stairs.....	2,474.00	641.00	2,474.00	641.00	6,030.00
Windows.....	3,623.00	1,945.00	3,623.00	1,945.00	11,136.00
Doors.....	9,483.00	4,823.00	9,483.00	4,823.00	28,632.00
Lathing and plastering.....	15,927.00	8,415.00	15,927.00	8,415.00	48,684.00
Insulation.....	1,366.00	732.00	1,366.00	732.00	4,196.00
Roofing.....	3,375.00	2,442.00	3,375.00	2,442.00	11,034.00
Sheet metal work.....	2,108.00	915.00	2,108.00	915.00	6,046.00
Painting.....	5,929.00	3,148.00	5,929.00	3,148.00	18,150.00
Hardware.....	1,604.00	806.00	1,604.00	806.00	4,820.00
Tile and bathroom accessories.....	4,039.00	1,769.00	4,039.00	1,769.00	11,016.00
Linoleum.....	653.00	520.00	653.00	520.00	2,346.00
Weatherstripping and caulking.....	772.00	407.00	772.00	407.00	2,358.00
Refrigerators.....	5,345.00	2,340.00	5,345.00	2,340.00	15,370.00
Gas ranges.....	2,078.00	910.00	2,078.00	910.00	6,978.00
Kitchen cabinets.....	3,920.00	1,621.00	3,920.00	1,621.00	11,082.00
Medicine cabinets.....	208.00	182.00	208.00	182.00	780.00
Plumbing and hot-water heaters.....	18,807.00	8,124.00	18,807.00	8,124.00	53,862.00
Heating.....	11,066.00	6,140.00	11,066.00	6,140.00	34,412.00
Electric wiring.....	4,088.00	2,292.00	4,088.00	2,292.00	12,700.00
Electric fixtures.....	643.00	290.00	643.00	299.00	1,834.00
Shades.....	267.00	134.00	267.00	134.00	802.00
Screens.....	800.00	403.00	800.00	403.00	2,406.00
Miscellaneous.....	990.00	650.00	990.00	650.00	3,280.00
	153,063.00	74,348.00	153,063.00	74,348.00	

Total cash requirement.....	\$504,867.00	Dwellings.....	\$450,022.00
Cash proceeds of mortgage.....	475,000.00	Garages.....	14,400.00
		Landscape:	
Equity cash requirement.....	29,867.00	Lawns, plants, and planting.....	10,848.00
Contract cash sum.....	484,867.00	Drainage.....	1,888.00
Contractor's cash fee.....	15,000.00	Recreation areas.....	809.00
Architect's cash fee.....	5,000.00	Fences.....	1,133.00
		Tennis courts.....	1,079.00
Total cash requirement.....	504,867.00	Contingencies.....	1,018.00
Other equity value.....	25,150.00	Utilities:	
Contractor's stock fee.....	14,850.00	Roads, walks, grading.....	5,753.00
Architect's stock fee.....	10,000.00	Sewer, water, gas, electric.....	4,218.00
Total cash and stock requirement.....	\$554,867.00	Value of physical improvements.....	497,168.00
		Other equity value (accounted for).....	25,150.00
		Construction cash.....	472,018.00
		Contingency fund.....	9,120.00
		Bond premium.....	3,729.00
		Contract cash sum.....	484,867.00
		Contractor's cash fee.....	15,000.00
		Architect's cash fee.....	5,000.00
		Total cash requirement.....	\$504,867.00

PROCEDURE SUBSEQUENT TO COMMITMENT

EXHIBIT B

Applicable to projects consisting of multifamily or apartment units, mortgage to be insured under sec. 207

Name of project _____ Project No. _____

Location _____ Date _____

PAYMENT BREAKDOWN

	Building No. 1	Building No. 2	Building No. 3	Building No. 4	Building No. 5	Building No. 6	Total
Excavation.....	\$1,337.00	\$591.00	\$1,365.00	\$1,434.00	\$1,148.00	\$2,024.00	\$8,199.00
Foundation walls and footings.....	1,969.00	1,344.00	2,310.00	2,365.00	1,691.00	2,982.00	12,661.00
Masonry.....	12,547.00	10,711.00	13,102.00	12,906.00	11,081.00	17,972.00	78,319.00
Dampproofing and watertproofing.....	1,050.00	876.00	1,172.00	1,148.00	902.00	1,590.00	6,738.00
Concrete floors and cement work.....	3,666.00	3,059.00	3,942.00	3,958.00	3,148.00	5,551.00	23,324.00
Rough carpentry.....	7,314.00	6,104.00	7,567.00	7,398.00	6,281.00	11,076.00	45,740.00
Millwork and finished carpentry.....	2,442.00	1,938.00	2,493.00	2,537.00	2,097.00	3,699.00	15,206.00
Finished wood floors.....	3,798.00	3,070.00	3,877.00	3,790.00	3,261.00	5,751.00	23,547.00
Structural steel.....	1,626.00	1,357.00	1,660.00	1,622.00	1,396.00	2,462.00	10,123.00
Stairs.....	1,204.00	1,005.00	1,330.00	1,302.00	1,034.00	1,824.00	7,609.00
Windows.....	1,324.00	1,105.00	1,352.00	1,321.00	1,137.00	2,005.00	8,244.00
Doors.....	3,194.00	2,566.00	3,261.00	3,287.00	2,743.00	4,837.00	19,588.00
Lathing and plastering.....	7,452.00	6,144.00	7,792.00	7,652.00	6,424.00	11,330.00	46,824.00
Insulation.....	693.00	578.00	707.00	691.00	595.00	1,049.00	4,313.00
Roofing.....	1,719.00	1,335.00	1,755.00	1,716.00	1,470.00	2,604.00	10,605.00
Sheet metal work.....	1,640.00	1,369.00	1,674.00	1,636.00	1,408.00	2,483.00	10,210.00
Painting.....	3,542.00	2,756.00	3,616.00	3,635.00	3,042.00	5,365.00	21,956.00
Hardware.....	1,204.00	1,005.00	1,230.00	1,202.00	1,034.00	1,824.00	7,499.00
Linoleum and bathroom accessories.....	2,160.00	1,980.00	1,980.00	1,800.00	1,800.00	3,420.00	13,140.00
Weatherstripping and caulking.....	434.00	362.00	443.00	433.00	372.00	657.00	2,701.00
Refrigerators.....	2,160.00	1,980.00	1,980.00	1,800.00	1,800.00	3,420.00	13,140.00
Ranges.....	840.00	776.00	770.00	700.00	700.00	1,320.00	5,110.00
Kitchen cabinets.....	950.00	850.00	880.00	800.00	800.00	1,520.00	5,840.00
Medicine cabinets.....	168.00	154.00	154.00	140.00	140.00	266.00	1,022.00
Plumbing and hotwater heaters.....	7,560.00	6,930.00	6,930.00	6,300.00	6,300.00	11,970.00	45,990.00
Heating.....	6,015.00	4,920.00	6,241.00	6,202.00	5,165.00	9,109.00	37,652.00
Electric wiring.....	2,378.00	1,855.00	2,525.00	2,473.00	2,042.00	3,602.00	14,908.00
Electric fixtures.....	338.00	282.00	345.00	338.00	291.00	512.00	2,107.00
Venetian blinds.....	662.00	553.00	678.00	661.00	569.00	1,003.00	4,124.00
Screens.....	427.00	356.00	436.00	426.00	367.00	647.00	2,659.00
Miscellaneous.....	300.00	300.00	300.00	300.00	300.00	525.00	2,025.00
	\$2,153.00	68,565.00	83,669.00	81,973.00	70,544.00	124,409.00	-----

Total cash requirement.....	\$590,141.00	Dwellings.....	\$511,513.00
Cash proceeds of mortgage.....	525,000.00	Garages.....	7,200.00
Equity cash requirement.....	65,141.00	Landscape:	
Contract cash sum.....	571,254.00	Lawns, plants, and planting.....	8,795.00
Contractor's cash fee.....	11,000.00	Drainage.....	1,531.00
Architect's cash fee.....	7,887.00	Recreation areas.....	656.00
Total cash requirement.....	590,141.00	Fences.....	918.00
Other equity value.....		Tennis courts.....	875.00
Contractor's stock fee.....	20,000.00	Contingencies.....	823.00
Architect's stock fee.....	20,000.00	Utilities:	
Total cash and stock requirement.....	\$630,141.00	Roads, curbs, and sidewalks.....	13,196.00
		Sewer, water, gas, electric.....	10,100.00
		Value of physical improvements.....	555,609.00
		Other equity value (accounted for).....	
		Construction cash.....	555,609.00
		Contingency fund.....	10,000.00
		Bond premium.....	5,645.00
		Contract cash sum.....	571,254.00
		Contractor's cash fee.....	11,000.00
		Architect's cash fee.....	7,887.00
		Total cash requirement.....	\$590,141.00

COST ESTIMATION PROCEDURE

EXHIBIT C

Applicable to projects consisting of small, detached building units; mortgage to be insured under sec. 207

Name of project Project No.
 Location..... Date

PAYMENT BREAKDOWN

	1 5-room house	06 5-room houses	1 6-room house	204 6-room houses	Total, 300 houses
First payment: Excavation; concrete walls and footings; masonry; dampproofing and waterproofing; rough carpentry; sheathing; siding and shingles; structural steel; window frames; roofing and sheet metal.....	\$891.00	\$85,536.00	\$1,010.00	\$206,040.00	\$291,576.00
Second payment: Plywood interior finish; finish carpentry; standing trim; glazing; stairs; plumbing roughing; heating ducts; electric wiring.....	783.00	75,163.00	887.00	180,948.00	256,116.00
Third payment: Finish wood flooring; doors; bathroom accessories; plumbing fixtures; hot-water heaters; registers; ornamental and miscellaneous iron; enameled-steel exterior trim; concrete floors and cement work.....	648.00	62,208.00	734.00	149,736.00	211,944.00
Fourth payment: Painting; hardware; kitchen cabinets; medicine cabinets; lighting fixtures; screens; porch steps and terraces; steel shutters.....	378.00	32,288.00	429.00	87,516.00	123,604.00
	2,700.00	259,200.00	3,060.00	624,240.00	-----

Total cash requirement.....	\$937,170.00	Dwellings.....	\$883,440.00
Cash proceeds of mortgage.....	935,000.00	Garages.....	5,000.00
Equity cash requirement.....	2,170.00	Landscape:	
Contract cash sum.....	908,170.00	Lawns, plants, and planting.....	8,020.00
Contractor's cash fee.....	19,000.00	Drainage.....	1,260.00
Architect's cash fee.....	10,000.00	Recreation areas.....	544.00
Total cash requirement.....	937,170.00	Fences.....	762.00
Other equity value.....	42,160.00	Contingencies.....	685.00
Contractor's stock fee.....	5,000.00	Utilities:	
Architect's stock fee.....	5,000.00	Roads, curbs, sidewalks.....	6,140.00
Total cash and stock requirement.....	\$984,330.00	Sewer, water, gas, electric.....	12,470.00
		Value of physical improvements.....	918,330.00
		Other equity value (accounted for).....	42,160.00
		Construction cash.....	878,170.00
		Contingency fund.....	17,000.00
		Bond premium.....	16,000.00
		Contract cash sum.....	908,170.00
		Contractor's cash fee.....	19,000.00
		Architect's cash fee.....	10,000.00
		Total cash requirement.....	\$937,170.00

MEMORANDUM

TO : [Illegible]

FROM : [Illegible]

SUBJECT: [Illegible]

[Illegible]

[Illegible]

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PART III
PROCEDURE SUBSEQUENT TO COMMITMENT
SECTION 3
LEGAL PROCEDURE

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THE

MEMORANDUM FOR THE PRESIDENT

AND VICE PRESIDENT

FROM THE SECRETARY OF STATE

DATE

1. The Secretary of State has the honor to acknowledge the receipt of your letter of the 14th instant, in which you request that the Department be advised of the date on which the President will be in the city of New York.

PART III
PROCEDURE SUBSEQUENT TO COMMITMENT
SECTION 3
LEGAL PROCEDURE

SOME GENERAL CONSIDERATIONS

3301. Rental Attorneys stationed in offices within each zone, will be responsible for the orderly progress of legal work within the zone. Rental Attorneys shall keep the Chief Counsel fully advised regarding projects to which they are assigned. Special problems must be submitted directly to the Chief Counsel for his decision. While the function of the Legal Division mainly centers about the closing of the mortgage transaction so that the Mortgage Insurance Contract may issue, administrative personnel should bear in mind that the services of Rental Attorneys, when available, are frequently helpful during the negotiation stage in clarifying problems to the point where a Commitment for Insurance can consistently issue. Rental Attorneys will be prepared to render service in this regard not only in answering legal problems but in giving administrative personnel the benefit of their experience and observation in dealing with sponsors, lenders, title companies, sureties and other parties to the transaction. Similarly, legal matters requiring the technical advice of other personnel shall be submitted to such personnel for their advice and assistance.

3302. The work of the Rental Attorney assigned to a specific project will ordinarily be based upon the Commitment for Insurance. Upon execution of the commitment by the Administrator or the Assistant Administrator for Rental Housing there will be forwarded to the Rental Attorney a copy of a letter by the Chief Counsel to the attorney for the sponsor, suggesting that he communicate with the designated Rental Attorney and also transmitting copies of the appropriate suggested forms.

3303. The Rental Attorney shall immediately inform the sponsor and his attorney that commencement of construction is not permitted by the Administration prior to recordation of the mortgage and issuance of the Administrator's Contract of Mortgage Insurance unless specifically approved by the Assistant Administrator for Rental Housing. In the case of a new construction project, the term "com-

PROCEDURE SUBSEQUENT TO COMMITMENT

3303-3307

mencement of construction" means the pouring of footings or any work beyond the stage of excavation. In the case of a rehabilitation project, the term "commencement of construction" means commencement of any construction operation thereon, including demolition. It is desirable that a conference with sponsors and their attorney and other interested parties be arranged at the earliest practicable date in order that procedure and legal requirements can be thoroughly understood by all parties concerned in the transaction. This will materially expedite closing and obviate unnecessary correspondence. Time is of the essence in each case; hence, it is essential that sponsors be fully advised at the outset in order that hurry and confusion too often occurring in the last few days prior to closing, and the dangers incident thereto, can be avoided. Sponsors must also be advised that copies of each instrument to be used in closing should be submitted to all interested parties in advance of closing in order that each may proceed to closing with full knowledge of all circumstances.

3304. Where the Rental Attorney deems it advisable he should also forward to the appropriate interested parties copies of correspondence in order that each may be fully informed. In particular, where the loan is being handled through a local branch office or correspondent of the lender, the home office of the lender should be kept advised by means of copies of correspondence and all legal documents.

3305. Weekly reports of the activities of each Rental Attorney and of the status of projects under his jurisdiction must be submitted to the Chief Counsel and carbons thereof specifically addressed to the officer in charge of the field office with jurisdiction.

3306. Large Scale rental projects are projects in which the original mortgage involved exceeds \$100,000. Small Scale rental projects are projects in which the mortgage does not exceed \$100,000.

PROCEDURE IN CLOSING LARGE SCALE RENTAL PROJECTS UNDER SECTION 207

3307. **The Commitment for Insurance** is prepared by the Legal Division in Washington. It is based on the recommendations of the Board of Review, as approved or modified by the Administrator or the Assistant Administrator for Rental Housing, which recommendations in turn are based on FHA Form 2264, Project Income Analysis and Appraisal and the reports of the Mortgage Review Committee of the Rental Housing Division. The Commitment for Insurance will be executed by the Administrator or Assistant Administrator for Rental Housing on FHA Form 2407 for those approved applications received under Section 207. It is issued to the sponsor and the mortgagee jointly and will be effective for the

term indicated therein. Any extensions will run also to the mortgagee to whom issued unless the mortgagee's interest is released by him in writing or is waived by the Administrator or Assistant Administrator for Rental Housing. Upon execution of the Commitment for Insurance it will be transmitted to the Director or Manager of the Insuring Office together with a copy of the Board Report and a copy of FHA Form 2264, Project Income Analysis and Appraisal. Upon payment of the commitment fee (a) the original Commitment for Insurance will be transmitted to the sponsor and (b) a copy of the Commitment for Insurance, together with a copy of FHA Form 2264, Project Income Analysis and Appraisal, will be transmitted to the mortgagee. The commitment contains the conditions on which the Administrator will insure the proposed mortgage. Certain of such conditions are fixed requirements, others are specified minimums which may be adopted or increased, depending upon subsequent negotiations. Attached to the commitment and made a part thereof are the architectural recommendations and outline specifications and landscape specifications, and the restrictive covenants, if any, which are to be imposed upon the land to be covered by the insured mortgage and/or upon adjoining land which may be owned by the sponsors. (It should be noted that, while such recommendations and specifications are technically a part of the Commitment for Insurance, amendments thereto may be approved by the Assistant Administrator for Rental Housing without the necessity of action by the Board of Review or formal revision of the commitment.)

3308. A Manual of Legal Instructions and Forms will at time of commitment be forwarded from Washington to the attorney for the sponsors in case of Large Scale rental mortgages to be insured under Section 207 of the Act. Such attorneys must be advised by the Rental Attorney that these forms are to be used for *guidance* in the preparation of the particular instruments required in the specific case. Revisions required by applicable state or local law or by the peculiar circumstances of the particular project must, of course, be made but no change shall be made which in any way conflicts with the provisions of Section 207 of the Act or with the Administrative Rules and Regulations thereunder. Too wide a departure from established forms and procedure should not be encouraged. Conflicts with the Administrative Rules and Regulations should be referred for decision to the Chief Counsel of the Rental Housing Division.

3309. Types of Mortgage Loan Financed. The procedure developed by the Rental Housing Division contemplates a combined "Construction and Permanent Mortgage" under the Mortgage as supplemented by the Building Loan Agreement. Such instruments provide for advances during the construction period of

sums aggregating the face amount of the proposed mortgage loan, each such advance being insured by the Administrator as made. Upon completion of construction and approval of all advances, the mortgage will be insured *in toto*.

3310. In certain unusual cases, the borrower may not desire to obtain advances of all or of any part of the insured mortgage during the construction period, preferring to finance the construction by other means. Nevertheless, the procedure will be exactly the same as hereinafter described. That is to say, the drawings and specifications must be identified, title evidence and survey approved, legal instruments approved, and the Administrator's Contract of Mortgage Insurance issued and premium collected. The closing procedure for Large Scale rental projects is also the same regardless of whether it is new rental construction or rehabilitation.

3311. Certificate of Incorporation (Form IA).

- a. *Form.* Mortgagors regulated or restricted by the Administrator will ordinarily be formed under the business corporation law of the state wherein the project is located. When desirable, the mortgagor corporation may be formed in another state and qualified in the state in which the project property is located. In cases in which the mortgagor is other than a corporation, as provided by the Administrative Rules and Regulations, the instrument under which such mortgagor is created must be approved as to form and substance by the Chief Counsel. Where the mortgage exceeds \$100,000, Form IA must be followed. This form is based upon the laws of the State of Maryland and must be adapted to conform to applicable state law. (Such form is not suitable for use in New York. A special form for use in such state will be furnished upon request.) Attention is directed to the following points with respect to such Certificate of Incorporation:

- (1) *Directors.* A board of five directors or such other odd number as the Administrator may approve shall be provided. Unless a vacancy exists one member of the first board of directors must resign at the time of closing in order that a successor may be designated by the Administrator. The certificate must provide that upon certain events of default, as enumerated in article 9 of Form IA, the Administrator in his capacity as stockholder shall become entitled to designate all of the members of the board of directors until such time as such defaults are cured. The form provides that one of the directors so designated in the event of a

default must be the holder of at least one share of some class of stock other than the Administrator's stock. The manner of calling such meetings to elect new directors must be carefully conformed to the applicable state law.

- (2) *Stock.* The total authorized capital stock shall be at least sufficient to provide (a) stock for the Administrator in a nominal amount but sufficient to constitute the Administrator a stockholder in order that he may exercise the control above mentioned, and (b) stock to be issued to the sponsors. The latter, together with such amount, if any, as may be carried on the books of the corporation as paid-in surplus, shall represent the equity and may be issued either with or without par value and in one or more classes, providing for such preferences and priorities as sponsors may deem appropriate. However, the preferences and priorities of sponsor's stock must not in any manner abridge or conflict with the preferences or priorities of the Administrator's stock. If desired, additional stock for future contingencies may be authorized but must not be issued except with the approval of the Administrator, and the certificate shall so provide. The consideration for the Administrator's stock will be paid for by the Administrator but must not exceed \$100.00. Such stock shall be issued in the name of the Federal Housing Administration. It shall bear dividends at the rate of 5 percent per annum. Dividends on sponsor's stock must not exceed, in the aggregate, the dollar amount permitted under the Commitment for Insurance. Additional dividends in the amount permitted under the commitment may be provided in accordance with the Rules and Regulations. All dividends shall be *noncumulative* and payable semiannually on the first day of such months as sponsors may select.
- (3) *Cash Working Fund and Reserves.* A cash working fund, replacement reserve, and general reserve must be established in the amounts set out in the commitment prior to the declaration of any dividends, and additional reserves prior to additional dividends.
- (4) *Rentals and Charges.* The certificate shall make provision for *maximum* average rentals to be charged for the accommodations of the project as set out in the commitment, and for a rental schedule satisfactory to

the Administration, which may be exceeded only with the permission of the Administration. Charges for other facilities of the project must also be subject to the approval of the Administration.

- (5) *Excess Earnings.* Provision must be made for the application to the mortgage annually of all earnings of the corporation over and above current operating expenses, reserves and dividends.
- b. *Closing Requirements.* The mortgagor must have been incorporated prior to closing but only after approval of the certificate by the Rental Attorney. One copy of the certificate duly certified by the Secretary of State or other appropriate official or body of the state, and one conformed copy thereof must be delivered to the Rental Attorney at closing. In addition, the mortgagee and the title insurer may require certified copies.

3312. Note (Form IIA) and Mortgage (Form IIB).

- a. *Form.* No particular forms of credit instrument or mortgage are required by the Administration in Section 207 Large Scale rental projects. Forms IIA and IIB are offered as suggestions. The Small Scale note and mortgage forms prescribed for the particular jurisdiction or any other forms preferred by the Lender and customarily used in such jurisdiction may be used if modified and amplified so as to conform with the footnotes to Forms IIA and IIB and the following provisions:

- (1) That the Mortgage prohibit the creation by the mortgagor of any lien whatsoever against the premises (whether superior, equal, or subordinate) other than the lien of the insured mortgage, and liens specifically permitted by the Administrator.
- (2) That the mortgagor be obligated to provide fire and other hazard insurance required by the mortgagee and the Administrator in companies and amounts satisfactory to the Administrator, with standard form of mortgagee clause attached, making loss, if any, payable to the mortgagee and the Administrator, as interest may appear, and further be obligated to submit the original policies to the mortgagee and certificates thereof to the Administration.
- (3) That the Mortgage provide (and an appropriate reference to such provision must appear in the credit instruments) for the collection by the mortgagee of the mortgage insurance premiums, and of the adjusted

premium charge required by the Regulations (Article III of Section 207 Large Scale Rental Housing Regulations).

- (4) That an appropriate "Personal Property Clause" be included in the mortgage to cover machinery, fixtures and equipment (such as refrigerators) used in the operation of the project and purchased out of the mortgage proceeds. 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 executed upon or immediately after final disbursement under the Mortgage, so that a valid prior lien upon such property is created as additional security for the mortgage loan.
- (5) That the mortgage when executed, delivered and recorded will constitute a valid first and only lien on the project except for liens of taxes or assessments not yet payable, or other liens acceptable to the Administrator as enumerated in paragraph 3317. Taxes and other assessments due and payable must be paid prior to the recordation of the Mortgage.
- (6) That the Note, including all installments of interest, principal and periodic payments of other items (if any) will be payable at such place as may be designated in writing by the holder of the Note.

b. *Closing Requirements.*

- (1) Upon closing the project the Note must be duly executed and the Mortgage or other security instrument must be duly executed and acknowledged and then recorded in the county clerk's office or other appropriate office in the county in which the property is situated. The receipt or certificate of the proper county official, showing the time, place and date of recording, must be furnished to the Rental Attorney. Copies of the Note and Mortgage furnished to the Rental Attorney at closing shall be certified by such official or by the mortgagee or title insurer to be true copies of the Note and the recorded Mortgage. If the Mortgage is in the form of a deed of trust the credit instrument must be identified by the signature of the trustees.

- (2) One such certified copy and one conformed copy of both the Note and Mortgage (or other credit and security instruments) must be delivered to the Rental Attorney at closing, and additional copies delivered to other parties as required.
- (3) In some instances, the final closing will take place through the title insurer, all other parties (particularly the mortgagee and the Administrator) having cleared all instruments separately. In such cases it will be proper with the approval of the Chief Counsel to deposit all necessary papers in escrow with the title insurer (or other approved escrow agent) for distribution upon recordation of the Mortgage and compliance with the conditions of the escrow agreement.

3313. Building Loan Agreement (Form IIIA).

a. *Form.*

- (1) The Building Loan Agreement is an instrument executed by the mortgagor, the mortgagee and the Administrator. It must be adapted to conform to the lien law and other applicable laws of the state wherein the project is located, particularly with reference to priority of the mortgage over possible mechanics' liens and to the manner of disbursing the mortgage loan. In some jurisdictions it is necessary that the Building Loan Agreement be recorded prior to or concurrently with the recordation of the mortgage. Where this condition exists satisfactory evidence must be shown that such agreement was so recorded. If the law of the particular state requires that the mortgage loan, in order to constitute a valid first lien, be advanced in a lump sum at the time of recording the mortgage, the Building Loan Agreement will be replaced by an Escrow Agreement in which the mortgage money will be deposited with an escrow agent and disbursed by it pursuant to the terms of the Escrow Agreement.
- (2) There must be attached to the Building Loan Agreement as exhibits (a) a legal description of the property covered by the Mortgage, which must correspond with the description of the property in the Mortgage, the Title Insurance Policy and with the Survey to be furnished by the mortgagor, and (b) a Payment Breakdown by trades or by stages, as the case may be,

prepared by the Administration and based upon its final cost estimates and the final drawings and specifications. A copy of such Payment Breakdown must also be attached to and form a part of the Construction Contract. The Payment Breakdown must, before it is incorporated in the Building Loan Agreement, be identified and signed by the proper Administration officials as based upon the final drawings and specifications approved by the architect acting for the Administration. Where a project is to be constructed in groups the Breakdown will indicate the agreed grouping arrangements.

- (3) Advances of the mortgage money will follow such Breakdown and will be applied for through a "Contractor's Application" (Form IVB) addressed to the borrower and in the form described in the Building Loan Agreement, to which application must be attached an "Owner's Concurrence and Application for Advance" (Form IIIB) in accordance with the provisions of such agreement. The manner of making advances may be varied by agreement, subject to applicable law, in order to protect the project against the possibility of liens. In any case, checks or drafts must be payable jointly to the mortgagor and the other party entitled thereto (except, as in New York, where the applicable lien law requires payment to be made only to the mortgagor), and each advance must be cleared through or approved by the title insurer or title attorney, and the title coverage extended to include each such advance.
- (4) Attention is called to the fact that the provisions of the Construction Contract must be carefully conformed with the Building Loan Agreement. The Construction Contract (which is provided in outline in the Building Loan Agreement) may be either "Guaranteed Upset Price" or "Lump Sum." If of the former type, the Payment Breakdown will not be an exhibit and disbursements of the mortgage money will be made according to audited vouchers, certified payrolls and bills submitted. However, the "Contingency Fund" must be set up, that is, the cash construction upset costs plus contractor's and architect's cash fees must not exceed the difference between the sum of the mortgage proceeds and cash equity and

the sum of carrying charges, working capital and the "Contingency Fund." If the project is constructed under the "Guaranteed Upset Price" type of Construction Contract the appropriate alternative provisions in the specimen form of Building Loan Agreement must be used. The Construction Contract generally breaks the total payments to the contractor into cash construction price, cash fee and (in some cases) an additional fee to be paid in shares of stock of the mortgagor. Care must be taken to see to it that the aggregate cash and payments other than cash under the Building Loan Agreement and Construction Contract coincide and both agree with the "Payment Breakdown" attached to each such instrument.

- (5) A similar check must be made with reference to the architect's fee in the Building Loan Agreement and in the Architect's Contract.
- (6) The paragraph of the Building Loan Agreement covering "Assurance of Completion" must coincide with such provision as contained in the Construction Contract. Where a surety company bond is waived, the item in the Payment Breakdown for premiums on bond, if any, must be deleted and added to the "Contingency Fund."
- (7) The Building Loan Agreement shall require that the project be completely constructed within a stated period approved by the Administration. The completion period in the Construction Contract must not exceed that set out in the Building Loan Agreement.
- (8) Paragraph 13 of the Building Loan Agreement contains the provisions regarding the cash equity to be supplied. It will be proper for sponsors to place in the Special Account containing such fund the amount required in the Commitment for Insurance, less FHA examination fees theretofore paid and first year FHA mortgage insurance premium (see paragraph 3333 hereof). However, where sponsors desire they may deposit the total sum set out in the Commitment for Insurance and will be entitled to reimbursement out of such Special Account upon filing application with the Administration. All of the amounts payable out of the equity fund as enumerated under the caption "Carrying Charges; Financing; Organization;" in FHA Form 2264, Project Income Analysis and Appraisal must be

deposited in such account and set out in such paragraph of the Building Loan Agreement. Certified receipts may be accepted by the Rental Attorney at closing in lieu of cash, but the practice of taking receipts covering items other than FHA fees and premiums should not be encouraged. The aggregate of such items, of the reserve during construction, of the architect's and contractor's cash fees and of the cash construction cost must not exceed the sum of the mortgage money and the cash equity deposit. Approval of applications from such account on behalf of the Administrator will be given by the Assistant Administrator for Rental Housing, until further notice.

- b. Closing Requirements.* The Building Loan Agreement must be executed in triplicate by the mortgagor, the mortgagee and the duly authorized representative of the Administrator. If such agreement is to be recorded and retained in the file of the recorder's office it will be necessary to execute an additional copy. There must be delivered to the Rental Attorney at closing one executed duplicate original copy and one conformed copy. Immediately following recordation there must be furnished to the Rental Attorney a certificate by the recorder or by the title insurer or mortgagee showing the time, place and date of recordation. In addition copies of the Building Loan Agreement and such certificate must be furnished to the mortgagor, the mortgagee and the other parties interested, as required.

3314. Construction Contract (Form IVA).

a. Form.

- (1) Depending upon the agreement between the parties, the Construction Contract may be either "Lump Sum" or "Guaranteed Upset Price." Care must be taken that this contract conforms with other closing instruments. If a Contingency Fund is set up in FHA Form 2264, Project Income Analysis and Appraisal, and finally fixed in the Payment Breakdown, the Construction Contract must provide for the reduction of the contract sum by that amount, and for the use of such sum for work and material not required to be furnished under the Construction Contract. (Particular care should be taken, however, so that such provision is not construed, under the applicable state law, as in any manner rendering the Mortgage indefinite or uncertain. If there is any possibility of this, appro-

- ropriate provision must be made in some other manner so that the contingency item is drawn from the Mortgage definitely and set aside for any work and material not required to be furnished under the Construction Contract. It is suggested that under such circumstances it may be possible to set this fund aside as an addition to the equity fund).
- (2) The description of the drawings and specifications in the Construction Contract must be checked at closing by an architect of the Administration to see that it accurately describes the final approved set and any addenda thereto.
 - (3) The time of commencement of construction and the period within which construction must be completed must not in any event exceed the like provision in the Building Loan Agreement. The provision covering "assurance of completion" must also accord with the similar provision in such agreement.
 - (4) Should the "Guaranteed Upset Price" type of Construction Contract be used the Rental Attorney must see to it that the maximum amount fixed in the contract will not exceed the cash and stock available for construction of the project. In this case payments will be made on the basis of audited vouchers and receipts rather than on the percentage of work done and materials furnished. In such cases no Payment Breakdown will be used. Where this type of contract is to be used the Rental Attorney must request a copy of an acceptable form from the Chief Counsel. The closing procedure and requirements are the same as in the case of a Lump Sum Construction Contract.
- b. *Closing Requirements.* There must be delivered to the Rental Attorney at closing one copy of the Construction Contract certified by the contractor or mortgagor, together with two conformed copies thereof. Additional copies required by other parties to the contract documents must be furnished by the mortgagor.

3315. Architect's Contract (Form IX).

- a. *Form.* No specimen form of Architect's Contract is provided but the use of the standard form contract of the American Institute of Architects is suggested. Appropriate wording must be included so that a maximum fee is definitely established, not in excess of that set up in the Payment

Breakdown. Paragraph 2 of the standard form must be stricken unless provision is made for the payment of the items therein enumerated. Paragraph 3 must be stricken. Paragraph 5 must be made applicable only to the cash to be paid the architect. Paragraph 7 thereof provides for the employment of a clerk-of-the-works. If it is found necessary to employ such a clerk, provision must be made at closing for this expense unless it is included in the contract price payable to the contractor. However, the supervision of the architect is generally sufficient. In such cases it will not be necessary to employ a clerk-of-the-works. Applications for payment of the cash fee specified in the Architect's Contract shall conform substantially with Form No. VI. Such form shall, however, be amended so as to indicate whether or not the cash fee applied for is to be paid out of the Special Account or from mortgage proceeds. Applications shall be addressed by the borrower to the Federal Housing Administrator (and to the mortgagee if mortgage proceeds are to be advanced) and have attached as a voucher a statement from the architect setting forth the current status of the fee account. *Applications for progressive payments of the architect's fee should be submitted separately but concurrently with the contractor's monthly applications for funds.*

The following provisions shall be inserted in each Architect's Contract:

"Notwithstanding any other provision hereof, if the work for which the Drawings and Specifications are executed has not been completed and there is a default or foreclosure under the Mortgage insured by the Federal Housing Administrator, the Administrator or the mortgagee, or both, and their successors and assigns, are authorized to use said Drawings and Specifications to complete construction of said project without additional cost therefor.

"Certificates of Payment shall be issued by the Architect from time to time as required under the Construction Contract. Said certificate shall be in the form prescribed by the Federal Housing Administrator and shall state, among other things, that it is based upon personal inspection of the project by the architect or his representative, who shall be a registered architect. The name of said representative shall be indicated if the inspection is not made by the architect."

- b. *Closing Requirements.* There must be delivered to the Rental Attorney at closing one certified and one conformed copy of this contract. Additional copies required by other

parties to the contract documents must be furnished by the mortgagor.

3316. Assurance of Completion.

- a. In rehabilitation projects, the requirement of a bond or other assurance of completion may be waived if the total estimated cost of new physical improvements as shown on the Payment Breakdown does not exceed 75 per cent of the mortgage to be insured.
- b. In all other cases the Administrator will accept a bond of a satisfactory surety company in the standard A. I. A. form of construction bond (or its equivalent), in an amount at least equal to 10% of the Construction Contract cost (any surety company appearing on the approved Treasury list will be accepted to the extent indicated on said list), or an escrow deposit of cash or of securities of, or fully guaranteed as to principal and interest by, the United States, in an amount equal to 10% of the Construction Contract cost, conditioned upon completion of the project (See Form VII in the Appendix). Other assurance of completion offered in lieu of a surety bond or escrow deposit will be acceptable only if approved by the lender and specifically approved in writing by the Assistant Administrator for Rental Housing. The following provision must be included in every surety bond: "If the Principal shall pay all persons who have contracts directly with the Principal for labor or materials, failing which such person shall have direct right of action against the Principal and Surety under this obligation, subject to the owner's priority."
- c. *Closing Requirements.* There must be delivered to the Rental Attorney at closing one executed or photostatic copy and one conformed copy of the bond or of the "assurance of completion agreement." One executed copy of each to the mortgagor and mortgagee and additional copies required by parties to the contract documents must be furnished by the mortgagor.

3317. Title Evidence.

- a. It is preferred that title evidence be in the form of a mortgage title policy in the standard L. I. C. or A. T. A. form, or, if the project is located in the New York Metropolitan District, or in Chicago in the standard form there in use. The proposed title insurer and the form of the proposed title policy, unless previously approved, must be approved by the Chief Counsel. The title evidence must show the Mort-

gage proposed to be insured to be a valid prior lien upon a marketable title existing in the mortgagor as of the date the Mortgage is filed for record, free and clear of all other liens and encumbrances except as permitted by the Administrator and the mortgagee. No objection to title by reason of the following matters will be made provided they are not such as to impair the value of the property for insurance purposes and are brought to the attention of the Administrator for consideration in fixing valuations:

- (1) Customary easements for public utilities, party walls, driveways, and other purposes, customary building or use restrictions for breach of which there is no reversion and which have not been violated to a material extent;
- (2) Such restrictions when coupled with a reversionary clause, provided that the proposed construction and the use of the project will not violate such restrictions;
- (3) Slight encroachments by adjoining improvements;
- (4) Outstanding oil, water, or mineral rights, except those which include the right to sink wells or shafts on the said property, conduct open pit mining operations, withdraw the subjacent support, or otherwise impair the value of the property for residence purposes without payment of adequate damages;
- (5) Taxes and assessments not yet due and payable.

The title policy should read to the mortgagee and to the Administrator, as interest may appear, and must contain the following provision:

"If the Federal Housing Administrator pursuant to the Mortgage Insurance Contract acquires the mortgaged premises from the assured who acquired title thereto through foreclosure or other legal manner in extinguishment of the mortgage debt, then this policy is extended as of its date to include the Federal Housing Administrator as an assured subject to the conditions and stipulations contained herein."

- b. *Alternative Title Evidence.* Where the mortgagee is unable to furnish a policy for reasons satisfactory to the Rental Attorney, the mortgagee may in lieu thereof, and with the approval of the Chief Counsel, furnish:

- (1) An abstract of title prepared by an abstract company or individual engaged in the business of preparing abstracts of title, accompanied by legal opinion satis-

factory to the Administrator, as to the quality of such title, signed by an attorney at law experienced in the examination of titles;

(2) A Torrens or similar title certificate; or

(3) Evidence of title conforming to the standards of a supervising branch of the Government of the United States of America, or of any state or territory thereof.

If an abstract and attorney's opinion are used, such opinion should read to the Administrator and the mortgagee (or in case of a trust indenture, the trustees on behalf of the bondholder), as interest may appear. Appropriate provision must be made for the clearance of each advance of mortgage money through the title insurer or attorney furnishing such opinion and for the extension of title coverage to include each such advance. In cases in which an attorney's opinion and abstract are accepted, the Rental Attorney must make a careful check of the abstract to see to it that the title conforms to the requirements enumerated in subparagraph a. above. The other types of title evidence are seldom used.

c. *Unrecorded Liens*. If the title evidence does not insure against the possibility of unrecorded liens, the Rental Attorney shall be furnished with:

(1) Photographs of the sites certified to be correct representations thereof at the time of the recordation of the Mortgage.

(2) Affidavits from responsible parties or other appropriate evidence that no work was done or materials furnished to the premises prior to the recordation of the Mortgage and that an examination of the premises as of such time shows no apparent evidence of any such work done or materials furnished; and

(3) Satisfactory evidence that all requirements of the lien law of the state wherein the premises are situated have been met. If this evidence cannot be furnished at closing it must be furnished immediately upon or after the recordation of the Mortgage, or, in any event, prior to the advance of any mortgage money. An appropriate provision covering this point should be contained in the Building Loan Agreement.

d. A current survey, certified to by a duly registered surveyor or engineer and showing boundary lines, building restriction lines and recorded easements across the land to be covered by the mortgage, must be furnished by the mortgagor.

- e. *Closing Requirements.* In the usual case the Rental Attorney will close the project on a preliminary title report or settlement certificate which must meet the above stated requirements. *Attention of all parties should be directed to the fact that the Building Loan Agreement requires a final title policy to be submitted prior to the first advance of mortgage money.* In some jurisdictions it is the practice to give a preliminary title report at closing and to endorse such report to cover the payment of each advance of mortgage money and issue a policy upon completion of construction and the advancement of the full amount of mortgage money. If it is customary to follow this procedure it will be sufficient (1) if an agreement has been made for the elimination of objectionable exceptions, (2) if the report is addressed to the mortgagee and the Administrator, as interest may appear, (3) if the report contains provisions otherwise in conformity with the above stated requirements, (4) if the report is appropriately endorsed or evidence with respect thereto is furnished showing that it covers each advance, and (5) if the final policy is required to be furnished within 60 days after completion of construction of the project. Rental Attorneys should be careful that the report is so drawn that it will continue in full force and effect during the entire period of construction and such subsequent period as may be necessary to permit the issuance of the final policy. The report should contain a provision that a policy will be issued in any event upon payment of the required premium. Title evidence should be executed in duplicate and one copy thereof furnished to the Administrator and one to the mortgagee. Such evidence, including the survey, should be furnished as soon as possible in order that all possible exceptions or defects may be cleared prior to closing.

3318. Legal Description. A legal description of the property to be covered by the Mortgage must be prepared and must conform with the above mentioned survey. Such description must conform with that set out in the mortgage and title evidence, and shall be attached to the Building Loan Agreement as an exhibit.

3319. Breakdown.

- a. *Form.* Shortly after issuance of the Commitment for Insurance in Washington, there will be forwarded to the field duplicate copies of the tentative breakdown by trades based upon drawings and specifications as developed at the time of commitment, together with a

copy of FHA Form 2283, "Financial Analysis, Construction Stage." Reconciliation and preparation of the final Breakdown on the basis of final drawings and specifications shall be made as required under paragraph 3201 and succeeding paragraphs of the portion of the manual entitled "Cost Estimation Procedure" relating to 207 Breakdowns. Photostatic copies of such final breakdown in such numbers as may be necessary for closing shall be prepared by the mortgagor at its own expense. If the type of "assurance of completion" required under the commitment is changed with the approval of the Assistant Administrator for Rental Housing and results in a saving of premium cost as set out in the Payment Breakdown prepared in Washington, the amount of such saving shall be added to the "Contingency Fund."

- b. *Closing Requirements.* The Rental Attorney must see to it that sufficient photostatic copies of the final Breakdown are made by the mortgagor. One copy of such Breakdown must be attached to each copy of the Building Loan Agreement and Construction Contract, and must accord with the terms thereof.

3320. Administrator's Stock—Stock Voucher. A temporary or final certificate evidencing the Administrator's stock holding must be delivered to the Rental Attorney at closing. The Rental Attorney should request the Chief Counsel to furnish the Stock Voucher (Standard Form No. 1034A) for execution by the mortgagor at closing. In order that such voucher may be prepared the Rental Attorney must advise the Chief Counsel as to the legal name of the mortgagor, the name and address of the officer of the mortgagor to which the check in payment of such stock is to be sent, and the actual designation of the Administrator's stock. The request for the voucher should be made at least a week prior to closing.

3321. Stock Subscription Agreements.

- a. *Form.* Agreements covering all stock to be issued must be furnished at closing. Attention is directed to the fact that the agreement covering the stock to be issued to the contractor and architect should be covered by their respective contracts. Subscription to the Administrator's stock must also be made. Such subscription may be made by the appropriate FHA official having authority under General Order No. 4 or by one of the sponsors under a provision requiring such stock to be delivered to the Administrator and payable to the "Federal Housing Administration."

Such agreements may be in the form of minutes of meetings of the incorporators, stockholders, or directors, as the case may be, wherein it is enumerated that such subscriptions have been made for certain considerations by certain parties and accepted by the mortgagor.

- b. *Closing Requirements.* There shall be delivered to the Rental Attorney at closing one certified and one conformed copy of such agreements. Additional copies required by other parties shall be furnished by the mortgagor.

3322. Equity Fund, Bank Letter and Deposit Slip.

- a. *Form.* The equity fund must be placed in a Special Account to the credit of the mortgagor in a depository satisfactory to the Administrator. The amount of such deposit must coincide with the cash equity fund amount as set out in the Building Loan Agreement.
- b. *Closing Requirements.* There must be furnished at closing a letter by said depository addressed to the Administrator stating the amount of such deposit and the fact that it will be subject to withdrawal only upon check by the mortgagor when approved in writing by the Administrator or his duly authorized representative. A duplicate deposit slip evidencing such deposit must also be furnished at closing to the Rental Attorney.

3323. Organization Minutes. Such minutes must be submitted to the Rental Attorney for approval and correction prior to closing. One certified and one conformed copy of such minutes must be delivered to the Rental Attorney at closing. Additional copies required by other parties shall be furnished by the mortgagor.

3324. Directors' Minutes. Such minutes must be submitted to the Rental Attorney for approval and correction prior to closing. One certified and one conformed copy of such minutes must be delivered to the Rental Attorney at closing. Additional copies required by other parties shall be furnished by the mortgagor. Such minutes must contain authorizations for the execution by appropriate officials of the mortgagor of the various specific legal instruments herein enumerated and of such other instruments as may be necessary to close the mortgage transaction.

3325. By-Laws. Copies of the proposed by-laws must also be submitted to the Rental Attorney for approval prior to closing. Such by-laws should be checked to see to it that they conform to the provisions of the charter and of the Administrative Rules and Regulations under Section 207 of the Act. There must be submitted to the Rental Attorney at closing one certified and one conformed copy of

the by-laws. Additional copies required by other parties shall be furnished by the mortgagor.

3326. Drawings and Specifications. The master set must be identified on the title page of both the drawings and specifications by the authorized representatives of the mortgagor, mortgagee, mortgagor's architect, contractor, surety company, if any, and the Administrator, and shall be initialed by such persons on the back of each of the other pages thereof. The other 7 sets must be signed by said parties on the title pages. All sets shall be identified on the title pages by the initials of the Administration official who checked the same against the final cost estimates. It shall be the duty of the Rental Attorney to distribute the executed drawings and specifications as follows: The master set shall be forwarded immediately to the Director of Architecture in Washington; 3 sets shall be forwarded to the field office with jurisdiction, 2 of which shall be designated for the delivery to the Inspector (1 set for the Inspector shall be on cloth); 1 set to the mortgagee; 1 set to the mortgagor; 1 set to the contractor; and 1 set to the architect.

3327. Attorney's Opinion. An opinion in triplicate by the attorney for the sponsors (mortgagor) must be furnished to the Rental Attorney at closing (a supplementary opinion as to items which cannot be covered at closing must be furnished later), addressed to the Administrator and to the mortgagee and covering the following items:

- a. Formalities in connection with the organization of the corporation and a short statement of all tax reports to be filed by it.
- b. Corporate power of the mortgagor to enter into and construct the project and incur and secure the indebtedness, with reference to the provisions of any applicable statutes.
- e. Legal proceedings, formalities and corporate action required in connection with the construction or operation of the project, including any permits of public bodies.
- d. A statement of the legal proceedings, formalities and corporate action taken and to be taken by the applicant in connection with the loan, supported by certified copies of minutes of board of directors and stockholders as stated above, and where the consent of any public body is necessary, certified copies of minutes of such public body.
- e. A statement as to any legal limitation upon the amount of indebtedness or interest rate; of the law under which the mortgagor is created; and of any litigation in process or threatened which might in any way affect the progress of the loan or of the security; and that the corporation is duly

organized and existing and in good standing under the laws of the particular state as of the date of execution of the mortgage and other instruments executed by the mortgagor at or prior to closing; and that the outstanding stock, stating the number of shares and classes, has been duly and validly issued and is validly outstanding; and that the Mortgage (or trust indenture) and the credit instrument or instruments issued in connection therewith will, upon issuance, be valid and binding obligations of the mortgagor; and that the method of making disbursements affords at least the usual and customary protections against intervening liens; and that all rights available in the jurisdiction to the mortgagee for the appointment of a receiver to receive and collect rents and preserve the property pending foreclosure, to appoint substitute trustees (if a deed of trust) and to foreclose quickly and with a minimum of expense, are included in the Mortgage; and that the Mortgage satisfactorily covers fixtures, machinery and equipment purchased out of the proceeds of the Mortgage, and if not, that a chattel mortgage or other security device covering such property (a copy of which must have been submitted to and approved by the Rental Attorney) does afford valid additional security.

3328. Restrictive Covenants. If the Commitment for Insurance contains provisions requiring restrictive covenants, the Rental Attorney must instruct the sponsors' attorney to have the applicable covenants incorporated in the deed of conveyance of the property to the mortgagor, or if this procedure cannot be followed, the Rental Attorney must require such steps to be taken by sponsors as will establish such covenants as valid restrictions on the land. Covenants required by sponsors' vendor may be imposed if not in conflict with the policies of this Administration and if otherwise satisfactory to the Rental Attorney.

3329. Zoning Ordinances. The Rental Attorney must examine the zoning ordinances and other restrictions applicable to the land to be subjected to the lien of the mortgage and must obtain assurance as to the conformity of the drawings and specifications with the limitations of such ordinances and restrictions. Ordinarily copies of zoning ordinances and restrictions are available in the docket.

3330. Building Permits. If practicable the Rental Attorney should require the mortgagor to furnish building permits at closing based upon final approved drawings and specifications. If not practicable it will be sufficient if the mortgagor delivers a preliminary building permit, letter or other evidence showing preliminary

or final drawings and specifications are acceptable to local building officials having jurisdiction.

3331. Chattel Mortgage.

- a. *Form.* If the laws of the state in which the project is located do not permit the coverage of after-acquired property (which is generally the case) the personal property clause set out in the mortgage must be supplemented by a chattel mortgage, as additional security for the mortgage loan, which shall be executed upon final disbursement of the mortgage money or immediately thereafter so as to satisfactorily create a first lien upon the machinery, fixtures, and equipment (such as refrigerators) used in the operation of the project and purchased out of the mortgage proceeds.
- b. *Closing requirements.* Such instrument shall be executed at the appropriate time indicated in the preceding subparagraph. It shall be duly recorded in the proper office of the county in which the project is located. There shall be delivered to the Rental Attorney immediately after recordation of the chattel mortgage (1) a certificate of the recorder or other proper county official showing the time, date and place of recordation, and (2) one certified and one conformed copy of the chattel mortgage. The certification of the copy shall be made by the recorder, the mortgagee or mortgagor.

3332. Director's Letter of Resignation. In cases in which the full number of directors of the mortgagor corporation are elected prior to closing, Rental Attorneys must obtain at closing a letter of resignation of one such director who shall be replaced after closing by the Administrator's representative. As soon after closing as practicable the Rental Attorney must take appropriate steps to have a representative of the Administrator as approved by the Assistant Administrator for Rental Housing elected as such representative on the board of directors of the mortgagor. An undated letter of resignation of such representative duly signed by him must be forwarded to the Chief Counsel in order that the records of the project may be complete.

3333. FHA Mortgage Insurance Premium. The first such premium in the form of a check and in an amount equal to $\frac{1}{2}$ of 1% of the original face amount of the mortgage loan must be collected at closing and deposited with the Insuring Office on such date. *Such check shall not be drawn against the Special Account but the amount required under the Commitment for Insurance to be deposited in such Special Account may be reduced by the amount of the premium so paid.* This will obviate the necessity of obtaining a letter of

approval with respect to such check prior to the deposit thereof. The check shall be made payable to the "Federal Housing Administration" rather than to the mortgagee in order to avoid the necessity of proof of authority of the mortgagee's closing representative to endorse such check over to the Administration.

3334. Mortgage Insurance Contract. This contract may be signed only by the Administrator or by the Assistant Administrator for Rental Housing. Accordingly the Rental Attorney must make his request to the Chief Counsel soon enough to have it prepared and available for use at closing. It must be executed in duplicate by the mortgagee and the original forwarded to Washington upon closing and the copy delivered to the mortgagee.

3335. Execution of Instruments. Extreme care must be taken to see to it that instruments are prepared, executed, and acknowledged in conformity with applicable law. The importance of this cannot be over-emphasized. All changes, erasures and interlineations appearing in closing instruments must be plainly initialed by each individual who executes the same. Authority to execute instruments on behalf of the Administrator is set out in General Order No. 4. The attention of the Chief Counsel must be directed to cases requiring special treatment. The Rental Attorney must also satisfy himself as to the authority of all other individuals who sign closing instruments.

3336. Closing Memorandum and Instruments.

- a. The Rental Attorney shall prepare a closing memorandum covering closing of every case handled by him. Such memorandum shall list all instruments received by him at closing and indicate whether or not the same have been properly executed and acknowledged as hereinbefore required. Such memorandum shall also state (1) any unusual features involved and the disposition thereof, (2) items not finally cleared such as election of Administrator's representative on the board of directors of the mortgagor, execution and receipt of Chattel Mortgage, execution and receipt of title policy in substitution for title binder, and (3) steps which the Rental Attorney will take to clear such items.

PROCEDURE SUBSEQUENT TO COMMITMENT

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b. The following instruments shall be collected by the Rental Attorney on the closing date and forwarded within 72 hours after such date as follows:

Closing Instrument	To Chief Counsel, Rental Housing Division	To Field Office
Certificate of Incorporation.	1 certified copy----	1 conformed copy.
Note and Mortgage-----	1 certified copy----	1 conformed copy.
Stock subscription agreements.	1 certified copy----	1 conformed copy.
Bylaws of mortgagor corporation.	1 certified copy----	1 conformed copy.
Minutes of meetings, organization, directors, stockholders.	1 certified copy----	1 conformed copy.
Survey-----	1 certified copy----	1 conformed copy.
Construction Contract-----	1 certified copy----	2 conformed copies.
Architect's Agreement-----	1 certified copy----	1 conformed copy.
Building permits-----	1 certified copy----	1 conformed copy.
Title binder or policy or abstract and attorney's opinion.	1 duplicate original.	1 conformed copy.
Building Loan Agreement--	1 duplicate original.	1 conformed copy.
Bond or other assurance of completion.	1 executed or photostatic copy.	1 conformed copy.
Equity fund-----	Bank letter and duplicate deposit slip.	1 conformed copy.
Contract of Mortgage Insurance.	1 duplicate original signed by mortgagee.	1 conformed copy.
Administrator's stock-----	Temporary or final certificate.	
Comprehensive attorney's opinion addressed to the Administrator.	1 signed copy-----	1 signed copy.
Zoning ordinances-----	1 copy-----	1 copy (unless available in docket).
Director's letter of resignation (subject to par. 3232).		
FHA mortgage insurance premium (to be deposited with insuring office).		
Rental attorney's closing memorandum.	1 copy-----	1 copy.

The Rental Attorney is also responsible for distribution of drawings and specifications as provided in paragraph 3326. One certified and one conformed copy of other closing instruments required for special reasons shall be forwarded with the other closing instruments to the Chief Counsel and to the field office with jurisdiction, respectively.

PROCEDURE IN CLOSING SMALL SCALE RENTAL PROJECTS UNDER SECTION 207

3351. Some General Considerations. The closing procedure for Small Scale rental projects (projects involving mortgages not in excess of \$100,000) has been modeled substantially in conformity with the procedure heretofore in effect with respect to Section 210 projects. Regulation of Small Scale projects, however, is effected in the manner heretofore followed with reference to Section 207 projects not exceeding \$200,000. That is, regulatory provisions regarding reserves and dividends are covered in part in the Certificate of Incorporation, and the remaining regulatory provisions are incorporated in a Regulatory Agreement FHA Form 2428 (Form No. XVI in the Appendix to this section). The procedure herein prescribed must be followed whether the project is new rental construction or rehabilitation.

It is important to note that, with reference to Small Scale rental projects, no mortgage insurance contract as such will be issued. In lieu thereof the credit instrument will be endorsed at closing prior to commencement of construction. No advance of mortgage funds will actually be insured unless and until approved for insurance by a "Certificate of Mortgage Insurance" attached to FHA Form 2429 (Appendix Form No. XIX) in the case of progress advances, and attached to FHA Form 2430 (Appendix Form No. XX) in the case of the final advance. When the full mortgage loan has been advanced and certificates issued covering the same, the credit instrument may then be presented to the Director of the appropriate Insuring Office for final endorsement.

As in the case of Section 207 Large Scale rental projects, the Rental Attorney must inform sponsors that no construction should be commenced or materials delivered to the site prior to the endorsement of the Mortgage for insurance and recordation thereof. The term "commencement of construction" as here used has the same meaning as set forth in paragraph 3303. Procedure regarding conferences with sponsors and furnishing carbons of correspondence to interested parties should be followed as in the case of Large Scale rental projects.

3352. Commitment for Insurance. The Commitment for Insurance in Small Scale projects will be executed by the Administrator or the Assistant Administrator for Rental Housing. Paragraphs 1, 4 and 5 of the commitment enumerate the items required to be delivered to the Rental Attorney at closing. Paragraph 1 of the commitment requires the payment at closing of the first year's mortgage insurance premium. The forms enumerated under paragraph 4 must be in the form prescribed by or approved by the Administrator. Paragraph 5 of the commitment requires copies of contracts between

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the mortgagor and contractors and the architect covering construction of the project to be submitted to the Rental Attorney. These contracts need not be in any particular form, but the Rental Attorney, should bear in mind that their requirements as to work to be performed, materials to be furnished, and method of payment by the mortgagor should conform in substance with the agreements set forth in the Mortgagee's and Mortgagor's Certificates FHA Forms 2433 and 2434 (Appendix Forms No. XVII and XVIII, respectively).

3353. Certificate of Incorporation. Appendix Form No. XV contains provisions which are to be inserted in the Certificate of Incorporation of the mortgagor. The other provisions of such certificate may be in such form as may be required so long as they do not conflict with the provisions required by the Administrator and do not contravene the provisions of the Regulatory Agreement FHA Form 2428 (Appendix Form No. XVI).

3354. Regulatory Agreement. This form, together with the provisions required to be incorporated in the Certificate of Incorporation of the Mortgagor, provides for the regulation of the mortgagor as provided under Small Scale Rules and Regulations.

3355. Mortgagee's Certificate. This instrument evidences the fact that the mortgagee and the mortgagor have entered into an agreement under which the mortgage proceeds will be advanced and the project constructed, and provides that such agreement between the mortgagee and the mortgagor contains certain definite provisions. It is important to note that if the mortgagee and mortgagor do not desire insurance of advances during construction, then all the provisions after subparagraph 9 (f) are to be deleted from the Mortgagee's Certificate. If advances during construction are to be insured, paragraph 9 (g) must be filled in to indicate the type of assurance of completion taken, and such assurance of completion must be as required in paragraph 3358 hereof. The payment schedule (breakdown by trades) must be attached to this certificate if advances are to be insured during the construction, in addition to being attached to the Building Loan Agreement. This instrument also evidences that the mortgagee has received from the mortgagor the funds required to be deposited as set forth in paragraph 4 (b) of the commitment. Attention is directed to the fact that in no event shall the finance charge, if any, exceed one and one-half per centum (1½%) of the original face amount of the mortgage.

3356. Mortgagor's Certificate. The purpose of this certificate is to evidence the performance by the mortgagor of (or its agreement to perform) certain requirements with respect to the mortgage transaction. Among other things, it is the intention that under this instrument the mortgagor will set forth the obligations which it has

entered into or will enter into in order to construct the project. The mortgagor must enumerate under paragraph (7) of its certificate all obligations required to be entered into by it for the construction of the project. The amount of each contract and the consideration to be paid must be itemized. The cash to be paid and stock to be issued, if any, on account of construction and architectural expenses must be itemized. *Any cash required in excess of mortgage proceeds must be placed in escrow with a depository satisfactory to the Administrator and mortgagee.* Other obligations of the mortgagor incidental to completion of the mortgage transaction, but not specifically for construction are intended to be covered by paragraphs (8) and (9) of the Mortgagor's Certificate. All such "other obligations" not provided for by cash payments or deposits with the mortgagee must be covered by an escrow deposit with a depository satisfactory to the Administrator. The amount of such escrow deposit and the items to be covered must be set forth in paragraph (9) of the Mortgagor's Certificate. As a precautionary measure, Rental Attorneys should direct the attention of the mortgagor particularly to the provisions of paragraph (5) of the Mortgagor's Certificate.

3357. Note and Mortgage. The Note and Mortgage must be executed upon the forms prescribed for the particular jurisdiction in which the project is located, and must provide for payment of the loan in accordance with the requirements of the commitment.

3358. Assurance of Completion. It should be borne in mind that since, under the Small Scale system of regulation by agreement, the Administrator does not have the right to complete in the name of the corporation as he may do in Large Scale rental projects, extra emphasis must be placed upon bonding requirements. It is essential that the Rental Attorney be satisfied at closing that the cash and services contributed as part of the equity shall, when added to the proceeds of the Mortgage, be sufficient to cover all estimated costs of construction of the project, to make the required cash deposit with the mortgagee, and to cover all other carrying charges such as legal fees not provided for by such cash deposit. In rehabilitation projects, any portion of the Mortgage not allocable to new physical improvements will, except with the specific written approval of the Administrator, be disbursed only as part of the final advance. Requirements for assurance of completion are as follows:

- a. In rehabilitation projects, the requirement for a bond or other assurance of completion may be waived if the total estimated cost of new physical improvements as shown on the Payment Breakdown does not exceed 75 per cent of the mortgage to be insured.

- b. In all other cases assurance of completion must consist of (1) a bond of a satisfactory surety company in a penal amount equal to the full amount of the construction contract cost and should include the lender and the Administrator as obligees or be assigned to them with the approval of the surety, or (2) an escrow deposit in an approved depository of cash or securities of, or fully guaranteed as to principal and interest by, the United States of America, in an amount at least equal to 10 per cent of the construction cost as shown on the Payment Breakdown, conditioned upon completion of the project to the satisfaction of the lender and the Administrator.

Whenever a bond is furnished, it should include substantially the following provision: "If the Principal shall pay all persons who have contracts directly with the Principal for labor or materials, failing which such person shall have direct right of action against the Principal and Surety under this Obligation, subject to the Owner's priority." The purpose of this provision is to permit subcontractors and others employed on the project to have a direct right of action against the contractor (as principal) and the surety in the event that the contractor fails to meet its obligations.

3359. FHA Mortgage Insurance Premium. The first such premium in the form of a check and in an amount equal to one-half of one per centum of the original face amount of the mortgage loan must be collected at closing and deposited with the Insuring Office on such date.

3360. Other Instruments. The following instruments conforming with applicable requirements in Large Scale rental projects must be collected by the Rental Attorney at or prior to closing: drawings and specifications, survey, zoning ordinances, building permits, minutes, by-laws, and resolutions. In addition to the foregoing instruments, there shall be furnished to the Rental Attorney at closing copies of the contracts between the mortgagor and contractors and the architect for the construction of the project, as required in paragraph 5 of the commitment, and of the agreement between the mortgagee and mortgagor covering advances of the loan (Building Loan Agreement).

3361. Closing Memorandum and Instruments.

- a. The Rental Attorney shall prepare a closing memorandum covering closing of every Small Scale rental project handled by him. Such memorandum shall list all instruments received by him at closing and indicate whether or not the same have been properly executed and acknowledged. Such memo-

- randum shall also state (1) any unusual features involved in the disposition thereof; (2) items not finally cleared, such as receipt of executed chattel mortgage, receipt of final title policy in lieu of title binder; and (3) steps which the Rental Attorney will take to clear such items.
- b. In summary of the above procedure regarding Small Scale rental projects, the following instruments shall be collected by the Rental Attorney at closing and forwarded within seventy-two (72) hours (unless otherwise indicated below) after such date as follows:

Closing Instrument	To Chief Counsel, Rental Housing Division	To Field Office
Note and Mortgage.....	1 conformed copy...	1 conformed copy.
Survey.....	1 certified copy.....	1 certified copy.
Certificate of Incorporation.	1 certified copy.....	1 conformed copy.
Regulatory Agreement...	1 executed copy.....	1 executed copy.
Mortgagee's Certificate...	1 executed copy.....	2 executed copies (1 copy for inspector).
Mortgagor's Certificate...	1 executed copy.....	2 executed copies (1 copy for inspector).
Construction Contract...	1 conformed copy...	2 conformed copies.
Architect's Contract.....	1 conformed copy.....	2 conformed copies.
Building Loan Agreement.	1 conformed copy...	2 conformed copies.
Title binder or policy, or abstract and attorney's opinion.	1 executed copy.....	1 conformed copy.
Minutes, by-laws, and resolutions of mortgagor.	1 certified copy.....	1 certified copy.
Assurance of completion (if required).	1 executed copy.....	1 executed copy.
Building permits.....	1 certified copy.....	1 conformed copy.
Evidence as to utilities...	1 executed copy.....	1 conformed copy.
FHA mortgage insurance premium to be deposited in insuring office.		
Rental attorney's closing memorandum.	1 executed copy.....	1 executed copy.

The Rental Attorney is also responsible for the execution, collection, and disposition of drawings and specifications which shall be executed and distributed as provided in the case of Large Scale rental projects. One certified and one conformed copy of other closing instruments required for special reason shall be forwarded with other closing instruments to the Chief Counsel and field office with jurisdiction, respectively.

3362. Advances of Mortgage Money. After the credit instrument has been initially endorsed for insurance at closing and all instruments collected as required at such time, advances of mortgage money will be made as provided in the Mortgagee's Certificate. If advances during construction are to be insured as made, then FHA Form 2429 (Appendix No. XIX) must be executed by the mortgagee in triplicate for each advance except the final advance and delivered to the FHA Inspector on the job, together with the instruments required to be attached thereto, for forwarding to the field office with jurisdiction. Such instruments must be forwarded in triplicate five (5) days prior to the date on which the advance covered thereby is proposed to be made. It is essential that the Contractor's Prevailing Wage Certificate be executed as required in such form. Such certificate must be executed by all contractors who have furnished work on the project to the date of the Mortgagor's Application attached to the particular Application for Insurance of Progress Advance. If the advance is approved for insurance, one copy of the Application for Insurance of Progress Advance, together with the Certificate of Mortgage Insurance attached thereto, will be forwarded to the mortgagee. When the final advance is to be made Application for Insurance of Final Advance FHA Form 2430 (Appendix Form No. XX) must be used and should be executed in triplicate by the mortgagee and the mortgagor at the place indicated thereon. Attached to each application will be the Certificates of Mortgage Insurance showing the amount of each application approved for insurance.

3363. Final Endorsement. The same procedure will then be followed as in the case of a progress advance. When the full mortgage loan has been advanced and Certificates of Mortgage Insurance issued by the Administrator covering the same, the mortgagee should execute in triplicate FHA Form 2431 (Appendix Form No. XXI), "Request for Final Endorsement of Credit Instrument," have the same executed by the mortgagor at the place indicated thereon, and deliver such forms, together with the original credit instrument, to the Director of the Insuring Office for final endorsement. The Director will endorse the credit instrument and return it to the mortgagee. The Director will also notify the Chief Counsel of the date of such final endorsement and the amount thereof in order that the copies of the credit instrument in their files may be properly conformed.

APPENDIX A

MODEL FORMS OF LEGAL INSTRUMENTS FOR USE IN LARGE SCALE RENTAL HOUSING PROJECTS UNDER SECTION 207

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Certificate of Incorporation (Mortgage in excess of \$100,000).....	Form I-A.
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FORM I-A

CERTIFICATE OF INCORPORATION OF¹.....

This is to certify:

FIRST. That we the subscribers, whose post office address is; whose post office address is; and whose post office address is all being of full legal age do, under and by virtue of the general laws of the State of Maryland authorizing the formation of corporations, associate ourselves with the intention of forming a corporation.

SECOND. That the name of the corporation (which is hereinafter called the "Corporation") is:

THIRD: The purposes for which the Corporation is formed and the business or objects to be carried on and promoted by it are as follows:

(a) To create hereby a private corporation to provide housing which may be regulated by the Federal Housing Administration (and not otherwise except as herein expressly provided) as to rents, charges, capital structure, rate of return and methods of operation, all pursuant to the provisions of Section 207 of Title II of the National Housing Act, as amended, and as such to acquire, construct, reconstruct, alter, repair, maintain and operate a housing project in or near County, Maryland.

¹ This form is based upon the laws of the State of Maryland and represents a typical Certificate of Incorporation. It must necessarily be adapted to conform to applicable state law. It is not suitable for use in New York, a special form for which State will be furnished upon request. It is also not legally feasible for use in Illinois. In this State the project may be incorporated elsewhere and qualified to do business in Illinois or the project may be operated under a special form of land trust agreement which will be furnished upon request.

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(b) To acquire, by purchase or otherwise, any real estate, improved or unimproved, or any interest therein or any rights, fixtures, easements or privileges appertaining or appurtenant thereto, and any and all personal property necessary, suitable, proper or convenient for, in connection with, or incidental to, the accomplishment of the purposes of the Corporation.

(c) To hold, develop, improve, and operate, and to sell, convey, assign, mortgage, lease (with or without the privilege of purchase), transfer, or otherwise dispose of, any and all improved or unimproved real estate, and any and all personal property which it may now hold or may hereafter acquire; to maintain the same, together with the appurtenances thereto, in accordance with all applicable laws, ordinances and regulations, in good repair and such condition as will preserve the health and safety of its tenants.

(d) To borrow money, to issue bonds, notes and other evidences of indebtedness in furtherance of any or all of the objects of its business; to secure the same by mortgage, deed of trust, pledge or other lien upon any or all of the property, rights, privileges, or franchises of the Corporation wheresoever situated, acquired, or to be acquired; to sell, pledge, or otherwise dispose of, any or all such bonds, notes, and other evidences of indebtedness in such manner and upon such terms as the Board of Directors may deem proper and to guarantee the payment of any dividends upon stock, or the principal of or interest upon bonds or the contracts or other obligations of any corporation or individual, in accordance with the laws of Maryland.

(e) To enter into, perform, and carry out lawful contracts of any nature or kind necessary, suitable, proper or convenient for, or in connection with, or incidental to, the accomplishment of the purposes of the Corporation, and to do any and all other things necessary, suitable, proper or convenient for, or in connection with, or incidental to, the accomplishment of any one or more of the purposes or objects herein enumerated or described, or which shall appear at any time conducive or expedient for the protection or benefit of the Corporation, provided that the same be not inconsistent with the laws of the State of Maryland and of the United States of America.

(f) To apply for and obtain or cause to be obtained from the Federal Housing Administration (created under and existing pursuant to the provisions of said National Housing Act, as amended) and/or the Federal Housing Administrator (acting for and on behalf of the said Federal Housing Administration and/or the United States of America and hereinafter called the Administrator), pursuant to the provisions of said National Housing Act, as amended, a Contract or Contracts of Insurance covering bonds, notes, and other evidences of indebtedness issued or to be issued by the Corporation and/or any indenture of mortgage or deed of trust executed or to be executed by the Corporation securing the payment thereof, and in connection therewith and in consideration for such insurance, to enter into, undertake, incur, perform, discharge and carry out all such contracts and agreements with and commitments and obligations to said Federal Housing Administration and/or said Administrator and/or others as may be necessary to obtain and/or maintain such insurance, all in such form and upon such terms and conditions as the Board of Directors of the Corporation may approve.

FOURTH. The post office address of the place at which the principal office of the Corporation in this State will be located is _____, Maryland. The resident agent of the Corporation is _____ whose post office address is _____, Maryland. Said resident agent is a citizen of the State of Maryland and actually resides therein.

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FIFTH. The Corporation shall have five directors,¹ and

shall act as such until the first annual meeting or until their successors are duly chosen and qualified. The number of directors of the Corporation shall not be increased or decreased except upon consent of the holders of a majority of the shares of each class of stock, given either in writing or by vote at a meeting of the stockholders called for that purpose.

SIXTH. The total amount of the authorized capital stock of the Corporation is _____ shares, of which one hundred (100) shares having a par value of \$1.00 per share shall be designated "Preferred Stock"² and _____ shares (having a par value of \$ _____ per share) (without nominal or par value)⁴ shall be designated "Common Stock",³ which shares of capital stock shall have preferences, privileges, voting powers, and restrictions and qualifications thereof as follows:

(a) The holders of the Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors, out of the net earnings of the Corporation, legally available for dividends and after proper provision for reserves has been made as hereinafter provided, noncumulative dividends at the rate of five (5) cents per share per annum and no more, payable semiannually as of the first day of May and November,⁵ in each year unless other dates are prescribed in the by-laws, before any sum or sums shall be set apart for or applied to the purchase or redemption of the Preferred Stock and before any dividend or any other distribution shall be declared, set apart, paid or made in respect of the Common Stock.

(b) The holders of the Common Stock shall be entitled to receive, when and as declared by the Board of Directors, out of the net earnings of the Corporation, legally available for dividends, and after proper provision for reserves as hereinafter provided and after or concurrently with payment of or provision for full dividends on the Preferred Stock then outstanding, through the end of the then current semiannual period, noncumulative dividends which shall not, except with the consent of the holders of the Preferred Stock, exceed in the aggregate \$ _____⁷ of net earnings in any fiscal year except that in any fiscal year after provision shall have been made for the full reserves below required and if the principal of the insured mortgage of the Corporation shall, in addition to reserve allocations, be prepaid in an amount equal to at least one-half required interest and principal payments for the first amortization year, additional dividends not to exceed in the aggregate \$ _____⁷ may be paid out of net earnings. Common Stock dividends shall be payable semiannually as of the first days of May and November⁸ of each year unless other dates are prescribed in the by-laws. The fiscal year shall be fixed in the bylaws subject to the approval of the Administrator.

(c) The Preferred Stock at any time outstanding may be redeemed by the Corporation, in whole or in part, at its election, at par and dividends declared thereon, but unpaid to the date of such redemption, in the manner provided by resolution of the Board of Directors or the by-laws: *Provided, however,* That such stock shall

¹ Any convenient odd number of directors may be provided, but in all cases the Administrator's stock, as a class, must be able to elect one of such number prior to Default and a controlling number after Default
² This is the Administrator's stock. It must be par value stock. The value and number of shares may be changed when necessary but the consideration paid by the Administrator shall not exceed \$100.

³ See Administrative Rules, Section IV. Subject to such Rules, the stock may be par or no par, be divided into one or more classes, and provide such preferences and priorities as Sponsors deem appropriate.

⁴ Such stock may, in the discretion of Sponsors, be designated otherwise.

⁵ Other semiannual dividend dates can be specified if desired.

⁶ These amounts will be the amounts fixed in the Administrator's Commitment Letter.

⁷ Other semiannual dividend dates can be specified if desired.

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be so redeemed upon, but in no event before, termination of any contract of mortgage insurance covering any indebtedness of the Corporation without obligation upon the Administrator to issue debentures as a result of such termination. Preferred Stock so redeemed shall be retired and canceled.

(d) In the event of any voluntary or involuntary liquidation or dissolution of the Corporation, the holders of the Preferred Stock shall be entitled to receive for each share held, out of the assets of the Corporation available for distribution to its stockholders, whether from capital, surplus or earnings, an amount equal to the sum of One Dollar (\$1.00) per share, plus dividends declared thereon but not paid to said date of liquidation or dissolution before any distribution of such assets shall be made to the holders of the Common Stock; but the holders of the Common Stock shall be entitled thereafter, to the exclusion of the holders of the Preferred Stock, to the remainder of such assets of the Corporation available for distribution to the stockholders.

(e) Anything to the contrary herein notwithstanding, no dividends shall be paid upon any of the capital stock of the Corporation, whether Preferred or Common (except with the consent of the holders of a majority of the shares of each class of stock then outstanding given either at a meeting duly called for that purpose, or in writing) until all amortization payments due under the Mortgage insured by the Administrator have been paid, including amortization payments permitted by the terms of such Mortgage to be waived as a result of prepayments theretofore made, and until a cash fund is provided and reserves are first established and there- after maintained as set forth below:

(1) A cash fund on hand or in a safe and responsible depository in at least the sum of \$⁹ in excess of allocations then required to be made to the reserves below provided and the dividends then to be paid.

(2) A reserve fund for replacements of \$.....⁹ per annum by equal monthly allocations to such reserve fund in a separate account in a depository approved in writing by the holders of the Preferred Stock, commencing on the 15th day of the second full calendar month after the completion of the project for occupancy. Such fund shall be maintained in such account in cash or invested in obligations of, or fully guaranteed as to principal and interest by, the United States of America, or may be used to anticipate payments next accruing on any insured mortgage upon the property of the Corporation. Disbursements from such fund may be made only upon the direction of the Board of Directors for the purpose of effecting major repairs to and replacements of structural elements of the project or furnishings or mechanical equipment of the Corporation used in connection with the project and for such other purposes as may be consented to in writing by the holders of the Preferred Stock.

(3) After the reserve for replacements provided for in the immediately preceding subdivision, a general reserve in the sum of \$.....⁹ Such reserve may, however, be created and set apart over a period of three years from the completion of the project ready for occupancy by the allocation to such reserve each month of one thirty-sixth (1/36) of the amount above specified, commencing on the 15th day of the second full calendar month after the completion of the project for occupancy. Dividends, if otherwise payable under the provisions of this Certificate, may be paid in the period during which such reserve is being accumulated after the allocation to such reserve of twelve (12) such monthly requirements and any other monthly requirements then due as hereinabove required. Such fund shall be maintained in cash in a separate account in a depository approved in writing by the holders of the Preferred Stock, or may be invested in obligations of, or fully guaranteed as to principal and interest by, the United States of America,

⁹ This amount will be fixed in the Administrator's Commitment Letter.

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or, in the discretion of the Board of Directors, all or any part thereof may be used to anticipate payments upon the insured mortgage of the Corporation. Disbursements from such fund may be made only upon the direction of the Board of Directors, with the prior approval of the holders of the shares of Preferred Stock, for the payment of obligations of the Corporation for which no other funds are available.

(f) So long as any of the Preferred Stock shall be outstanding, the holders of the Preferred Stock, voting as a class, shall be entitled to elect one of the five Directors of the Corporation hereinabove provided, and the holders of the five Directors voting as a class, shall be entitled to elect the remaining four of the said five Directors of the said Corporation. In the event of any default by the Corporation, as hereinafter defined, and during the period of such default, the holders of the Preferred Stock, voting as a class, shall be entitled to remove all existing Directors of the Corporation, and to elect new Directors in their stead: *Provided, however,* That one of said Directors shall be the owner or holder of one or more shares of Common Stock. When such default shall have been cured, the right to elect Directors shall again vest in the holders of the Preferred Stock and in the holders of the Common Stock as provided in the first sentence of this subdivision (f). Except as otherwise provided herein the voting powers of all shares of capital stock of the Corporation shall be alike and each share of the Preferred Stock and each share of the Common Stock shall entitle the holders thereof to one vote.

SEVENTH. The minimum amount of capital with which the Corporation shall commence business shall be \$..... Before the issuance of Preferred Stock there shall have been paid into the Corporation in cash the sum of \$.....¹⁰ Upon the insurance by the Administrator of a certain Mortgage or Deed of Trust (hereinafter called the Mortgage) said Preferred Stock shall be delivered to the Administrator and so long as said insurance shall be in effect such stock shall be held by him or his successors and shall be registered upon the books of the Corporation in the name of the Federal Housing Administration. During such period the Corporation shall not be required to change said registration or to recognize any persons other than the representatives of the Administration, as the holders of any of said shares of Preferred Stock.

EIGHTH. Except with the prior approval, which may be conditional or unconditional, of the holders of a majority of the shares of Preferred Stock, given either in writing or by vote at a meeting of Preferred Stockholders called for that purpose, and except with such other approval or authorization as may be required, the Corporation shall not

(a) sell, assign, transfer, lease, mortgage, or otherwise dispose of or encumber any real or personal property, including rents, except as required or specifically permitted by the terms of the Mortgage: *Provided, however,* That the Corporation without such written consent may rent or lease (1) dwelling accommodations to tenants solely for actual occupancy, and garage accommodations, for a period not exceeding one year, and (2) store accommodations for a period not exceeding three years;

(b) remodel, reconstruct, alter, demolish, or add to or subtract from the premises constituting the project and subject to such Mortgage, or make any improvement or construct any structure thereon except as hereinafter expressly permitted;

(c) authorize or make any charge against any of its tenants other than the rental charge hereinafter set forth: *Provided,* That the Corporation shall have the right to charge to and receive from any such tenant such amounts from time

¹⁰ The amount of equity cash required by the Administrator's Commitment Letter.

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to time as may be mutually agreed upon between such tenant and the Corporation with the written approval of the holders of a majority of the shares of Preferred Stock, for any facilities and/or services which may be furnished by the Corporation to such tenant upon his request, over and above the facilities and services to which such tenant may be entitled by virtue of his lease, including among other things, telephone operator and switchboard services, electric current (if sold by the Corporation), air cooling and conditioning (if made available by the Corporation) and other additional or extraordinary facilities or services which may be furnished by the Corporation in connection with the operation of such housing facilities;

(d) permit the occupancy of any of the dwelling accommodations of the Corporation except at or below the rents fixed by the Schedule of Rentals provided hereinafter;

(e) incur any liability (direct or contingent) exceeding in the aggregate \$5000 at any time, or maturing more than one (1) year from the date of the creation thereof except the indebtedness secured by the Mortgage and indebtedness necessarily incidental to the execution and delivery by the Corporation of such Mortgage and of the Building Loan Agreement; or

(f) consolidate or merge the Corporation into or with any other corporation; go into voluntary liquidation; carry into effect any plan of reorganization of the Corporation; redeem or cancel any of the shares of its Preferred Stock, or purchase or otherwise acquire any of its shares of either class, or effect any changes whatsoever in its capital stock or capital or the shares thereof, (or issue its Common Stock in excess of \$..... of par value thereof); alter, amend or repeal the By-Laws; alter or amend this Certificate of Incorporation; or fail to establish and maintain reserves as set forth in this Certificate of Incorporation, in the By-Laws of the Corporation and/or in the insured Mortgage of the Corporation and/or in any contract between the Corporation and the Administrator.

NINTH. (a) The happening of any of the following events shall constitute a "default" within the meaning of that word as used in this Certificate:

(1) The failure of the Corporation to have dismissed within thirty (30) days after commencement, any receivership, bankruptcy, liquidation, dissolution, or winding up proceeding instituted by or against the Corporation.

(2) The failure of the Corporation, continuing for a period of thirty (30) days, to pay the principal, interest, or other payment due on any note, bond, or other obligation executed by it.

(3) The failure of the Corporation, continuing for a period of fifteen (15) days without the written approval of the Administrator, to perform any of the covenants, conditions, or provisions required by it to be performed by this Certificate, the By-laws of the Corporation, the Mortgage, or any contract to which the Corporation and the Administrator shall be parties.

(b) Upon any default by the Corporation, the president or the secretary, or either of them as may be required by law, shall, at the request in writing of the holders of record of a majority of shares of the Preferred Stock, addressed to him at the office of the Corporation hereinabove designated and stating the purpose of the meeting, forthwith call a special meeting, to take place within ten (10) days after such call, of the Preferred Stock shareholders for the removal of existing Directors and the election of new Directors. If such officer shall fail to issue a call for such meeting within three (3) days after the receipt of such request, then the holders of a majority of the shares of the Preferred Stock may do so by giving notice as provided by law, or, if not so provided, then by giving ten (10) days notice of the time, place, and object of the meeting by advertisement inserted in any newspaper published in the county or city in which the principal office of the Corporation is situated. When such default shall have been cured, the president

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or the secretary, or either of them as may be required by law, shall, at the written request of the holders of a majority of the outstanding shares of the capital stock of the Corporation, call in the manner provided by law, a special meeting of the stockholders of the Corporation at which the then existing Directors may be removed and new Directors elected in the manner provided in the first sentence of paragraph (f) of Article VI. Such officer shall give notice as provided by law, or, if not so provided, he shall give ten (10) days notice of the time, place, and object of such meeting as above provided.

(c) The term of office of any officer of the Corporation shall terminate upon the election and qualification of his successor at any meeting of the Board of Directors.

TENTH. The following provisions are hereby adopted for the purpose of the management of the business and for the conduct of the affairs of the Corporation and in creation, definition, limitation and regulation of the powers of the Corporation, the Directors and stockholders, and of the respective classes of stockholders:

(a) The Corporation is formed and is intended to function as a private corporation which may be regulated by the Federal Housing Administrator and/or the Federal Housing Administration and not otherwise except as herein expressly provided, within the meaning of Section 207 of the National Housing Act, as amended.

(b) Dwelling accommodations of the Corporation shall be rented at the maximum average rental of \$-----, " per room per month, based upon a count of ----- rooms.¹¹ A schedule of rentals for the reasonable rental value of each apartment based upon the aforementioned average shall be filed with the holders of the Preferred Stock, prior to leasing or offering for lease of any of the dwelling accommodations of the project and when approved by them shall thereafter be maintained except as provided in Article Eight hereof. Store accommodations shall be rented at a rental to be fixed by the Directors with the approval of the Administrator.

(c) The Corporation shall maintain its accommodations and the grounds and equipment appurtenant thereto in good and substantial repair and condition and shall promptly do or cause to be done all such repairs to any portion of the premises constituting its project as will preserve said premises in such good repair and condition and in such manner as may be necessary for the health and safety of its tenants, and shall not reconstruct or demolish any of the premises subject to the Mortgage herein mentioned without the prior written approval of the holders of a majority of the shares of the Preferred Stock, or make any improvement or construct any structure on said premises involving an expenditure in excess of \$5000 without such prior written approval: *Provided*, That in the event all or any of the buildings covered by the Mortgage shall be destroyed or damaged by fire or other casualty the Corporation shall reconstruct or remodel said building or buildings in accordance with the original Drawings and Specifications, unless any departure from such Drawings and Specifications, is authorized in writing by the holders of the majority of the shares of Preferred Stock.

(d) The Corporation, its property, equipment, buildings, plans, offices, apparatus, devices, books, contracts, records, documents, and papers shall be subject to examination and inspection at any reasonable time by the Administrator.

(e) The Corporation shall keep its accounts, records, and books according to the uniform method prescribed by the Administrator upon the issuance of the Preferred Stock and such method shall be maintained and not changed except with the consent of the holders of the Preferred Stock.

¹¹ This amount will be fixed in the Administrator's Commitment Letter.

¹² This will be the number of rooms in the project.

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(f) The Corporation shall file with the Administrator the following reports verified by the oath of such officer of the Corporation as the Administrator may designate and in such form as prescribed by the Administrator:

- (1) monthly occupancy reports;
- (2) financial statements to be filed within thirty (30) days after the end of each dividend period;
- (3) annual reports prepared by a certified public accountant, to be filed within sixty (60) days after the end of each fiscal year (unless otherwise required by the Administrator); and
- (4) specific answers to questions upon which information is desired from time to time relative to the operation and condition of the property and the status of the insured mortgage.

(g) The Corporation shall not pay any compensation except for necessary services and except at such rate as is fair and reasonable in the locality for similar services. Except with the prior written approval of the Administrator, no compensation shall be paid by the Corporation to the officers, directors or stockholders of the Corporation, nor to any person or corporation for supervisory or managerial services, nor shall any compensation in excess of \$1800 per annum be paid to any employee of the Corporation except with such prior approval. No officer, director, stockholder, agent or employee of the Corporation shall in any manner become indebted to the Corporation. The Corporation shall file with the holders of the Preferred Stock a schedule of compensation to be paid to any officer of the Corporation, and to any employee of the Corporation in excess of \$1,800 per annum, and upon approval of such schedule by said holders of the Preferred Stock the Corporation agrees to maintain the same without change except as otherwise permitted by the terms of this Certificate of Incorporation so long as any of its obligations under the Mortgage herein referred to remain unsatisfied unless and until a revision of such schedules or any part thereof shall be approved in writing by the holders of Preferred Stock.

(h) All remaining funds of the Corporation, after providing for operating expenses, reserves as set forth in this Certificate, and after payment of dividends hereinabove provided for, shall be applied annually to the reduction of the principal amount of the insured mortgage indebtedness of the Corporation, unless other disposition of any such excess funds is expressly approved in writing by the holders of the Preferred Stock.

ELEVENTH. No contract or other transaction between this Corporation and any other corporation and no act of this Corporation shall in any way be affected or invalidated by the fact that any of the Directors of this Corporation are pecuniarily or otherwise interested in, or are directors or officers of, such other corporation; any Directors individually, or any firm of which any Director may be a member, may be a party to, or may be pecuniarily or otherwise interested in, any contract or transaction of this Corporation, provided that the fact that he or such firm is so interested shall be disclosed or shall have been known to the Board of Directors or a majority thereof; and any Director of this Corporation who is also a director or officer of such other corporation or who is so interested may be counted in determining the existence of a quorum at any meeting of the Board of Directors of this Corporation, which shall authorize any such contract or transaction, and may vote thereat to authorize any such contract or transaction, with like force and effect as if he were not such director or officer of such other corporation or not so interested.

(To be appropriately executed and acknowledged.)

NOTE

FORM II-A

NOTE

\$ _____

City of _____
State of _____
_____, 19____

FOR VALUE RECEIVED (insert name of Borrower Corporation), a _____ corporation, promises to pay to (insert name of Lender), or order, at its principal office in the city of _____ State of _____ or at such other place as may be designated in writing by the holder of this note, the principal sum of \$ _____, with interest thereon at the rate of _____ per annum, as follows:

1. Interest alone payable [monthly or quarterly] on _____ and on the _____ day of each _____ thereafter to and including _____. Thereafter, commencing _____, installments of interest and principal shall be paid in the sum of \$ _____ each, such payments to continue [monthly or quarterly] thereafter on the _____ day of each succeeding _____ until the entire debt has been paid. In any event the whole balance of principal (if any) remaining unpaid, plus accrued interest, shall be due and payable on _____ and a reasonable attorney's fee in case of suit or if this obligation is placed in an attorney's hand for collection. The installments of interest and principal shall be applied first to interest at the rate of _____ per annum, as aforesaid, upon the principal sum or so much thereof as shall from time to time remain unpaid, and the balance thereof shall be applied on account of principal.¹

or

2. Interest alone payable [monthly or quarterly] on _____ and on the _____ day of each _____ thereafter to and including _____. Thereafter, commencing the _____ day of _____ installments of principal of \$ _____ shall be paid and a like amount on the _____ day of _____ thereafter to and including _____, and the balance of principal (if any) then remaining unpaid shall be due and payable on _____ with interest from the date hereof at the rate of _____ per annum, and a reasonable attorney's fee in case of suit or if this obligation is placed in an attorney's hand for collection.¹

This note is secured by a deed of trust ² on real estate in, and is to be construed according to the laws of, the State of _____.

In addition to and concurrently with the foregoing installments of interest and principal the undersigned promises to make periodic payments beginning on the first interest payment date and on each interest payment date thereafter, to be applied in the manner set forth in the deed of trust securing this note.

Said principal sum or any installment thereof shall bear interest after the due date until paid at the rate of five per centum (5%) per annum.

¹ Payment shall be either upon a level annuity basis (as in 1) or upon a declining basis calling for equal fixed installments of principal with interest upon the outstanding balance from time to time (as in 2), as required by the Commitment. In any event the loan must liquidate itself within its term. Under either method amortization payments shall commence within 24 months from the date of the note. Payment dates may be monthly or quarterly.

² In jurisdictions where a mortgage is used, change wording accordingly throughout.

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If default be made in the payment of any installment of interest or principal, which default shall continue for a period of thirty (30) days after notice to the maker then the entire outstanding principal of this note, with interest, shall, at the option of the holder hereof, become at once due and payable without further notice. A breach of any agreement contained in the deed of trust securing this note shall constitute a default, and if such default shall continue for thirty (30) days after notice as provided in said deed of trust, then at the option of the holder, the entire indebtedness hereby evidenced shall become due, payable and collectible then or thereafter as the holder may elect, regardless of the date of maturity.

The maker reserves the right to pay the debt, in whole or in an amount equal to one or more periodic payments on the principal that are next due, on any interest payment date prior to maturity but in the event the maker pays the debt in full prior to maturity and while the deed of trust securing said debt is insured under the National Housing Act, it shall pay an amount equal to the adjusted premium charge required to be paid under the Large Scale Regulations of the Federal Housing Administrator under Section 207 of such Act in force on the date hereof, which said Regulations are contained in FHA Form 2012.

No default shall exist by reason of nonpayment of any required installment of principal so long as the amount of optional additional prepayments of principal already made equals or exceeds the amount of such required installment of principal.

(To be appropriately executed.)

FORM II-B

DEED OF TRUST¹

THIS DEED OF TRUST, made and entered into on this _____ day of _____, 19____, by and between _____ HOUSING CORPORATION, a corporation chartered and existing under the laws of the State of _____, with its principal office at _____ (hereinafter referred to as the Grantor), and _____, of the city of _____, State of _____, Trustee² (hereinafter referred to as the Trustee), and _____, a corporation chartered and existing under the laws of the State of _____, with its principal office at _____ (hereinafter referred to as the Beneficiary) which designations shall also include the respective heirs, executors, administrators and assigns and the successors in interest of the several parties.

WITNESSETH, that for and in consideration of the debt and trust hereinafter mentioned and created and of the insurance by the Federal Housing Administrator (hereinafter referred to as the Administrator) or this Deed of Trust and the note secured by it, and of the sum of One Dollar (\$1.00) to it in hand paid by the Trustee (the receipt of which is hereby acknowledged), the Grantor does by these presents bargain, sell, grant and convey unto the Trustee, with General Warranty, the following described real estate situated in the city of _____,

¹ The deed of trust or mortgage shall be drawn or approved as to form by the title insurer so as to accord strictly with the requirements of the jurisdiction wherein the premises are located. The paragraphs of this form marked with an asterisk are particularly important to the Administrator and the substance thereof must be included in the Deed of Trust or Mortgage. Since the Administrator may become the mortgagee through the exercise by the lender of the assignment method [Regulations, Article V, Paragraph 1 (a)] all rights available in the jurisdiction to the mortgagee for appointment of a receiver to receive and collect rents and preserve the property pending foreclosure, to appoint substitute trustees (if a Deed of Trust) and to foreclose quickly and with a minimum of expense should be included in this instrument.

² Provide such number of trustees as may be legal and appropriate.

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further trust that the said Grantor or assigns shall remain in quiet and peaceful possession of the above granted and described premises and take the profits thereof to its own use until default be made in the payment of any matter of indebtedness hereby secured or in the performance of any of the covenants herein provided.

Upon the full payment of said Note and of any extensions or renewals thereof, and the interest thereon, and all moneys advanced or expended, as herein provided, and all other proper costs, charges, commissions, and expenses, the Beneficiary will release and reconvey unto and at the cost of the said Grantor, or its assigns, the said described land and premises.

THE GRANTOR COVENANTS AND AGREES AS FOLLOWS:

1. To pay said Note as herein and in said Note provided.
2. To keep said premises free from all statutory and other liens and claims of every kind; and that it will not create or suffer a lien against said premises superior to the lien of this Deed of Trust, nor so long as this Deed of Trust is insured by the Administrator, will it create or suffer any lien against said premises inferior hereto.
3. To keep all buildings, fences and other improvements now or hereafter erected on said premises in good order and repair and not to do or permit waste.
4. To pay all costs, expenses, and reasonable attorney's fees (including continuation of abstract) of the Trustee and the Beneficiary in the event of any litigation involving said premises, or presentment of any claim under administration or other proceedings where proof of claim is required by law to be filed, or in the event said note or any other obligation secured hereby is placed in the hands of an attorney and is collected with or without suit.
5. That the Beneficiary is hereby expressly granted the irrevocable power to appoint a substitute trustee or trustees, to be exercised at any time or times hereafter without notice and without specifying any reason therefor, by filing for record in the office where this instrument is recorded a deed of appointment; and the Grantor for itself, its successors and assigns, and the Trustee herein named or that may be substituted hereunder, expressly waive notice of the exercise of this power and the making of oath or giving bond by any Trustee, as well as any requirement for application to any court for removal, appointment or substitution of any Trustee hereunder: Provided, That the Beneficiary may elect to appoint a substitute trustee in accordance with the laws of the jurisdiction wherein the premises are located.
6. That the Grantor will not assign, except as hereinafter set forth, the rents or any part of the rents of the said premises, nor demolish or remove any building now or hereafter erected, or make any structural changes, without first obtaining the written consent of the Trustee.
7. That in the event of default in any of the covenants or conditions hereof, the rents, issues and profits of the said premises are hereby assigned to the Trustee, or successor trustee or trustees, as the case may be, for the payment of any indebtedness secured hereby, and, pursuant to the laws of the jurisdiction wherein said premises are located, in the event of any such default, the Trustee, either in person or by agent, shall be entitled to immediate possession of said premises and to receive and collect the rents, issues and profits thereof. The Grantor, if it shall remain in possession of said premises after default and after demand for possession, shall be a tenant at will thereof of the Trustee and shall at once surrender possession on demand of the Trustee, who may thereupon enter and take possession and collect the rents, issues and profits of said premises and apply them, less five per centum (5%) thereof to be reserved for commission, in payment of the expenses incurred in obtaining possession and towards the repairs and insurance of said premises, and the payment of taxes and assessments thereon, and in redemption from sales therefor, and of the indebtedness secured hereby.

DEED OF TRUST

8. That the Trustee may act hereunder and may sell and convey said premises under the power granted by this instrument, although the Trustee has been, may now be and may hereafter be, attorney or agent of the Beneficiary in respect to the loan made by the Beneficiary evidenced by the Note or this Deed of Trust, or in respect to any matter or business whatsoever. The Beneficiary may bid and become the purchaser at any sale under this Deed of Trust. If said premises be advertised for sale as herein provided and not sold, the Trustee shall be entitled to a reasonable commission not exceeding one-half of the commission provided in case of sale, to be computed on the amount of principal then unpaid.

9. That if the premises, or any part thereof, be condemned under any power of eminent domain or acquired for any public use or quasi-public use, the damages, proceeds and consideration for such acquisition, to the extent of the full amount of indebtedness remaining unpaid upon this Deed of Trust and the note secured hereby are hereby assigned by the Grantor to the holder of said note and shall be paid forthwith to said holder, to be applied by it on account of the last maturing installments of such indebtedness.

10. That if, after the date hereof any laws of the jurisdiction wherein the premises are located are passed deducting from the value of land for the purposes of taxation any lien thereon, or providing or changing in any way the laws for the taxation of deeds of trust or the notes or debts secured by deeds of trust for State or local purposes, or the manner of the collection of any such taxes, so as to affect this Deed of Trust or the Note or debt secured hereby, the Beneficiary shall have the right to give thirty (30) days written notice to the owner of the premises hereinbefore described and conveyed as security for said Note and indebtedness requiring the payment of said Note and debt hereby secured. If such notice be given, the said debt and Note evidencing the same shall become due, payable and collectible at the expiration of said thirty (30) days.

11. (a) To pay all taxes, water rents, assessments and charges of every character which are now due, or which hereafter may become liens on said premises, and to pay all taxes which may be assessed in the jurisdiction wherein the premises are located against the Trustee or Beneficiary of this Deed of Trust or the Note or the debt secured hereby, provided the amount of such latter taxes, together with other charges, does not exceed the maximum amount which can be charged, but, if it does, the excess is to be paid by the Beneficiary.

(b) To deliver to the Beneficiary at its office in the City of _____, State of _____, immediately upon the payment of the taxes, assessments or charges aforesaid, receipts of the proper officers for the payment thereof; and if such taxes, assessments or charges, are not paid when due the Beneficiary may pay the same and the amount so paid shall be due and payable immediately without demand, with interest at six per centum (6%) per annum, and shall be secured by this instrument. The receipt of the officer authorized by law to collect or receive such taxes, assessments or charges, shall be conclusive evidence of such payment and the amount and validity thereof. Nothing herein contained shall be construed as requiring said Beneficiary or the Trustee to pay such taxes, assessments or other charges.

(c) To keep the buildings or other improvements now or hereafter erected on said premises insured against loss by fire, lightning, and such other hazards as the Beneficiary or the Administrator may stipulate, in companies and amounts satisfactory to the Beneficiary and the Administrator, and with loss made payable to the Beneficiary and the Administrator, as interest may appear, and to deliver the policies marked "paid" to the Beneficiary together with certificates thereof for transmission to the Administrator, and renewals thereof at least seven (7) days before the expiration of the old policies. In default thereof, the Beneficiary may effect such insurance and the amount so paid shall be due and payable immedi-

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ately or on demand at the office of the Beneficiary, with interest at six per centum (6%) per annum, and shall be secured by this instrument, but nothing herein contained shall be construed as requiring the Beneficiary to pay the insurance premiums. At the option of the Beneficiary, the proceeds of loss under any policy, whether endorsed payable to the Beneficiary or not, may be applied in payment of the principal, interest or any other sum secured by this Deed of Trust, whether due or not, or to the restoration or replacement of any building on said premises, without in any way affecting the charge of this instrument or the obligation of the Grantor or any other person for payment of the indebtedness hereby secured whether such Grantor be then the owner of said premises or not.

[11.⁵ That it will pay to the holder of said note, in addition to the payments of principal and interest due thereunder, and until said note is paid in full, one-twelfth ($\frac{1}{12}$)⁶ of the estimated annual taxes, currently due installments of municipal or other governmental water rents or assessments, and other charges which may become liens on said real estate, and one-twelfth ($\frac{1}{12}$)⁶ of the estimated cost to keep the premises insured against fire, lightning and such other hazards as the said Administrator may stipulate. In the event that the estimates aforesaid shall fall below the actual charges and expenses, the said holder may, at its option, make up the difference, and the amount so advanced shall be due and payable immediately without demand with interest at 6% per annum, and shall be secured by this instrument, but nothing herein contained shall be construed as requiring the said holder or the Trustee herein to make such advances. All policies of fire and other insurance shall be in companies and amounts satisfactory to the Beneficiary and the Administrator, with loss, if any, payable to the Beneficiary and the Administrator, as interest may appear. At the option of the Beneficiary, the proceeds of loss under any policy, whether endorsed payable to the Beneficiary or not, may be applied in payment of the principal, interest or any other sum secured by this Deed of Trust, whether due or not, or to the restoration or replacement of any building on said premises, without in any way affecting the charge of this instrument or the obligation of the Grantor or any other person for payment of the indebtedness hereby secured, whether such Grantor be then the owner of said premises or not.]

12. That so long as this Deed of Trust and the Note secured hereby are insured under the provisions of the National Housing Act, the Grantor, in addition to the payments of principal and interest due thereunder, will pay to the holder of said note, in substantially equal installments on each and every periodic interest payment date such sum as shall be necessary to accumulate in the hands of said holder, one interest payment period prior to the due date of the next mortgage insurance premium to be paid by said holder to the Administrator on account of the insurance of said Deed of Trust and note under such Act, the amount said holder is obligated to pay to the Administrator on account of such mortgage insurance premium. All payments required to be made by the Grantor to the holder of said Note under the terms of said Note and this Deed of Trust, shall be added together and the aggregate amount thereof shall be paid by the Grantor on each periodic interest payment date in a single payment, to be applied by said holder to the following items in the order set forth:

- (1) Premium charges under the contract of insurance with the Administrator.
- (2) At the discretion of the holder of said Note, to any sums due said holder under the terms of said Note or this Deed of Trust.

⁵ This paragraph requiring the collection of taxes and fire and other hazard insurance payments by the Beneficiary may be used in lieu of the preceding paragraph 11, at the option of the lender.

⁶ These fractions should be one-twelfth or one-fourth, depending upon whether the payments are to be made monthly or quarterly.

DEED OF TRUST

Any deficiencies in the amount of any such aggregate periodic payment shall constitute an event of default under this Deed of Trust.

13. That the breach of any promise in this Deed of Trust or in the Note secured hereby shall constitute a default hereunder, and if such default shall continue for thirty (30) days after written notice as provided herein, then at the option of the holder the entire indebtedness hereby secured shall become due, payable and collectible then and thereafter as the Beneficiary may elect, regardless of the date of maturity.

14. That in the event of any default in any of the covenants or conditions of this instrument, the Beneficiary at its option may foreclose this instrument as a mortgage in any court of competent jurisdiction through the Trustee or any substitute trustee or trustees, and shall be entitled to the immediate appointment of a receiver for the collection of the rents of said premises during the pendency of such foreclosure. This right is cumulative and is not a waiver of the right to advertise and sell under Trustee's advertisement of sale.¹

15. That upon any default being made in the payment of said note or any installment of principal or interest thereon, or of any note given in renewal or extension thereof, as and when the same shall become due and payable; or upon any default in any payment, when due, while this trust exists; or upon any default in payment on demand of any sum or sums advanced by the Beneficiary or Trustee on account of any cost and expenses of this trust or on account of any tax or assessments, or insurance, or expense of litigation; or upon default in the performance of any of the covenants or obligations herein or in said Note contained; then upon any and every such default and a continuation thereof for thirty (30) days after written notice as hereinafter provided, the said Trustee, or the successor or successors of the said Trustee, is hereby authorized and empowered to enter and take possession of said premises, personally or through an agent, and before or after entry to advertise the same for sale and foreclosure in accordance with the laws of the jurisdiction wherein the premises are located, therein appointing a day and place of sale, and at said time and place to sell, either personally or through their agent, said land and premises for cash to the highest bidder, free from any equity of redemption, homestead, dower, curtesy and all other exemptions, all of which are hereby expressly waived, and the said Trustee, or the successor or successors of the said Trustee, shall execute a conveyance in fee simple to and deliver possession to the purchaser, and in case of such sale by the said Trustee, or the successor or successors of the said Trustee, or agent, such sale shall create the relation of landlord and tenant at will between the purchaser at such sale and the Grantor herein, without notice, and upon default of such tenant in surrendering possession of the land and premises herein conveyed, such tenant may be removed by a writ of ejectment or writ of assistance or other summary proceedings for dispossession at the suit of either the purchaser or the Trustee, acting for the use and benefit of the purchaser. The said Trustee, or the successor or successors of the said Trustee, after first retaining one per centum (1%) of the gross proceeds of the sale price as compensation for their services, shall apply so much of the residue of said proceeds as may be necessary to the payment of the cost of sale, cost of advertising such sale, all taxes, assessments, levies, insurance premiums and other lawful charges theretofore paid by the Beneficiary or the Trustee under provisions of this instrument, all taxes, assessments, levies, insurance premiums and other charges due and unpaid at the time of such sale, as well as a ratable proportion of the taxes, assessments or levies for the calendar year in which the property is sold, and shall apply the balance of the proceeds of such sale to the payment of the in-

¹ See footnote 1 to this form.

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debtedness hereby secured, including interest then accrued and due, and shall pay the surplus, if any, to the Grantor.⁷

16. Any notice, demand or request required or permitted hereunder to be given to the Grantor shall be sufficiently given if in writing and either (a) sent by registered first class mail, postage prepaid, to the owner of the premises last appearing on the records of the Beneficiary at the address last appearing on said records, or (b) delivered to or served upon an officer of the grantor, or at the site of the premises upon the superintendent or assistant superintendent of the grantor, or upon a person performing the functions of superintendent or assistant superintendent.

The foregoing remedies are in addition to and not in limitation of remedies provided by law.

THIS DEED OF TRUST is made pursuant to a certain Building Loan Agreement made by and between the Grantor and Beneficiary herein (to which the Administrator is also a signatory party) and intended to be executed and dated concurrently herewith,⁸ [filed in the office of the Register of Deeds for the County of _____, State of _____, on the _____ day of _____, 19__], and is subject to all the provisions of said Agreement. Any breach or default of the conditions thereof by the Grantor herein shall constitute a default under this Deed of Trust, and the said Trustee, or the successor or successors of the said Trustee, shall be entitled to exercise the power of sale.

(To be appropriately executed and acknowledged.)

FORM III-A

BUILDING LOAN AGREEMENT

This instrument executed in triplicate original and dated the _____ day of _____, 194__, by and between _____ a corporation organized and existing under and by virtue of the laws of the State of _____, having its principal office at _____ (hereinafter called the "Borrower"), and _____ a corporation organized and existing under and by virtue of the laws of the State of _____, having an office at _____ (hereinafter called the "Lender"), and the Federal Housing Administrator, acting under and pursuant to the provisions of the National Housing Act, as amended (hereinafter called the "Administrator").

Whereas, the Borrower is the owner in fee of the lands hereinafter described and has applied to the Lender for a loan of \$_____ to aid the Borrower in the erection on said land of a certain rental housing project (hereinafter sometimes called "Rental Housing Project" or "Project") in accordance with certain Drawings and Specifications, and the Administrator has approved the insurance of a mortgage securing said loan.

Now, THEREFORE, in consideration of the mutual promises hereinafter contained and other valuable considerations, the parties hereto agree as follows:

I

PROJECT, LOAN, AND MORTGAGE INSURANCE

1. *The Project, land, and improvement.*—The Borrower has perfected or will forthwith, and in any event prior to the recording of the mortgage hereinafter

⁷ See footnote 1 to this form.

⁸ Portion in brackets should be used as an alternate where such recording data is ascertainable at time of execution of this form.

BUILDING LOAN AGREEMENT

described, perfect and hereafter maintain in itself a good and marketable title in fee simple, free and clear of all liens and encumbrances whatsoever except as may be imposed or permitted under this instrument, to the land (hereinafter called the "Land") lying and being in the County of _____, State of _____, and more particularly described in Exhibit "A" hereto attached and made a part hereof.

The Borrower will erect on the Land a Rental Housing Project, strictly in accordance with Drawings and Specifications (hereinafter called the "Drawings and Specifications") prepared by _____ Architect (hereinafter called the "Architect"), which said Drawings and Specifications shall include the General Conditions of the Contract For the Construction of Buildings as prescribed in the "Standard Form of the American Institute of Architects," current edition, except as specifically modified by supplementary general conditions, if any, or by said Drawings and Specifications, or by this Agreement. A Master Set of said Drawings and Specifications marked "Drawings and Specifications of _____, a Rental Housing Project", and identified on each page thereof by the Architect, the Lender, the Administrator, the Borrower, and the Contractor herein mentioned, are hereby by reference made a part hereof, and shall be filed with the Administrator and be controlling with respect to any matters which may arise as to language, provisions, and contents of the Drawings and Specifications, except as specifically otherwise provided by this Agreement. Exhibit "B" hereto attached includes an item for landscaping. The cash payable to the Contractor shall be reduced by any portion of the amount of said item not expended for such landscaping, and such amount not so expended shall be added to the Contingency Fund. Such landscaping shall be done in a good and workmanlike manner to the satisfaction of the Administrator. If the Drawings and Specifications do not provide for landscaping, then landscaping shall be performed in accordance with Drawings and Specifications approved by the Administrator and the amount expended therefor shall be subject to the provisions and deductions above set out.

As used in this Agreement, the word "Improvement" shall mean all dwellings, sidewalks, roads, utilities, sewers, landscape work, and other improvements on the land required to be done by the Drawings and Specifications, the supplementary Drawings and Specifications, and this Agreement. The word "Project" shall mean the construction of the Improvement on the Land and also the Land and the Improvement.

2. *The loan.*—The Borrower agrees to take and the Lender agrees to make, subject, among other things, to this Agreement, a loan in the principal sum of \$_____ (herein called the "Loan"), bearing interest at the rate of _____% per annum, to be advanced in installments as herein provided.

3. *The credit instrument.*—To evidence said Loan the Borrower agrees to execute an appropriate credit instrument (herein called the "Note")¹ in the aforesaid principal sum, payable to the Lender or assigns, with interest at the aforesaid rate upon the amounts advanced from time to time from the respective date of each advance. The Note shall be secured by the Mortgage and shall be in such form and contain such provisions as are satisfactory to the Lender and the Administrator.

4. *The security instrument.*—The Note shall be secured by a mortgage or deed of trust (herein called the "Mortgage"), which when executed, delivered and recorded, shall constitute a valid first and only lien on the Project, except for liens of taxes or assessments not yet due and payable, and for other liens acceptable to the Lender and Administrator. The Mortgage shall be security for the entire

¹ The obligation may be in the form of a bond or note, or in other form customary in the jurisdiction.

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indebtedness represented by the Note, both as to principal and interest, and also costs and expenses incurred in connection with the completion of the Improvement by the Lender or the Administrator, or with respect to the Note and Mortgage or the enforcement thereof, shall be in such form and contain such provisions as are satisfactory to the Lender and the Administrator, and shall be insured by the Administrator as hereinafter provided.

5. *Title insurance.*—Prior to or at the time of the first advance, the Borrower will procure a mortgagee's policy of title insurance in [the Board of Title Underwriters standard form in current use in the New York metropolitan district and] [in standard "L. I. C." or "A. T. A." form or such other form as may be]² satisfactory to the Lender and Administrator as to insurer, amount, title and otherwise, insuring [or prior to or at the time of the first advance the Borrower will procure an abstract of title and an accompanying Attorney's opinion satisfactory to the Lender and the Administrator certifying]:³

(a) a good and marketable title in the Borrower to the land included in the Project; and

(b) the validity and priority of the Lender's lien upon the Project, free and clear of all liens, encumbrances and exceptions, except such as shall be imposed or permitted by this instrument or may be otherwise acceptable to the Lender and the Administrator.

Said policy or abstract and opinion, as the case may be, shall be deposited with the Lender as additional security and duplicate originals thereof shall be deposited with the Administrator, and shall be drawn so as to inure to the benefit of the Administrator, and the Lender and its assigns, as their interests may appear. Anything to the contrary herein notwithstanding, no subsequent advance will be approved unless at the time thereof [said policy is endorsed by the Title Insurer to show, or by its terms automatically cover, the increased liability] [said abstract and attorney's opinion are extended]⁴ co-extensive with such subsequent advance, subject to no exceptions other than those made in the original [policy] [abstract and opinion].⁴

6. *Mortgage insurance contract.*—The Administrator pursuant to the powers vested in him by the National Housing Act, as amended, hereby covenants and agrees with the Lender and the Borrower to insure the Mortgage when executed, delivered, and recorded, and to approve certain sums to be advanced as principal of said Mortgage in accordance with this instrument and to insure as advanced said sums so approved, aggregating not to exceed the total authorized principal amount of the Mortgage. Said insurance shall be evidenced by a contract (hereinafter called the "Mortgage Insurance Contract") in the form required by the Administrator and containing, subject to the applicable Administrative Rules and Regulations, such provisions as may be agreed upon by the Lender and the Administrator.

7. *Nonwaiver.*—Nothing in this instrument shall modify, alter or affect the obligations of the Lender under the Mortgage Insurance Contract.

² Bracketed provisions are in the alternative, depending on the location of the mortgaged premises.

³ An abstract of title and attorney's opinion may be accepted by the Administrator in his discretion where satisfactory to the Lender.

⁴ Bracketed provisions are in the alternative, depending upon whether a title policy or abstract and attorney's opinion is taken.

BUILDING LOAN AGREEMENT

II

CONSTRUCTION OF THE PROJECT

8. *Covenant to build.*—The Borrower will commence construction and installation of the improvement within 15 days after this Agreement is executed, and will carry on such construction and installation to completion as expeditiously as possible, and will complete such construction and installation within _____ months of said date, or within such later period as may be approved in writing by the Lender and the Administrator. The Borrower will cause the Improvement to be constructed strictly in accordance with the Drawings and Specifications, including supplementary landscaping Drawings and Specifications, if any, and will do all things necessary and appropriate in order properly and promptly to complete the Project within the time aforementioned. [No construction work on the Project shall be commenced or any materials ordered in connection therewith prior to (a) the recording of the Mortgage in the public records of the County wherein the mortgaged premises are situated, and (b) the insurance of the Mortgage by the Administrator.]⁵

9. *Construction contract.*—The Borrower has entered into, or concurrently with the execution of this instrument will enter into, a contract (hereinafter called the "Construction Contract"), with _____ (hereinafter called the "Contractor"), providing for the construction of the Improvement in accordance with the Drawings and Specifications, including supplementary landscaping Drawings and Specifications, if any, and the Construction Contract, subject to additions and deductions set out in such Contract, for the agreed sum of \$_____ which includes the Contractor's cash fee [and a further fee of _____ shares of Common Stock of the Borrower].⁶ Said Construction Contract shall be in such form and contain such terms and provisions as are in accordance with this agreement and satisfactory to the Lender and the Administrator. The performance of the Construction Contract shall be assured as hereinafter provided. The Borrower and the Contractor shall disclose to the Lender and the Administrator the names of all persons with whom they have contracted or intend to contract and will disclose the names of all persons with whom they shall subsequently contract for the construction of the Improvement, or the furnishing of labor and materials therefor.

10. *Architect's contract.*—Concurrently with the execution of this instrument the Borrower will enter into a contract with _____ of the City of _____, State of _____, duly registered as an architect as required by local laws and regulations applicable to the Project, providing for services as architect in connection with the Improvement at a fixed fee of \$_____ to be paid in cash [and a further fee of _____ shares of the Common Stock of the Borrower].⁷ The Architect's Contract shall be in such form and contain such provisions as are satisfactory to the Lender and the Administrator.

11. *Hazard insurance.*—The Borrower shall cause the Contractor to provide for workmen's compensation insurance and public liability and other insurance provided for by the General Conditions. The Borrower further agrees to provide insurance during construction against fire, lightning and windstorm, which insurance shall be payable to the Borrower, and the Contractor also, as interest may appear, with standard mortgagee endorsement attached making loss payable to the Lender or its assigns, as mortgagee, or the Administrator, as interest may

⁵ Except where unnecessary under the local lien laws, the portion in brackets must be included.

⁶ Add as may be agreed.

⁷ *Ibid.*

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appear. All policies shall be in such companies and in such form and amounts as shall be satisfactory to the Lender and the Administrator. Originals thereof shall be deposited with the Lender and certificates thereof with the Administrator prior to the first advance.

12. *Right of entry, access, and inspection.*—The Lender and its agents and the Administrator and his agents, at all times during construction of the Project, shall have the right of entry and free access to the Project, and the right to inspect all work done, labor performed, and materials furnished in and about the Project, and all books and records of the Borrower. The Borrower will cause the Contractor to provide on the Project, without expense to the Administrator, a private office with telephone for the use during construction of the representatives and inspectors of the Administrator.

The Borrower will comply and cause all contractors, subcontractors, materialmen, and others employed on the Project to comply with reasonable instructions given to the Borrower by the Administrator and by the Lender with reference to the construction of the Project in accordance with the Drawings and Specifications, including supplementary plans and specifications, if any, the Construction Contract, and this Agreement; but as to any part of the work which may not be covered by the Drawings and Specifications, such work shall be done in a manner approved in writing by the Administrator and the Lender.

It is further expressly agreed as follows:

(a) That the duty of constructing or providing for the construction of the Improvement in accordance with the Drawings and Specifications and this Agreement is the duty of the Borrower exclusively.

(b) That the Administrator may at any time withhold his approval of an advance to be made hereunder, for failure of the Project, or work done, labor performed or materials furnished therefor, to comply with the Drawings and Specifications, regardless of the time of noncompliance, and regardless of whether advances have been approved after the noncompliance occurred, except that upon request in writing by the Borrower or Lender, which request shall fully describe the nature of the noncompliance, the Administrator hereby agrees with the Lender that he will within five days from the receipt of said request, waive, or refuse to waive, his right to withhold approval for insurance of future advances because of such noncompliance. No waiver shall be binding unless in writing and with reference to work definitely specified and described. In insuring advances made hereunder, the Administrator shall have the sole right to determine the conformity of work and materials with the Drawings and Specifications referred to herein, such determination running solely to the Lender in respect to the amount of advance which will be insured. When and after notice is given the Administrator and Borrower by the Lender, such right shall rest with the Lender and Administrator jointly: *Provided*, That if the Mortgage Insurance Contract is terminated prior to completion of the Project, the final decision with respect to the conformity of such work and materials with Drawings and Specifications shall rest solely with the Lender and his assigns.

13. *Equity fund.*—The Borrower agrees, as a condition precedent to any advance under this Agreement, to deposit a fund in the sum of \$.....^s (hereinafter called the "Equity Fund") in a depository satisfactory to the Administrator and the Lender, in the City of _____, in a special account to be designated "_____ Special Account", subject to withdrawal only upon check or order of the Borrower and a letter of instructions from the Administrator or his agent authorizing and approving the withdrawal of funds in the amount set out in such check or order. Prior to the issuance of any

¹ This is the amount of the original cash equity less so much of the commitment fee as has actually been paid to the Administrator.

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check against such Special Account, the Borrower shall furnish to the Administrator for his approval duly rendered invoices or statements covering the entire amount requested, together with a statement under oath, executed by an officer of the Borrower, that said invoices and statements represent sums due creditors on account of indebtedness actually incurred by the Borrower with respect to the items hereinafter mentioned; that such sums are reasonable in payment of such items; and the balance, if any, which will remain unpaid to the creditor after such payment. The Borrower hereby appropriates the funds of the Special Account first to the payment of the following items, pending the completion of the Project, in the amounts enumerated, and agrees to hold said funds in trust for such payments:

- (a) Premiums of Mortgage Insurance, \$.....
- (b) FHA appraisal Fee, \$.....
- (c) Interest on the Loan, \$.....
- (d) Taxes, the estimated sum of \$.....
- (e) Premiums of hazard insurance, the estimated sum of \$.....
- (f) Service fee to the Lender, \$.....
- (g) Legal fees, \$.....
- (h) Organization expenses, \$.....
- (i) Premium on surety bond, the estimated sum of \$.....⁹
- (j) Cost of survey, title examination, title insurance, recording fees and stamp tax, the estimated sum of \$.....
- (k) The balance remaining in said Special Account after payment, or allocation of appropriate sums to the payment, of the above expenses shall be used during construction for such purposes as may be approved by the Administrator, as hereinabove provided.

The foregoing provisions of this section to the contrary notwithstanding, the Administrator will forthwith authorize and permit the withdrawal and use of the sum of \$....., out of said Account, by the Borrower for the purpose of opening its regular account. Withdrawal and disbursement from such regular account thereafter shall be subject only to order of the Board of Directors of the Borrower through its properly constituted officers.

The Borrower shall account to the Administrator for all funds withdrawn from the Special Account and within ten (10) days after any withdrawal shall deliver to the Administrator, duly executed and verified receipts evidencing the expenditure of all funds so withdrawn in discharge of the aforementioned obligations.

The borrower agrees to join with the Administrator in executing such instruments or certifications as may be required by the depository to certify to said depository the provisions of this section.

14. Any balance remaining in said Special Account after the above payments shall be paid over to the Borrower upon the full completion, to the satisfaction of the Administrator, of all work in connection with the construction of the said Project as set forth in the Construction Contract, and the final payment to the Contractor thereunder, and after all proper requisitions under said Construction Contract. Such balance shall be applied by the Borrower first to establish and maintain the working capital and reserves required by the Mortgage or the Borrower's Certificate of Incorporation.

15. *Extra work and material used.*—The Borrower shall not deviate from or change, alter or modify the Drawings and Specifications, order the execution of any extra work of any kind whatsoever, or permit deduction from the Construction Contract unless upon written order from the Architect, in the form of an Architect's addenda or bulletin, consented to in writing by the Lender and by the

⁹ This item should be eliminated if the Construction Contract calls for this bond to be furnished by the Contractor at its own expense.

Administrator or the Assistant Administrator in charge of Rental Housing. No such consent shall be granted unless all necessary approvals of county, municipal or other governmental bureaus or departments having jurisdiction thereof shall have been obtained and unless the Borrower shall satisfy the Administrator and the Lender that funds sufficient for the purpose are available.

III

ADVANCES

16. (a) *Application.*—The Borrower covenants that it will receive the advances hereunder secured by the Mortgage as a Trust Fund, (herein called the "Construction Fund") to be applied first for the purpose of paying the cost of the Improvement, and that it will apply the same first to the payment of the cost of the Improvement before using any part of the total of the same for any other purpose. [The said Mortgage shall contain a similar covenant.]¹⁰ However, nothing in this section shall impose upon the Lender any obligation to see to the proper application of such advances by the Borrower.

The Lender agrees to disburse and pay over the proceeds of the Loan in accordance with this Agreement: *Provided*, That parts or the whole of any installment may be advanced before due if approved by the Lender and the Administrator: *And provided further*, That upon default of the Borrower in any of its obligations hereunder advances from the Loan may be paid directly to the Contractor, and the Administrator may approve such advances for insurance, but neither the Lender nor the Administrator, respectively, shall be obligated so to do. All such advances referred to in the above provisos, if made, shall be deemed to have been made pursuant to this Agreement and not in modification hereof. Disbursements will be made only upon the submission by the Borrower, on or about the first day of each month, beginning the first month following the execution of this Agreement, of an Application by the Contractor addressed to the Borrower and verified by the affidavit of its president or such other officer of the Contractor as the Administrator may require, requesting payment [in accordance with the provisions of the next succeeding Paragraph hereof entitled "Schedule of Payments", and "Exhibit B" entitled "Payment Breakdown" hereto attached and made a part hereof]¹¹ for all work done in and about the construction, installation, and the erection of the Improvement since the last application and for all materials and equipment actually put in place on the Improvement or reasonably required in the progress of the work and suitably stored at the site.

[(b) *Schedule of payments.*—The term "Schedule of Payments" as used in this Agreement shall include the provisions of this Paragraph 16 (b) and "Exhibit B" designated "Payment Breakdown" hereto attached and made a part of this Agreement. The Construction Contract shall have attached a copy of said Exhibit B and shall make appropriate provisions for payment to the Contractor coordinately with this Paragraph. Applications shall be made by the contractor to the Borrower approved by the Architect, with the Borrower's concurrence thereto attached for a sum of money representing (a) according to this Schedule of Payments and the Payment Breakdown forming a part of this Schedule the value of all work and materials furnished to the date of the application with respect to the entire project, and (b) that amount on account of the Contractor's cash fee which bears to the aggregate Contractor's cash fee, the same proportion as the value of work and materials furnished to such date bears to the aggregate

¹⁰ Necessary only in New York.

¹¹ This proviso should be checked with local lien law.

¹² Omit if Construction Contract is "guaranteed upset price" type.

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value of work and materials to be furnished by the Contractor. Cash Payments on account of any such application shall be the sum of the "amounts payable" computed as follows: (1) From the value, as approved by the Administrator, of work and materials furnished to the date of the application (exclusive of Contractor's cash and stock fees and Contingency Fund, if any) there shall first be deducted [an amount which bears to such value of work and materials, the same proportion which the Contractor's construction stock bears to the "Value of Physical Improvements" as shown on the Break-down, from such result shall be deducted]¹³ a 10% holdback, and from that result there shall be deducted payments previously made hereunder, which final result shall be the "amount payable" under this subdivision; (2) From that amount which bears to the Contractor's total cash fee the same proportion which the value, as approved by the Administrator, of work and materials furnished to the date of the application (exclusive of Contractor's cash and stock fees and Contingency Fund, if any), bears to the "Value of Physical Improvements" as shown on the Breakdown, there shall be deducted a 10% holdback, and from that result there shall be deducted payments previously made hereunder, which final result shall be the "amount payable" under this subdivision. Adjustments in payments to cover additions and deductions shall be made as approved by the Administrator. Final payment of the 10% holdback with respect to the entire Project shall be due after the approval by the Architect of the Certificate of Final Completion and thirty (30) days after the approval of the Application for Final Payment: *Provided, however,* That in any case where final payment, either with respect to the entire Project or any group, is received by the Owner as an advance of principal upon the Building Loan Agreement covering the construction work called for by the Construction Contract, the Contractor shall be entitled to any sums due it with respect to the work and materials included in the Application pursuant to which said payment was made. Any unexpended balance of the Contingency Fund shall be applied as required by the Administrator either in reduction of the Mortgage or to set up the cash fund or reserves mentioned in the charter of the Borrower. In the event that the day herein specified upon which Application for Payment is to be made, or approval thereof is to be given, or delivery or transmission of the Application is to be made, or notice to be given, or an advance is to be made, shall fall on a Sunday or legal holiday, then and in such event, application, approval, delivery, transmission, notice, or an advance may be made or given, as the case may be, on the day next succeeding such Sunday or legal holiday.]

The Application shall state:

(1) That a stated sum of money is then payable pursuant to the terms of the Construction Contract and represents the proper percentage (with respect to the several stated groups)¹⁴ according to the provisions of such Contract for [the cost of]¹⁵ work actually performed or furnished or materials actually put in place in the erection, construction or installation of the Improvement and materials or equipment reasonably required in the progress of the work and suitably stored at the site, plus a stated amount representing the appropriate portion of the Contractor's fixed cash fee in accordance with the Construction Contract. There shall be attached to the Application and made a part thereof [an itemized list according to trades showing the amount of money applied for in respect thereto and the percentage of work by trades which the sums so applied for respectively represent according to the Payment Breakdown] [audited vouchers, certified

¹³ Delete language in brackets if no construction stock is to be paid.

¹⁴ Parenthetical matter to be used if Project is to be built in groups.

¹⁵ The portions in brackets are in the alternative, depending on whether the Construction Contract is lump sum or guaranteed upset price, with a participation to the Borrower in any savings under said upset price.

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payrolls and certified bills for material, work and other items included in the Application].¹⁶

(2) That the work is progressing in conformity with the Drawings and Specifications, that said Drawings and Specifications and work performed have been approved by all public authorities having jurisdiction of the construction of the Improvement, that all licenses and permits necessary under the circumstances have been obtained (the originals of which licenses and permits will be exhibited to the Lender and the Administrator upon request), that the Project as it has so far progressed is in conformity with and does not violate any applicable law, ordinance, rule, or regulation, and, in general, the extent to which the work has progressed.

(3) That all materials and equipment then to be paid for are properly furnished and installed except such materials and equipment as are specifically stated to be reasonably required in the progress of the work and suitably stored at the site.

(4) [That the work consists of work usually done at the stage of construction when the application is made and that the material consists of material and equipment usually furnished or installed at that time.]¹⁷

(5) That such work and material have not previously been made the basis for any payment with respect to said construction work.

(6) That the Application and the statements and representations made therein are made for the purpose of inducing the Administrator to approve and insure the advance therein applied for and for the purpose of enabling the Borrower to obtain such advance from the Lender, all with the knowledge that such statements and representations will be transmitted by the Borrower to the Lender and the Administrator and relied upon by said Lender in making such advance to the Borrower and by the Administrator in approving such advance and issuing insurance thereon.

The Application shall also be approved by the Architect by a certificate endorsed thereon, stating that all prior work and the work, labor and materials then to be paid for are satisfactory to him, and that he is duly registered as an Architect as required by applicable laws and regulations. Where certification by an engineer is required by local law an appropriate certificate in similar form must also be furnished.

The Application when concurred in by the Borrower, by an affidavit of one of its officers, shall constitute the Borrower's Application for an advance hereunder. The affidavit of concurrence shall state that the Borrower in submitting said Application declares said Application to be its own as if expressly written and executed by its officers for the purpose of obtaining an advance under this Building Loan Agreement; that the sum requested in the Application is then payable to the Borrower pursuant to the terms of this Agreement; that the Improvement so far as constructed, installed and erected is entirely upon the land covered by the Mortgage mentioned herein, and within the building restriction lines, if any, on said land, and does not overhang or encroach upon any land not covered by said Mortgage or beyond said building restriction lines, if any, and does not encroach or overhang upon any easement or right of way of others, and that (unless previously waived in writing by the Lender and the Administrator) there is attached to and made a part of said Application a survey of the Project addressed to the Lender and the Administrator, duly certified and acknowledged by a registered surveyor satisfactory to the Lender and the Administrator, which certificate shall verify the statements made by the Borrower under this paragraph as to the location of the Improvement; and, if required hereunder, that all acknowl-

¹⁶ The portions in brackets are in the alternative, depending on whether the Construction Contract is a "lump sum" or "guaranteed upset price."

¹⁷ Omit if Construction Contract is "guaranteed upset price."

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edgements of payment in connection with the last previous monthly Application have been submitted to the Lender and the Administrator; that all policies of insurance, including title insurance, required under this Agreement are in force and effect at the date of said concurrence, and that the same have been extended where necessary to cover sums disbursed by the Mortgagee pursuant to the last previous monthly Application.

The Borrower may also attach to said Application or submit in lieu thereof a Supplemental Application for such sums as may be due the Borrower for approved obligations to others than the Contractor and shall forward duplicate originals of said Application and Supplemental Application, if any, to the Administrator on or before the third day of the month: *Provided*, That the first Supplemental Application may be submitted within five (5) days from the date of the recording of the Mortgage. At the same time, the Borrower shall inform the Lender in writing of the total amount of such Application.

The Administrator shall within three (3) days after receipt of the Application and Supplemental Application, if any, notify the Lender, by forwarding to it at -----, or at such other place as it may from time to time designate, one of said duplicate original Applications and Supplemental Applications, if any, with a signed statement attached thereto or endorsed thereon, the sum of money, if any, which if advanced by the Lender to or for the account of the Borrower will thereupon constitute principal of the Mortgage approved by the Administrator within the meaning of the Mortgage Insurance Contract. Said sum when so advanced shall thereupon constitute principal of the Mortgage within the meaning of the Mortgage Insurance Contract.

The Lender, upon receipt of the Application and Supplemental Application, if any, and the notice aforementioned, hereby agrees to advance in accordance with this Agreement, the sum of money approved: *Provided, however*, That upon written notice by the Lender to the Administrator and the Borrower, no such disbursement shall be made without the approval of the Lender and the Administrator nor shall the Administrator approve any Application for payment under the Construction Contract or authorize any expenditure out of the Contingency Fund, if any be provided in the Construction Contract: *Provided further*, That should the Contract of Mortgage Insurance be cancelled all Applications and Supplemental Applications shall be made directly to the Lender and final approval of all disbursements shall vest solely in the Lender. In making advances the Lender shall issue its checks or drafts payable to the joint order of the Borrower and such other persons shown by the Application and Supplemental Application, if any, to be entitled thereto, for an amount equal to the amount approved by the Administrator. The Lender will [upon at least twenty-four (24) hours' notice to the Borrower and the Title Insurer (title attorney), unless a shorter time shall be agreed to in any instance by all of said parties, set a date for delivery at ----- of said checks or drafts] [forward said checks or drafts to the Title Insurer (title attorney) for delivery to the payees] not later than the tenth day of each month until all advances required by this Agreement shall have been made. The said checks or drafts when [delivered to the Borrower] [deposited in a United States post office properly addressed to said Title Insurer (title attorney) with the requisite amount of stamps affixed thereto,]¹⁷ will constitute (a) an indebtedness of the Borrower in the amount thereof evidenced by the Note, the Mortgage and this instrument, and (b) an advance to the Borrower of principal of the Mortgage approved for insurance within the meaning of the Mortgage Insurance Contract. Any delivery of said checks or drafts shall be subject to examination of title by the Title Insurer (title attorney). If such examination shall disclose any matter or thing which in the opinion of the Lender or the Title Insurer (title attorney) tends to impair the validity as a

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first lien on the property of the advance represented by said checks or drafts, then such checks or drafts shall not be delivered but shall be retained by the Lender until such time as such matter or thing shall be remedied or corrected so that the advance represented by said checks or drafts shall constitute such a valid first lien to the satisfaction of the Lender and shall be insured as such by said Title Insurer [certified as such by said title attorney]:¹⁸ *Provided, however,* That if the law of the State wherein the premises are situated so provides, the Lender may, in its discretion, deposit on behalf of the Borrower with the proper officer of the County in which the property is situated a sum sufficient to discharge any mechanic's lien or liens which may be found of record against the premises, or retain out of said checks or drafts a sum sufficient for such purpose and may deliver to the Borrower checks or drafts representing the amount approved for advancement by the Administrator less any sum so deposited or retained.

The Lender shall obtain appropriate receipts from the Borrower for the amount of any check or draft so delivered together with an acknowledgment of the amount of total advances to date of such delivery and shall forward a duplicate original thereof to the Administrator.

The Administrator in passing upon the Applications and the Lender in forwarding advances will use their best efforts to perform the functions herein required of them within the time hereinabove respectively specified, but their failure so to do within such respective periods of time shall not subject them or either of them to any liability or prejudice them in any way whatsoever hereunder.

17. *Receipts and releases of lien.*—The Borrower will obtain and attach to each monthly Application acknowledgments of payments down to the date covered by the last advance from all subcontractors and materialmen dealing directly with the Borrower or the Contractor.

¹⁹ [Concurrently with the receipt by the Borrower of a check or draft representing final payment either for the entire Project or for any completed group according to the Breakdown the Borrower shall obtain in duplicate an affidavit and releases of lien in the form required under the lien law of the State wherein the premises are situated, the original of which shall be presented to the Lender and a duplicate original to the Administrator. Said releases of lien shall cover all work, labor and material, including equipment and fixtures of all kinds, done or performed for or furnished to the Borrower, its contractors, subcontractors or materialmen. The affidavit shall be executed on behalf of the Contractor by its president or such other officer as may be required by the Administrator and concurrently so executed by the Borrower.]

18. *Certificate of completion.*—Upon completion of the entire project and final acceptance thereof by the Architect, the Borrower will forthwith deliver to the Lender and the Administrator, with the Application for Final Payment and before any final disbursement shall be made, a certificate in duplicate (herein called the Certificate of Final Completion) executed and verified by an officer of the Borrower and bearing the written approval and concurrence of the Architect (insofar as said Certificate relates to matters within the jurisdiction of said Architect), and of a licensed engineer if required by local law, which shall be supported by evidence satisfactory to the Lender and the Administrator that

(a) The Project has been completed in a good and workmanlike manner and the Improvement has been fully furnished and equipped in accordance with the

¹⁸ Material in brackets is in alternative, depending on lien laws and title company practice in the particular jurisdiction. The manner of making advances may be varied but in any case (1) checks must be payable jointly to the Borrower and others entitled thereto; (2) each advance must be cleared through or approved by the title insurer or title attorney.

¹⁹ May be omitted only if approved by Administrator.

Drawings and Specifications, free and clear of all liens and encumbrances except for the lien of the Mortgage and liens for current taxes and assessments;

(b) All bills for labor and material, fees and other charges have been paid in full or that arrangements satisfactory to the Lender and the Administrator for such payment have been made;

(c) The buildings, including wiring, plumbing and other fixtures therein, have been inspected and approved by all departments, boards or agencies of the Municipality, County or State, or other governmental bureaus or departments having jurisdiction thereof, and by the Board of Fire Underwriters, or any board or body performing similar functions, and that such certificates with respect to approval of said buildings for occupancy and otherwise as may be required by the Lender and the Administrator have been issued to the Borrower;

(d) The Mortgage constitutes a valid first and only lien (1) on the real estate property described therein except for liens for special assessments not in arrears, and liens for taxes not due and payable, and (2) on all fixtures and personal property purchased out of the mortgage proceeds (and the Borrower hereby agrees to execute a chattel mortgage or other similar instrument covering such fixtures and property as may be required by the Lender or Administrator).

No portion of the Project (or a completed group, if the Project is built in groups) shall be occupied for dwelling purposes until such time as the entire Project (or such group, as the case may be) shall have been accepted by the Administrator in writing as completed.

IV

TERMINATION OF OBLIGATIONS

19. *Conditions precedent to obligations.*—Whenever and as often as any of the following events occur before the amount of the Loan is fully advanced, all obligations on the part of the Lender to make further advances on account of the Loan and all obligations on the part of the Administrator to approve for insurance further advances to be made or to insure further advances made on account of the Loan, shall cease:

(a) *Default.*—If the Borrower commit or permit any violation or default in the performance of any covenant, obligation, or condition or any agreement with the parties hereto or be in default in any covenant of the Note or Mortgage or this Agreement.

(b) *Unsatisfactory lien.*—If the Mortgage shall not secure to the Lender a first and only lien satisfactory to the Administrator and the Lender, on all property included in the Project.

(c) *Encroachment.*—If the Improvement, or any part thereof shall encroach on any street or adjoining property, or shall violate any restriction applicable to the Project.

(d) *Materials and fixtures.*—If any materials, fixtures, or articles or personal property used in the construction or equipment of the Improvement or appurtenant thereto are subject to chattel mortgage other than to the Lender or under a conditional sale or other agreement for retention of title or are not purchased so that the ownership thereof vests in the Borrower, free from encumbrances except the lien of the Mortgage or a chattel mortgage to the Lender.

(e) *Representations.*—If any representation or statement made in writing to the Lender or the Administrator by the Borrower or its representatives or by the sponsors of the Project shall be incorrect or incomplete in any material respect, and such representation, statement, and situation the subject thereof, are not promptly corrected to the satisfaction of the Lender and the Administrator.

(f) *Construction.*—If the Borrower does not construct the Project in accordance with the Drawings and Specifications, or if any work done to the date of each

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Application shall not have been done in good and workmanlike manner; or if notice of noncompliance with the Drawings and Specifications in respect to any work done or materials and equipment installed at such time shall have been filed with the Borrower by the Administrator.

(g) *Violation.*—If any rule, regulation, ordinance, or law of a department, bureau, or other agency of the State, County, or Municipal Government having jurisdiction over the Project shall be violated by the Project, or if any notice of any such violation shall be filed with or issued by any such department, bureau, or agency, and such violation is not cured to the satisfaction of such department, bureau, or agency and the Lender and Administrator.

(h) *Assignment.*—If the Borrower shall assign its contract or any interest therein, or any right to receive any payments or portion of a payment herein provided for, or if the money payable under this Agreement should be attached or garnished by any creditor of the Borrower and such attachment or garnishment not be dissolved within a period of time satisfactory to the Lender and the Administrator.

(i) *Injury or destruction.*—If the Improvement shall be damaged or destroyed by fire or otherwise and if such damage or destruction shall not be remedied, or provision made to remedy the same, in manner satisfactory to the Lender and the Administrator.

(j) *Noncompliance.*—If the Borrower fails or refuses upon receipt of notice from the Administrator of the noncompliance with the Drawings and Specifications of any work done, labor performed or material furnished or installed forthwith to proceed to remedy said noncompliance with all reasonable diligence regardless of the nature of such noncompliance or the time it occurred.

(k) *Conveyance.*—If the Borrower shall convey the mortgaged premises or any interest therein.

(l) *Completion.*—If the Borrower shall not proceed diligently with the erection and completion of the improvement or if the work shall be suspended for a period of ten (10) days, unless such suspension is caused by the elements or strikes, or by other causes beyond the control of the Borrower or the Contractor, or for ten (10) days be unreasonably delayed by being prosecuted during such time, with less than reasonable force and diligence.

(m) *Litigation.*—If pending the completion of this Agreement there shall be filed by or against the Borrower a petition in bankruptcy or insolvency, or if the Borrower be adjudicated a bankrupt or avail itself of any bankruptcy or insolvency statute or make a general assignment for the benefit of creditors or an assignment while insolvent or in contemplation of insolvency, or become involved in other legal proceedings which in the judgment of the Lender or the Administrator materially affect the performance of its obligations hereunder; unless the Borrower shall, prior to the date upon which an approval would otherwise be given or an advance otherwise made and within such time as the Lender and the Administrator shall consider reasonable, remedy in a manner satisfactory to the Lender and the Administrator any such conditions, including any such conditions subsequently happening, so as to relieve the Lender and the Administrator of their respective obligations aforesaid.

The Mortgage may contain the foregoing provisions or any of them, but the omission of any such provisions shall not be a waiver of any of them. The occurrence of any of the foregoing events shall, in addition to any other rights or remedies accruing to the Lender and the Administrator, constitute an event of default under the Mortgage and the entire loan shall thereupon become due and payable at the election of the Lender in the manner provided in said Mortgage. In such event, the Lender and the Administrator, shall be subrogated, as their respective interest may appear, to all rights which the Borrower may have in and

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under all contracts and actions including all rights, claims and demands of the Borrower as obligee under any surety bond furnished by it pursuant to this Contract. The Administrator may approve for insurance any sum to be advanced and insure an advance and the Lender may make any advance despite the occurrence or existence of any such conditions, but neither the Lender nor the Administrator shall be deemed thereby to have waived any of their respective rights hereunder, nor shall the waiver by the Lender or the Administrator, express or implied, of any such condition constitute a waiver of such condition, as applied to any other or subsequently occurring conditions.

20. *Notice.*—In the event it is determined by the Lender or the Administrator that one or more of the events or conditions set forth in the preceding section has occurred, and for that reason the Administrator elects to withhold his approval of an application for payment and advance for insurance beyond the date upon which it would otherwise be given or the Lender so elects to withhold a payment beyond the date upon which it would otherwise be made hereunder, it shall be the duty of the party so electing forthwith to notify the other parties hereto in writing of the election and the reason therefor; but a failure to so notify shall not be deemed to constitute a waiver of the occurrence of the event.

V

COMPLETION OF THE PROJECT

21. *Assurance of completion.*—The Borrower agrees to cause the Contractor to furnish assurance of completion in the form of a bond of a surety (hereinafter sometimes called the "Surety")²⁰ satisfactory to the Lender and the Administrator, executed by the Contractor, as principal, and said Surety, as surety, and conditioned upon the performance of the Construction Contract. Said bond shall inure to the benefit of the Borrower and shall be in the sum of \$ ----- and be in such form and contain such other terms and provisions as are satisfactory to the Lender and the Administrator.

22. *Right of completion.*—If the Contractor shall fail to perform the Construction Contract according to its terms, the Borrower shall thereupon take all steps necessary to compel the Surety to comply with the terms of the Bond. If the Surety shall not forthwith proceed to perform the Construction Contract, the Borrower shall thereupon undertake and proceed with the construction of the Project and shall commence and pursue appropriate action against the Contractor and the Surety. In the event of the failure of the Borrower so to do, the Administrator (a) shall proceed to enforce any right to direct the management of the Borrower granted to him in the Certificate of Incorporation of the Borrower and/or in any contract between him and the Borrower; and (b) may, in addition to any other rights available to him hereunder, institute and prosecute action against the Contractor and/or the Surety, as attorney-in-fact for the Borrower (and he is hereby irrevocably appointed for that purpose), or as assignee of the Borrower, for which purpose the Borrower hereby unconditionally assigns to the Administrator any and all claims, demands or rights of action that may accrue to it under the Bond upon default of the principal and/or the Surety and agrees to execute and deliver to the Administrator such further instruments as may be necessary to confirm and complete such assignments; and (c) may, as such attorney-in-fact, or as such assignee, undertake the completion of the project. If the Borrower, acting under the direction and control of the Administrator, or if the Administrator, acting as attorney-in-fact or assignee of the Borrower, undertakes the com-

²⁰ If assurances other than a surety bond are given, this paragraph and subsequent references to the surety should be drawn to accord to circumstances.

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pletion of the Project, the Lender shall make available the balance of the mortgage money not then advanced, in the same manner provided for by the Mortgage and by this Agreement with respect to payments to be made to the Borrower, and all advances so made shall be deemed advances under the Mortgage for the account of the Borrower.

If the Administrator shall not promptly undertake and proceed with the construction of the Project either through direction of the management of the Borrower, or in any of the other capacities above described, or if the Administrator shall notify the Lender in writing that he will not so proceed, the Lender at its election (but without prejudice to any other right of the Lender in the premises) may, but it shall not be required to, complete the Project. If the Lender elects so to do, it shall promptly notify the Administrator in writing of its decision, which notice shall operate as a waiver of any right it may possess under the Contract of Mortgage Insurance to assign the Mortgage to the Administrator by reason of any monetary default then existing. The Lender, with the written consent of the Administrator, may then make any and all necessary contracts with architects, contractors, subcontractors, materialmen and others in the name of the Borrower, and may sign the name of the Borrower as its attorney-in-fact, hereby irrevocably appointed for such purpose, or the Lender may at its option make such contracts in its own name, and it may incur any such indebtedness in its own name. In such event, the Lender may pay at any time outstanding just bills, liabilities, claims or indebtednesses contracted or incurred by the Borrower and/or by the Contractor in connection with the erection or construction of the Project, or by the Lender in the Borrower's behalf as aforesaid (whether in the Borrower's or the Lender's name) and may pay any deficit in connection with the construction, erection, completion and equipment of the Project or in connection with any liability incurred by it as aforesaid, regardless of whether or not any mechanics' or other liens or claims have been filed or established. The Borrower hereby expressly covenants and agrees to repay to the Lender on demand any sums advanced by the Lender or any payment or payments made by the Lender in accordance with the foregoing provisions, with interest from the date of each such advance or payment computed at the same interest rate as upon the principal of the Mortgage. Any and all sums advanced by the Lender under the provisions of this Section shall be deemed a portion of the sum agreed to be loaned under this Agreement. The Lender may at any time apply to the payment of any such bills, liabilities, or indebtedness contracted or incurred by the Borrower or the Lender, all or any part of any sums to which the Borrower might otherwise be entitled under or by virtue of this instrument, and for that purpose the Borrower hereby assigns to the Lender all such sums to which it is or may become entitled, together with any additional sums which may be collected from the Surety. Nothing done by the Lender pursuant to the powers and authority vested in it by this Section shall be deemed to relieve the Borrower from the performance of its covenants and agreements contained in the Mortgage and in this instrument, or to excuse or relieve it for any breach of such covenants or agreements. In case the Lender, pursuant to this Section, shall elect to proceed with the erection, construction and equipment of the Project, the Administrator shall approve for insurance such sums as may be required to be advanced upon the security of the Mortgage for such erection, construction and equipment, up to but not exceeding the full amount of the loan.

If there exists a default in any payment due or provided to be paid by the terms of the Mortgage, and the Lender elects to assign the Mortgage to the Administrator in accordance with the provisions of Article V, Paragraph 1 (a) of the Administrative Rules and Regulations, its right to complete the Project as herein granted shall become the exclusive right of the Administrator.

BUILDING LOAN AGREEMENT

If the Borrower shall be in default under any of the terms, covenants, and conditions of this Agreement or of the Mortgage and the Contractor be ready, willing and able to proceed with the construction and equipment of the Project in accordance with the terms of the Construction Contract, the Administrator and the Lender shall have the same respective rights to proceed with the construction of the Project as above provided. Failure on the part of either the Administrator or the Lender so to proceed shall be deemed, after notice to the Contractor in writing, a termination of the Construction Contract and all the obligations of the Contractor thereunder shall cease. In such event, the Contractor may within fifteen (15) days after receipt of such notice submit an application for advances to pay claims for work done and materials furnished up to the time such written notice was received by the Contractor and the Administrator shall approve such application in such amount as in his judgment represents the value of such work and materials and shall notify the Lender in the manner provided for regular monthly advances that he has approved said application. If said advance in the amount approved or any part thereof is made, it will be deemed to be made for the account of the Borrower and will constitute principal of the Mortgage approved for insurance within the meaning of the Mortgage Insurance Contract. If the Lender in its discretion, advances the sum so approved or any part thereof, it shall notify the Administrator in writing of the amount so advanced, within ten (10) days from the date of said advance.

23. *Representations and warranties.*—The Borrower represents and warrants

(a) That every statement contained in this Agreement, in FHA Form 2013 and exhibits attached thereto with respect to this Project, and in the Loan Application, or in any supplement thereto or amendment thereof, or in any other data submitted to or required to be submitted to the Administrator or the Lender by or on behalf of the Borrower, are, or when submitted will be, correct and complete in all material respects.

(b) That it is a corporation duly organized and existing under the general business corporation law of the State wherein the Project is situated; has an authorized capital of shares of Common Stock ²¹ [without par, or stated value of \$----- per share] and 100 shares of Preferred Stock, having a par value of one dollar (\$1.00) per share; is authorized and empowered to execute, deliver, and carry out these presents and to take all other action as may be necessary with respect thereto; and has delivered to the Lender and the Administrator certified copies of its Certificate of Incorporation, in effect the date hereof.

24. *Expenses.*—The Borrower will pay all the costs, charges, and expenses incident to the performance of all the terms and conditions of this instrument on its part to be performed, including, but not limited to, the cost of preparing, executing and issuing the Note, the Mortgage, all taxes and recording fees, and the cost of obtaining all legal opinions to be furnished by the Borrower. All such costs, charges, and expenses incurred or paid prior to the delivery as herein provided of the Certificate of Final Completion may, subject to the provisions of this instrument and the approval of the Administrator, be charged against and paid from the sum herein agreed to be loaned. The Borrower shall defend any action at law or suit in equity which may arise by reason of, on account of, or in connection with the loan or the construction of the Project, and, for that purpose, shall retain counsel satisfactory to the Lender and the Administrator. The Borrower hereby agrees to indemnify and hold harmless the Lender of and from any costs, charges and expenses whatsoever by reason of any such action or suit, including but not limited to reasonable counsel fees.

²¹ Vary to fit the facts.

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25. *Supplemental instruments.*—Upon request the Borrower will furnish at any time and from time to time such agreements and other instruments as the Administrator or the Lender may deem necessary or desirable in connection with the performance of the obligations of the Borrower under this instrument, the Note, the Mortgage, and the Mortgage Insurance Contract, or for the further securing of the indebtedness or carrying into effect the terms and provisions of this instrument.

26. *Parties bound.*—The contracts embodied in this instrument shall be binding upon and inure to the benefit of the respective parties hereto and their successors and assigns: *Provided, however,* That no right of the Borrower hereunder shall be assignable except as herein specifically provided or with the prior written consent of the Administrator and the Lender.

In the event that the Mortgage Insurance is terminated, all rights hereunder of the Administrator shall pass to the Lender, and all obligations hereunder of the Borrower to the Administrator shall thereupon and thenceforth become obligations to the Lender.

27. *Construction of contract.*—This Agreement and the Exhibits attached hereto, together with the agreements, documents, and papers delivered pursuant hereto, shall be governed by and construed in accordance with the laws of the State wherein the Project is situated. The titles of the subdivisions, sections, subsections, paragraphs, and subparagraphs of this instrument have been inserted for convenience in reference only and are not intended to summarize subject matter and shall not be given any consideration in the construction of this instrument.

28. *Saving clause.*—If any provision of this Agreement, or the application thereof to any person or circumstance, is held invalid, the remainder of the Agreement, and the application of such provision to other persons or circumstances, shall not be affected thereby.

[29. The affidavit attached hereto and made a part hereof as fully as if set forth herein at length, marked "Schedule One", is made pursuant to and in compliance with Section 22 of the Lien Law of the State of New York, as amended.]²²

[30. So much of the Loan as may be necessary may be applied by the Borrower with the consent of the Lender and the Administrator to the payment of any fee, brokerage, or other expense incident to obtaining or making the Loan. The Borrower shall pay all fees heretofore agreed to be paid to the Lender or other person or corporation, the expense of the examination of title, the recording tax upon the Mortgage, charges for drawing and recording papers, and for all searches which may be required by the Lender and the Administrator to assure the Lender and the Administrator that the Mortgage is a lien as herein covenanted. Such fees and charges may be deducted from any advance.]²³

31. The Borrower shall cause the Contractor as a condition precedent to the payment under the Agreement or the Construction Contract of any advance of the Loan with respect to construction work, to submit to the Administrator (1) with each application for advance prior to the final application, a certificate or certificates executed by him and in form approved by the Administrator, certifying that all laborers and mechanics employed in the construction of the Project whose work is covered by this or any previous application and who have been paid in whole or in part on account of said employment, have been paid at a rate not less than the rate of wages prevailing in the locality in which the work was performed for the corresponding classes of laborers and mechanics employed on construction of a similar character, as determined by the Secretary of Labor

²² For use in New York only, in which State the affidavit required by Section 22 of the Lien Law must be added.

²³ *Ibid.*

OWNER'S CONCURRENCE AND APPLICATION FOR ADVANCE

with respect to this Project, and (2) with the final application for advance, a certificate or certificates in form satisfactory to the Administrator, certifying that the Project has been fully constructed in accordance with the provisions of the Construction Contract and that all laborers and mechanics employed in the construction of the completed Project have been paid not less than the wages prevailing in the locality in which the work was performed for the corresponding classes of laborers and mechanics employed on construction of a similar character, as determined by the Secretary of Labor with respect to this Project.

IN WITNESS WHEREOF, the undersigned parties hereto have caused these presents to be executed and their seals to be affixed on the day and year first above mentioned.

(To be appropriately executed and acknowledged.)

EXHIBIT A (DESCRIPTION OF PREMISES)

EXHIBIT B

(Payment Breakdown must coincide with Breakdown attached to Construction Contract. If "guaranteed upset price" construction contract is used, this Exhibit and reference thereto in the Building Loan Agreement must be omitted.)

FORM III-B

OWNER'S CONCURRENCE AND APPLICATION FOR ADVANCE

(To be attached by the borrower, in duplicate, to the contractor's monthly application and forwarded to the Administrator for the purpose of obtaining approval of and advance out of mortgage money)

-----, a corporation duly organized and existing under the laws of the State of -----, designated as the Owner in the Construction Contract pursuant to which the attached Application has been submitted to it by the Contractor, hereby expressly concurs in said attached Application and does by the execution of these presents by its duly authorized representative, make and declare said Application to be its own as if expressly written and executed by its officers, and submits same to the Lender and Administrator hereinafter mentioned, for the purpose of obtaining an advance under a certain Building Loan Agreement dated as of the ----- day of -----, 194., by and between it as Borrower, ----- as Lender, and Federal Housing Administrator as Insurer.

The said Borrower covenants and agrees that it will receive the funds applied for as a trust fund to be applied first for the purpose of paying the cost of the Improvement in accordance with said Building Loan Agreement, and further covenants and agrees that it will apply the same first to the payment of the cost of the Improvement before using any part of the total of the same for any other purpose.

The said Borrower represents:

(a) That the sum of money requested in the Application is now payable to the Borrower pursuant to the terms of said Building Loan Agreement.

(b) That the Improvement so far as constructed, installed and erected is entirely upon the land covered by the Mortgage mentioned in said Building Loan Agreement and within the building restriction lines, if any, on said land, and does not overhang or encroach upon any easement or right of way of others or upon any land not covered by said Mortgage or beyond said building restriction lines, if any, (except as may be provided in the said Building Loan Agreement). Unless

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specifically waived in writing by the Lender and the Administrator there is attached hereto and made a part of said Application a survey of the project addressed to the Lender and the Administrator and duly certified and acknowledged by _____, a registered surveyor, certifying to the facts represented in the foregoing sentence.

(c) That all acknowledgments of payment for the period covered by the last previous monthly application, if required under the said Building Loan Agreement, have been submitted to the Lender and the Administrator.

(d) That all policies of insurance, including title insurance, required under said Building Loan Agreement are in force and effect at the date hereof and that the same have been extended to cover any sums received by the Borrower pursuant to the last previous monthly application.

This concurrence does not extend to the Contractor's Certificate with respect to payment of prevailing wages.

(To be appropriately executed and acknowledged.)

FORM IV-A

CONSTRUCTION CONTRACT—"LUMP SUM"

THIS AGREEMENT made the _____ day of _____, 19____, by and between _____ (hereinafter called the "Contractor"), and _____ (hereinafter called the "Owner") WITNESSETH, that the Contractor and the Owner for the consideration hereinafter named agree as follows:

Article 1—Scope of Work

The Contractor shall furnish all of the materials and perform all of the work shown on the Drawings numbered _____ and in the Specifications, the pages of which are numbered _____, which said specifications include the General Conditions of the Contract consisting of Articles one to _____ of the standard form, current edition, of the "American Institute of Architects" (except as specifically modified in said specifications). If anything in the said General Conditions is inconsistent with this instrument, this instrument shall govern.

The said documents have been prepared by _____ therein and hereinafter called the Architect.

A master set of said Drawings and Specifications entitled "Drawings and Specifications of _____ A Rental Housing Project", identified by the Federal Housing Administrator (hereinafter referred to as the "Administrator") and by other parties, shall be placed on file with the Administrator, and when so filed shall govern (except as herein modified) in all matters which may arise with respect to such Drawings and Specifications and General Conditions, and the provisions thereof.

Article 2—Time of Completion

The work to be performed under this Contract shall be commenced within _____ days from the date of this Agreement, and shall be completed to the satisfaction of the Architect and the Administrator within _____ months from the beginning.

CONSTRUCTION CONTRACT

Article 3—The Contract Sum

The Owner shall pay the Contractor for the performance of the Contract, subject to additions and deductions provided herein (on account of construction the sum of \$_____ cash and _____ shares of the _____ stock of the Owner, and in addition thereto, as a fee, \$_____ cash and _____ shares of the _____ stock of the Owner).¹ By the execution and delivery of this Agreement the Contractor hereby subscribes for the said shares and agrees that services to be rendered by the Contractor hereunder, when finally completed to the satisfaction of the Administrator, shall constitute payment therefor: *Provided, however,* That in no event shall the Owner be liable to deliver any of said shares to the Contractor nor shall the Contractor be entitled to exercise any rights as a holder of said shares, until final payment is due and payable as herein set forth.

[The sum of \$_____ shall include an item of \$_____ to be known as the "Contingency Fund" to be applied for work and material which the Contractor is not obligated to furnish hereunder. Such work and material shall be furnished by the Contractor only on the order of the Owner, with the consent in writing of the Architect and the Federal Housing Administrator, and when so authorized and approved shall be deemed to be a part of the Drawings and Specifications. The cash Contract Sum shall be reduced by any portion of the said Contingency Fund not expended for such purposes.]² Such work and material furnished without the written consent of the Administrator shall be deemed to have been furnished voluntarily by the Contractor at his own expense and shall not constitute a lien or charge upon the property.

The above Contract Sum includes an item for landscaping as set forth in Exhibit A hereto attached. The cash Contract Sum shall be reduced by any portion of the amount of said item not expended for such landscaping, and such landscaping shall be done in a good and workmanlike manner to the satisfaction of the Administrator.

Article 4—Schedule of Payments

The Owner shall make payments on account of this Contract (other than the stock payment, if any, above provided for), on or about the 10th day of each month, beginning with the 10th day of the first month following the execution of these presents, in cash or current funds, computed in accordance with the provisions of the next succeeding paragraph hereof.

Applications for payments are to be made by the Contractor to the Owner, approved by the Architect, with the Owner's concurrence thereto attached, for a sum of money representing (a) according to this Schedule of Payments and Exhibit A entitled "Payment Breakdown" hereto attached and made a part hereof, the value of all work and materials furnished to the date of the application with respect to the entire Project, and (b) that amount on account of the Contractor's cash fee which bears to the aggregate Contractors' cash fee, the same proportion as the value of work and materials furnished to such date bears to the aggregate value of work and materials to be furnished by the Contractor. Cash Payments on account of any such application shall be the sum of the "amounts payable" computed as follows: (1) From the value, as approved by the Administrator, of work and materials furnished to the date of the application (exclusive of Contractor's cash and stock fees and Contingency Fund, if any,) there shall first be deducted [an amount which bears to such value of work and materials, the same proportion which the Contractor's construction stock bears to the

¹ Strike out such language in parenthesis as is not applicable.

² Material between the brackets must be used if there is a "Contingency Fund."

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"Value of Physical Improvements" as shown on the Breakdown, from such result shall be deducted] * a 10% holdback, and from that result there shall be deducted payments previously made hereunder, which final result shall be the "amount payable" under this subdivision; (2) From that amount which bears to the Contractor's total cash fee the same proportion which the value, as approved by the Administrator, of work and materials furnished to the date of the application (exclusive of Contractor's cash and stock fees and Contingency Fund, if any,) bears to the "Value of Physical Improvements" as shown on the Breakdown, there shall be deducted a 10% holdback, and from that result there shall be deducted payments previously made hereunder, which final result shall be the "amount payable" under this subdivision. Adjustments in payments to cover additions and deductions shall be made as approved by the Administrator. Final payment of the 10% holdback with respect to the entire Project shall be due after the approval by the Architect of the Certificate of Final Completion and thirty (30) days after the approval of the Application for Final Payment: *Provided, however,* That in any case where final payment, either with respect to the entire Project or any group, is received by the Owner as an advance of principal upon the Building Loan Agreement covering the construction work called for by this Construction Contract, the Contractor shall be entitled to any sums due it with respect to the work and materials included in the Application pursuant to which said payment was made. In the event that the day herein specified upon which Application for Payment is to be made, or approval thereof is to be given, or delivery or transmission of the Application is to be made, or notice to be given, or an advance is to be made, shall fall on a Sunday or legal holiday, then and in such event, application, approval, delivery, transmission, notice or an advance may be made or given, as the case may be, on the day next succeeding such Sunday or legal holiday.

The Contractor shall submit to the Owner on or about the first day of each month in which any payment is requested to be made as of the 10th day thereof, in duplicate original, an Application in form as set forth in Exhibit "B" attached hereto and made a part hereof, with the certificate of the Architect attached thereto, and shall at the same time, (a) submit to the Administrator at-----, a triplicate original of said Application with the certificate of the Architect attached thereto, and (b) notify the Lender of the amount requested in such Application; and the Contractor shall only be entitled to payment in the amount approved by the Administrator with respect to said Application: *Provided, however,* That any such Application shall be deemed approved unless the Administrator shall within five days after the receipt thereof reject said Application in whole or in part for noncompliance by the Contractor with this Agreement or with the Drawings and Specifications hereinabove made a part hereof.

Article 5—Cessation of Work

The Contractor understands that the work herein provided to be done is to be financed by a building loan, the terms of which are set forth in a Building Loan Agreement between the Owner as Borrower, ----- as Lender, and the Administrator as Insurer of the Mortgage securing said building loan. The Contractor, in the event of the failure of the Owner to perform its obligations to the Lender under said Building Loan Agreement, shall, upon receipt of written notice from the Lender and the Administrator that they have elected not to proceed with the work, immediately cease performance of this Construction Contract and all its obligations hereunder, and this Contract shall terminate upon receipt by the said Contractor of said notice. In such event, provided it

* Delete language in brackets if no construction stock is to be paid.

CONSTRUCTION CONTRACT

is not in default under this Construction Contract, it may within fifteen (15) days after receipt of such notice submit directly to the administrator an Application for advances to pay claims for work done and materials furnished up to the time such written notice was received by the Contractor as aforesaid, and the Contractor shall be entitled to receive such amount as may be approved by the Administrator and the Lender to be paid to the Contractor as and for the value of such work and materials.

Article 6—The Contract Documents

The Drawings and Specifications, including the General Conditions from the contract, together with this Agreement and exhibits hereto attached and all of said documents are as fully a part of the Contract as if hereto attached or herein repeated.

Article 7

Anything to the contrary notwithstanding, it is agreed by and between the parties hereto that whenever any statements, documents or data of any sort, nature or description are required under this Agreement to be submitted to the Architect, or Owner, or both, duplicates of such statements, documents or data shall likewise be submitted to the Administrator acting under the National Housing Act, as amended, or his duly constituted representative, unless the Administrator shall in writing advise the Contractor and the Architect that any of such statements, documents or data, in any particular instance or instances need not be submitted to him. It is further agreed by and between the parties hereto, that whenever it is provided in this Agreement that the approval of, or the certificate of order from the Architect shall be received either as a condition precedent to any action being taken or not taken, as the case may be, or as a prerequisite to the exercise by the parties hereto of any right or rights hereunder, including the right to receive payment under this Agreement, such approval and such certificate or order shall, before being effective, be accompanied by the written approval of the Administrator, or his duly authorized representative, unless the Administrator shall in writing advise the Owner, the Contractor and the Architect that any of such approvals, certificates or order in any particular instance or instances need not receive his written approval: *Provided*, That such approval or disapproval, as the case may be, or written statement to the effect that such approval shall not be required, shall be given by the Federal Housing Administrator not more than five (5) days after the date when the Architect's approval, certificate or order is submitted to him.

Article 8

It is understood and agreed that the Administrator shall be Arbitrator in respect to any question referred to in Article 40 of the General Conditions, and that only in the event the said Administrator refuses to become Arbitrator as to any question shall an Arbitrator be appointed by the parties therein set forth.

Article 9—Waiver of Mechanics' Lien⁴

The Contractor hereby specifically agrees that no mechanics' lien or other claim or claims shall be filed or maintained by it against the said buildings and improvements and real estate appurtenant thereto for or on account of any work or labor done or material furnished under this Contract or otherwise for, towards, in or about the erection and construction of the said buildings and improvements.

⁴ Mechanics' liens must, except with approval of the Administrator, be waived where possible under the law of the State where the construction is to be performed. This provision may be appropriately varied to accord with such law.

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Article 10—Receipts and Releases of Lien

The Contractor will obtain and attach to each monthly application acknowledgments of payment down to the date covered by the last advance, from all subcontractors and materialmen dealing directly with the Contractor.

Concurrently with final payment for the entire Project according to the Payment Breakdown the Contractor shall obtain in duplicate an affidavit and releases of lien, in the form required under the lien law of the State wherein the premises are situated. Said releases of lien shall cover all work, labor, and materials including equipment and fixtures of all kinds done or performed for or furnished to the Borrower, the Contractor, subcontractors, and materialmen. The Contractor shall execute the affidavit accompanying such releases of lien in such form as may be required by the Administrator.

Article 11—Surety Bond

The Contractor shall furnish at its own expense a surety bond in the penal sum of \$....., guaranteeing the performance of this Contract and in form and executed by sureties satisfactory to the Administrator, which shall be delivered before any application for an advance is made.

Article 12

The Contractor agrees not to assign this Contract or any amount payable hereunder or to sublet the whole or substantially the whole of this Contract except with the prior written consent of the Owner and the Federal Housing Administrator. The Contractor also agrees to disclose to the Lender and the Administrator the names of all persons with whom it has contracted or intends to contract or hereafter contracts with respect to work and materials required to be furnished hereunder.

Article 13

The Contractor (1) understands that the wages to be paid laborers and mechanics employed in the construction of the Project are required by the provisions of Section 212 (a) of the National Housing Act, as amended, to be not less than the wages prevailing in the locality in which the work was performed for corresponding classes of laborers and mechanics employed on construction of a similar character, as determined by the Secretary of Labor with respect to this Project, and (2) hereby states that he has read the aforesaid determination by the Secretary of Labor and is fully familiar with the same.

The Contractor agrees as a condition precedent to the payment to him of any advance hereunder to submit to the Administrator (1) with each application for advance prior to the final application, a certificate or certificates executed by him and in form approved by the Administrator, certifying that all laborers and mechanics employed in the construction of the Project whose work is covered by this or any previous application and who have been paid in whole or in part on account of said employment, have been paid at a rate not less than the rate of wages prevailing in the locality in which the work was performed for the corresponding classes of laborers and mechanics employed on construction of a similar character, as determined by the Secretary of Labor with respect to this Project, and (2) with the final application for advance, a certificate or certificates in form satisfactory to the Administrator, certifying that the Project has been fully constructed in accordance with the provisions of this contract and that all laborers and mechanics employed in the construction of the completed Project have been paid not less than the wages prevailing in the locality in which the work was performed for the corresponding classes of laborers and mechanics

CONTRACTOR'S APPLICATION

employed on construction of similar character, as determined by the Secretary of Labor with respect to this Project.

Article 14

Notwithstanding any other provision of this Agreement or the Specifications which form a part hereof, the Contractor shall furnish at its own expense all building and other permits, licenses, tools, equipment, temporary structures, and water necessary for the construction of the Project as required hereunder, and surveys by a duly registered engineer with each application (unless specifically waived in writing by the Administrator) showing that the Project is installed and erected entirely upon the land covered by the Mortgage and within the building restriction lines, if any, on said land, and does not encroach or overhang upon any easement or right of way of others.

(To be appropriately executed and acknowledged.)

EXHIBIT A (PAYMENT BREAKDOWN)

EXHIBIT B (CONTRACTOR'S APPLICATION)

EXHIBIT B

(FORM IV-B)

CONTRACTOR'S APPLICATION

(The original and three copies of each application shall be submitted by the contractor to the owner, and an additional copy to the Administrator, all with the architect's approval endorsed thereon, as provided in the construction contract, before the contractor shall be entitled to payment)

....., the Contractor and Builder of that certain improvement known as as described in a certain Construction Contract, dated as of the day of 19.., and in the Drawings and Specifications made a part of said Contract, hereby submits to (Owner) and to (Architect) its Application for Payment according to the Schedule of Payments provided in said Construction Contract and Exhibit A forming a part thereof (and, upon approval of this Application by the Architect by his Certificate of Payment, shall forthwith forward one copy hereof with the Architect's certificate, to the Federal Housing Administrator at..... for his approval in accordance with said Construction Contract) for all work done in and on the construction, installation, and erection of the improvement during the preceding calendar month and for all materials actually put in place on the improvement or either reasonably required in the progress of the work and suitably stored at the site, and shows unto said Owner the following facts, to wit:

1. That a total sum of \$..... is now payable pursuant to the terms of said Construction Contract and that the said sum consists of

(a) The sum of \$..... representing the proper percentage (90%) according to said Schedule of Payments of the work actually done on the improvement or materials actually put in place in the erection, installation or construction of the improvement since the last application, or reasonably required in the progress of the work and suitably stored on the site and intended for use thereon but not yet incorporated in the work.

(b) The sum of \$..... representing the proper percentage (90%) according to said Schedule of Payments of the Contractor's fixed cash fee.

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(c) The sum of \$..... representing final payment, with respect to any completed group.

2. Attached hereto as Schedule A and made a part of this Application is an itemized list according to trades showing the amount of money applied for in respect thereto and the percentage of work by trades which the sums so applied for respectively represent according to said Schedule of Payments.

3. That the work is progressing in conformity with the Drawings and Specifications, and that said Drawings and Specifications have been approved by all public authorities having jurisdiction over the construction of the Improvement, and that all licenses and permits necessary under the circumstances as set forth and itemized in Schedule B hereto attached and made a part of this Application, have been obtained; and that the Project as far as erected, constructed, or installed is in conformity with and does not violate any applicable law, rule, regulation or ordinance.

4. That all materials now to be paid for are properly furnished or installed, or are suitably stored at the site.

5. That such work and materials have not previously been made the basis for any payment under said Construction Contract.

6. The undersigned hereby certifies that all laborers and mechanics employed in the construction of the Project whose work is covered by this or any previous application and who have been paid in whole or in part on account of said employment, have been paid at a rate not less than the rate of wages prevailing in the locality in which the work was performed for the corresponding classes of laborers and mechanics employed on construction of a similar character, as determined by the Secretary of Labor with respect to this Project.

[6. The undersigned hereby certifies that the Project has been fully constructed in accordance with the provisions of said Construction Contract and that all laborers and mechanics employed in the construction of the completed Project have been paid not less than the wages prevailing in the locality in which the work was performed for the corresponding classes of laborers and mechanics employed on construction of a similar character, as determined by the Secretary of Labor with respect to this Project.]¹

7. That this Application and the statements and representations made herein are for the purpose of requesting the Administrator to approve for payment the sum herein applied for and for the additional purpose of enabling the Owner to obtain an advance from as Lender under a certain Building Loan Agreement and Mortgage between the Owner as Borrower and said Lender, which said Mortgage is insured by the Administrator under the provisions of the National Housing Act, and with the knowledge that such statements and representations will be transmitted to the Lender and the Administrator and relied upon by said Lender in advancing to the Owner a sum of money and by the Administrator in issuing insurance thereon.

(To be appropriately executed and acknowledged.)

¹ This paragraph shall be used in the final Application for payment in lieu of the preceding paragraph numbered 6.

ADMINISTRATOR'S STOCK LETTER

FORM V

LETTER WITH RESPECT TO ADMINISTRATOR'S STOCK

FEDERAL HOUSING ADMINISTRATION,
Washington, D. C.

Date -----

GENTLEMEN: Enclosed herewith is the executed voucher dated -----, in the amount of \$----- covering the subscription of the Federal Housing Administrator to all of the ----- authorized shares of the preferred stock of this Corporation.

We represent and warrant to you that payment of such voucher will constitute payment in full for all shares of such preferred stock and that your name has been entered on the stock ledger of this Corporation as the owner and holder of said stock. You are hereby declared to be a stockholder in this Corporation with authority to exercise all rights incident to the ownership of the aforesaid shares of preferred stock.

Very truly yours,

HOUSING CORPORATION,
By -----

FORM VI

APPLICATION FOR WITHDRAWAL FROM SPECIAL ACCOUNT

----- SPECIAL ACCOUNT

To The Federal Housing Administrator:

----- herewith applies to you for approval of the below enumerated withdrawals against its Special Account in the ----- Bank, City of ----- and State of -----, pursuant to the provisions of ----- a certain Building Loan Agreement dated as of -----, 194--, by and between the undersigned as Borrower, ----- as Lender, and yourself as Administrator.

We herewith represent and warrant to you that the invoices and statements attached hereto upon which this application is based, represent an amount due the stated creditors of this corporation on account of services actually rendered to or indebtedness actually incurred by the corporation with respect to the said items; that each such amount is a reasonable sum in payment of said items; that after making the said payments there will be no balance remaining unpaid to any of the said creditors except as herein specifically stated; and that said items are to be charged as indicated against the amounts allocated in the said Building Loan Agreement:

Amount Applied for -----

Name of Creditor -----

Balance Due After This Payment -----

Nature of Indebtedness To Be Charged -----

(To be appropriately executed and acknowledged.)

List separately each item included in this application.

MODEL LEGAL FORMS—LARGE SCALE PROJECTS

FORM VII

COMPLETION ASSURANCE AGREEMENT¹

THIS AGREEMENT, made the _____ day of _____, 19____, by and between _____ a _____ corporation having an office at _____ (hereinafter called the Contractor), _____ a _____ corporation having its principal office at _____ (hereinafter called the Owner), [_____, a corporation organized under the laws of the State of _____ (hereinafter called the Lender)]², FEDERAL HOUSING ADMINISTRATOR, acting under authority granted him by law, and whose office is in Washington, D. C. (hereinafter called the Administrator), and _____ a corporation incorporated under the Banking Laws of the _____ having its principal office in the _____ (hereinafter called the Depository).³

WITNESSETH:

WHEREAS, the Contractor and Owner have by a certain agreement executed under even date herewith (hereinafter called the Construction Contract) provided for the construction upon certain premises of the Owner of a Housing Project, more particularly identified in said Construction Contract, to be partially financed by a _____ secured by a _____ (hereinafter called the Mortgage) in the sum of _____ securing funds of like amount to be advanced by the _____ which Mortgage is to be insured by the Administrator under the provisions of the National Housing Act, as amended; and

WHEREAS [the Lender is unwilling to make advances of mortgage money, and],³ the Administrator is unwilling to issue his Insurance Contract with respect to such advances unless the Contractor shall first give certain assurances to the extent of the sum hereinafter provided for, to the Owner, [the Lender]² and the Administrator (a) for the proper performance of the obligations assumed under said Construction Contract; (b) the completion of said Project in accordance with the Drawings and Specifications referred to in said Construction Contract, free and clear of any liens, claims, or encumbrances whatsoever, except the lien of the Mortgage; and (c) the satisfaction of any loss, damage, or expense which the Owner [the Lender], or the Administrator, as the case may be, may suffer or sustain as the result of any default of the Contractor under said Construction Contract;

Now, THEREFORE, in consideration of the mutual promises and undertakings hereinafter contained, the parties hereto, on behalf of themselves, their successors or assigns respectively, undertake and agree that:

1. The Contractor shall forthwith deposit or cause to be deposited with the Depository a fund of _____ in cash to secure or indemnify the Owner [the Lender], or the Administrator, as the case may be, for any expenses, loss or damage suffered or sustained as the result of any default by the Contractor in the performance of the Construction Contract.

2. The Depository shall receive said fund, and shall disburse the same, including accrued interest thereon, if any, when directed to do so by the Administrator to the Contractor or party making such deposit, the Owner [the Lender], or the

¹ This form is suggested for use in cases where the Contractor furnishes a deposit of cash or approved securities in lieu of a Surety Bond. It should be adapted to suit the individual case or applicable laws.

² If the Lender does not wish to be made a party to this agreement, the material in brackets should be eliminated.

COMPLETION ASSURANCE AGREEMENT

Administrator, as the case may be, at such time or times and in such amount or amounts as follows:

(a) To the Contractor during the course of construction of said Project upon prior written approval and instructions of the Administrator.

(b) The entire sum or such portion thereof then remaining on deposit to the Contractor, including accrued interest thereon, if any, upon the completion of the entire Project and the acceptance thereof by the Administrator: Provided, however, That there shall first be exhibited to the Depository prior to any such payment a Certificate of Completion and satisfactory evidence of the approval by the -----¹ of final application for payment.

(c) In the event of a default by the Contractor under the Construction Contract, the Administrator shall notify the Depository:

(i) That the Contractor has received written notice from the Owner or the Administrator that a default has occurred under said Contract; and

(ii) That the Contractor has failed and neglected to cure said default within seven days after the receipt of such notice.

(d) When and if the Depository shall have received any such notice as provided for in Paragraph 2 (c) hereof, the Depository shall:

(i) Forthwith pay to the Owner [the Lender], or the Administrator, said fund as directed by the Administrator; and upon making such payment the Depository shall be relieved from any and all further liability and responsibility whatsoever under this Agreement.

3. Whenever the Depository shall be directed in accordance with the terms and conditions of this Agreement to make payment of all or any part of said fund, the Depository shall make such payment in cash or by Cashier's Check.

4. All of the terms and conditions in any way affecting the rights and duties of the Depository are expressed herein, and it is agreed that the Depository is not familiar with and shall in no event be charged with knowledge of any of the provisions of said Construction Contract, or of the Drawings and Specifications attached to said Construction Contract, or of the Breakdown schedule thereto attached, or of any other agreement or instrument whatsoever other than this Agreement, and other than any letter, notice, instruction, direction, designation, request, consent, certificate or other instrument as may from time to time be given, delivered or transmitted to it pursuant to the express provisions hereof. The recitals herein contained are made solely by the Contractor, the Owner, and the Administrator and not by the Depository; and the Depository shall incur no liability hereunder or in connection herewith for anything whatsoever other than its own wilful default or gross negligence.

5. It is agreed by and between the Contractor, the Owner [the Lender], and the Administrator as follows:

(a) Any sum delivered or transmitted to the Administrator pursuant to Paragraph 2 hereof shall be held by him to indemnify him [, the Lender] and the Owner, as the case may be, for any loss, damage or expense whatsoever which they may suffer by reason of the Contractor's failure to properly perform said Construction Contract. Any claim for such loss, damage or expense shall be substantiated by evidence satisfactory to the Administrator who shall be the sole arbiter with respect to the extent of the loss, damage or expense so claimed.

(b) If the Owner [the Lender], or the Administrator shall undertake completion of said work in the event of the default of the Contractor, the whole or any portion of said sum, including accrued interest thereon, if any, shall be applied by the Administrator on account of any loss, damage, expense, bills, claims or charges whatsoever, in connection with said construction or for any purpose

¹ Insert name of the Lender.

MODEL LEGAL FORMS—LARGE SCALE PROJECTS

deemed by him to be proper to complete said construction and fully equip the premises in accordance with said Construction Contract and the Drawings and Specifications referred to therein (which Drawings and Specifications are deemed a part of said Construction Contract as if fully set forth therein); and

(c) In the event that neither the Owner [the Lender], nor the Administrator shall undertake to complete the Project, then the sum shall be delivered or transmitted by the Depositary to the Administrator, to be held by him for the purposes enumerated in subparagraph (a) above; and

(d) It is expressly understood and agreed that the deposit of the sum provided for herein shall in no wise alter or limit the obligation and liability of the Contractor under the Construction Contract and/or of the Owner under a certain Building Loan Agreement, both executed under even date herewith, but shall be deemed to be merely additional security for the performance by the Contractor and the Owner of their obligations thereunder; and

(e) It is expressly understood and agreed that the liability of the Contractor or party making the deposit herein, under and by virtue of this Agreement, shall be limited in any event to the amount of said deposited sum; and

(f) It is further agreed that the provisions of this Paragraph 5 constitute agreements made solely by and between the Contractor, the Owner [the Lender] and the Administrator, and that the Depositary is not charged with any duty or responsibility to see to the performance of or compliance with any of such agreements by any of such parties, nor to see to the proper application or disbursement of the money so paid by it to the Administrator.

6. The Contractor is to pay the Depositary the sum of \$----- for its services to be rendered hereunder.

(To be appropriately executed and acknowledged.)

FORM VIII

CONTRACT OF MORTGAGE INSURANCE UNDER SECTION 207 OF TITLE II OF THE NATIONAL HOUSING ACT AND REGULATIONS THEREUNDER

Mortgage amount, \$-----

RH No. -----

By the EXECUTION of these presents the Administrator insures (but only to the extent of such advances as may be made by the Mortgagee with the written approval of the Administrator) a certain ----- (hereinafter referred to as the "Mortgage") dated -----, 19--, executed by ----- as Mortgagor, in favor of ----- as Mortgagee, covering certain real property situated in the City of -----, County of -----, and State of -----, as more particularly described in said Mortgage, given to secure a certain credit instrument evidencing a loan by the said Mortgagee to the said Mortgagor in the principal sum of \$-----, and the Mortgagee accepts this Contract, all subject to the conditions set forth below and to the "Large Scale Regulations of the Federal Housing Administrator under Section 207 of the National Housing Act," herein referred to as the "Regulations," and by reference made a part hereof.

(1) The Mortgagee hereby acknowledges receipt of this Contract as of the date of execution hereof.

(2) The Mortgagee shall pay to the Administrator, upon delivery of this Contract, the first interim premium charge of \$-----, and thereafter shall pay premium charges at the times and in amounts as provided in Paragraph I of Article III of the Regulations.

CONTRACT OF MORTGAGE INSURANCE

(3) Subject to the provisions of Paragraph 2 of Article III of the Regulations, the Mortgagee shall pay to the Administrator an adjusted premium charge of 2% of the original face amount of the Mortgage if the Mortgage is prepaid within five years from the date thereof, and an adjusted premium charge of 1% of the original face amount of the Mortgage if the Mortgage is prepaid after such five-year period.

(4) Any payment or transfer of funds to the Administrator, unless made in cash, is subject to final collection.

(5) A period of ninety (90) days is granted within which the Mortgagee shall give notice in writing pursuant to Paragraph 1 (b) of Article V of the Regulations.

(6) A period of ninety (90) days from the date notice in writing is given to the Administrator pursuant to 5 above, is granted within which the Mortgagee shall take the action required under subdivisions (1) and (2) of Paragraph 1 (b) of Article V of the Regulations.

(7) The Administrator has determined that marketable title to the mortgaged property is vested in the Mortgagor as of the date the Mortgage is filed for record, and such title will be accepted as satisfactory for conveyance to the Administrator by deed as provided in Paragraph 3 of Article V of the Regulations, if free and clear of all liens and encumbrances which may have attached, or defects which may have arisen, subsequent to such date (except such liens or other matters as may be approved by the Administrator): *Provided, however,* That the Administrator will not object to the title because of mechanics' liens excepted from the title evidence as unfiled at the date of the recording of the Mortgage or of any advance thereunder if such advances are disbursed with the approval of the Administrator and the certificate of a title insurer or title attorney, who is satisfactory to the Administrator, be obtained to the effect that, as of the date of each such advance, no lien appeared of record and the title policy or title opinion had been extended accordingly.

(8) Notwithstanding any other provision hereof this Contract of Insurance shall become effective only on and after the date the Mortgage is filed for record (which date is herein referred to as the effective date of this Contract of Insurance): *Provided, however,* That no advance made by the Mortgagee on account of principal of the Mortgage shall be insured under this Contract prior to the receipt by the Administrator of a mortgagee's policy of title insurance or of an abstract of title and attorney's opinion covering the date the Mortgage is filed for record.

(9) The Mortgage insured hereby may be assigned only as provided in Article VI of the Regulations.

(10) Debentures issued by the Administrator under this Contract pursuant to Article V of the Regulations shall bear interest at the rate of two and three-quarters per centum (2¾%) per annum, payable semi-annually on the first day of January and the first day of July of each year.

(11)-----

IN WITNESS WHEREOF the parties hereto have duly executed these presents this _____ day of _____, 19____.

(A copy of the Regulations is printed in full on the reverse side of the Contract Form. The Contract will, of course, be appropriately executed on behalf of the Mortgagee and on behalf of the Administrator.)

MODEL LEGAL FORMS—LARGE SCALE PROJECTS

FORM IX

ARCHITECT'S AGREEMENT

No particular form of Architect's Agreement is required, but the use of the standard form of the American Institute of Architects is suggested. Appropriate wording must be included so that a fixed fee is definitely established. The following amendments must be made if the A. I. A. form of agreement (fifth edition) is used:

1. Paragraph 2 must be stricken unless provision is made for the payment of the items therein enumerated.
2. Paragraph 3 must be stricken.
3. Paragraph 5 must be made applicable to the cash to be paid the Architect.
4. If stock is to be paid as a part of the consideration, a provision must be inserted requiring said stock to be paid upon completion of the project to the satisfaction of the Administrator and the Owner.
5. Paragraph 7 provides for the employment of a clerk-of-the-works. If it is found necessary to employ such a clerk, provision must be made for this expense. However, the supervision of the Architect is generally sufficient.

The following provisions shall be inserted in each Architect's Agreement:

"Notwithstanding any other provision hereof, if the work for which the Drawings and Specifications are executed has not been completed and there is a default or foreclosure under the mortgage insured by the Federal Housing Administrator, the Administrator or the mortgagee, or both, and their successors and assigns are authorized to use said Drawings and Specifications to complete construction of said project without additional cost therefor.

"Certificates of Payment shall be issued by the Architect from time to time as required under the Construction Contract. Said certificate shall be in the form prescribed by the Federal Housing Administrator and shall state, among other things, that it is based upon personal inspection of the project by the Architect or his representative, who shall be a registered Architect. The name of said representative shall be indicated if the inspection and check is not made by the Architect."

APPENDIX B

MODEL FORMS OF LEGAL INSTRUMENTS FOR USE IN SMALL SCALE RENTAL HOUSING PROJECTS UNDER SECTION 207

INDEX

Certificate of Incorporation (Mortgage Not in excess of \$100,000).....	Form XV.
Regulatory Agreement.....	Form XVI.
Mortgagee's Certificate.....	Form XVII.
Mortgagor's Certificate.....	Form XVIII.
Application for Insurance of Progress Advance.....	Form XIX.
Application for Insurance of Final Advance.....	Form XX.
Request for Final Endorsement of Credit Instrument.....	Form XXI.

The Note and Mortgage (or other security form) are not contained herein but may be obtained from FHA offices in the state in which the project is located.

FORM XV

CERTIFICATE OF INCORPORATION

[Mortgage not in excess of \$100,000]

In cases in which the original mortgage does not exceed \$100,000 the following provisions, in addition to such other provisions (not in conflict therewith) as are appropriate, shall be included in the Certificate of Incorporation:

1. The purposes for which the Corporation is formed and the business or objects to be carried on or promoted by it are as follows:

(a) To create hereby a private corporation to provide housing for rent or sale and to acquire, by purchase or otherwise, any real estate, improved or unimproved, or any interest therein or rights, fixtures, easements or privileges appertaining or appurtenant thereto, and any and all personal property, necessary, suitable, proper or convenient for, in connection with, or incidental to, the accomplishment of the purposes of the Corporation.

(b) To hold, develop, improve, and operate, and to sell, convey, assign, mortgage, lease (with or without the privilege of purchase), transfer, or otherwise dispose of, any and all improved or unimproved real estate, and any and all personal property which it may now hold or hereafter acquire.

(c) To borrow money, to issue bonds, debentures, notes and other evidences of indebtedness in furtherance of any or all of the objects of its business; to secure the same by mortgage, deed of trust, pledge or other lien upon any or all of the property, rights, privileges, or franchises of the Corporation wheresoever situated.

(d) To apply for and obtain or cause to be obtained from the Federal Housing Administrator and/or the Federal Housing Administration, pursuant to the provisions of the National Housing Act, as amended, a Contract or Contracts of Mortgage Insurance covering bonds, notes, and other evidences of indebtedness

PROCEDURE SUBSEQUENT TO COMMITMENT

issued by the Corporation and any indenture of mortgage or deed of trust executed by the Corporation securing the payment thereof.

(e) To enter into, perform, and carry out contracts of any kind necessary to, proper or convenient for, or in connection with, or suitable or incidental to, the accomplishment of any one or more of the purposes or objects herein enumerated or described, including a contract with said Administrator for the regulation or restriction of the Corporation as to rents, charges, capital structure, rate of return and methods of operation.

2. The total amount of the authorized capital stock of the Corporation is ----- shares (having a par value of \$----- per share) (without nominal or par value),¹ which shall be designated "Common Stock."²

3. The holders of the Common Stock shall be entitled to receive, when and as declared by the Board of Directors, out of the net earnings or earned surplus of the Corporation, legally available for dividends, after proper provision for reserves as hereinafter provided, non-cumulative dividends which shall not exceed in the aggregate \$-----³ of the net earnings in any fiscal year; except that in any fiscal year after provision shall have been made for the full reserves below required and if the principal of any insured mortgage upon the property of the Corporation shall, in addition to reserve allocations be prepaid in an amount equal to at least one-half required interest and principal payments for the first amortization year, additional dividends not in excess of \$----- in the aggregate may be paid out of net earnings.

4. Anything to the contrary notwithstanding, no dividends shall be paid upon any of the capital stock of the Corporation until all amortization payments due under any mortgage insured by the Federal Housing Administrator have been paid, including amortization payments permitted by the terms of the mortgage to be waived as a result of prepayments theretofore made, and until a cash fund is provided and reserves are first established and maintained as set forth below:

(a) A cash fund on hand or in a safe and responsible depository in at least the sum of \$----- in excess of allocations then required to be made to reserves below provided and the dividends then to be paid.

(b) A reserve fund for replacements of \$----- per annum by equal monthly allocations to such reserve fund in a separate account in a safe and responsible depository, commencing on the 15th day of the second full calendar month after the completion for occupancy of any Housing Project of the Corporation subject to a mortgage insured by the Federal Housing Administrator. Such fund shall be maintained in such account in cash or invested in obligations of, or fully guaranteed as to principal and interest by, the United States of America, or may be used to anticipate payments next accruing on any mortgage upon the property of the Corporation insured by the Federal Housing Administrator. Disbursements from such fund may be made only upon the direction of, and for the purposes specified by, the Board of Directors.

(c) After the reserve for replacements provided for in the immediately preceding subdivision, a general reserve in the sum of \$----- Such reserve may, however, be created and set apart over a period of three years from the completion of the project ready for occupancy by the allocation to such reserve each month of one thirty-sixth ($\frac{1}{36}$) of the amount above specified commencing on the 15th day of the second full calendar month after the completion of the project for occupancy. Dividends, if otherwise payable under the provisions of this Certificate, may be paid in the period during which such reserve is being

¹ See Administrative Rules, Section IV. Subject to such Rules, the stock may be par or no par, be divided into one or more classes, and provide such preferences and priorities as Sponsors deem appropriate. Of course no provision is to be made for Administrator's stock.

² Such stock may, in the discretion of Sponsors, be designated otherwise.

³ These amounts will be the amounts fixed in the Administrator's Commitment Letter.

REGULATORY AGREEMENT

accumulated after the allocation to such reserve of twelve (12) such monthly requirements. Such fund shall be maintained in cash in a separate account in a safe and responsible depository, or may be invested in obligations of, or fully guaranteed as to principal and interest by, the United States of America, or, in the discretion of the Board of Directors, all or any part thereof may be used to anticipate payments on any mortgage upon the property of the Corporation insured by the Federal Housing Administrator. Disbursements from such fund may be made only upon the direction of, and for the purposes specified by, the Board of Directors.

5. Disbursement of all remaining funds of the Corporation, after providing for the reserves as set forth in this Certificate of Incorporation and after payment of dividends hereinbefore provided for, shall be made only upon the direction of, and for the purposes specified by, the Board of Directors.

(To be appropriately executed and acknowledged.)

FHA Form No. 2423.
(For Section 207 Small Scale
Mortgages.) (For Use When the Mortgage Does Not Exceed \$100,000.)

FORM XVI

FEDERAL HOUSING ADMINISTRATION—REGULATORY AGREEMENT

AGREEMENT dated this _____ day of _____, 19____, by
and between _____

_____ (hereinafter called the Mortgagor), a corporation duly organized and existing under the laws of _____, and having its principal office at _____ and STEWART McDONALD as Federal Housing Administrator (hereinafter called the Administrator).

WHEREAS, the Mortgagor is a private corporation organized for the purpose of rehabilitating slum or blighted areas and of providing housing, and is the owner in fee of certain premises to be operated as a Rental Housing Project and has requested _____

_____ (hereinafter referred to as Mortgagee) to lend \$_____, to be secured by a certain mortgage (hereinafter referred to as the Mortgage), in such sum constituting a first lien upon the said premises, and

WHEREAS, the Mortgagor and the Mortgagee have requested the Administrator to insure said Mortgage pursuant to Section 207 of the National Housing Act, as amended, and the Administrator's Rules and Regulations for mortgages not exceeding \$100,000, and

WHEREAS, the Mortgagee is unwilling to lend said sum to the Mortgagor without such insurance and the Administrator is unwilling and legally unauthorized to insure the Mortgage unless and until the Mortgagor shall, by entering into the covenants and agreements below set forth, consent to be regulated by the Administrator as to rents, charges, capital structure, rate of return, and methods of operation.

Now, THEREFORE, in consideration of the mutual promises hereinafter contained and the sum of One Dollar (\$1.00) and other good and valuable considerations by each party to the other in hand paid, the receipt of which is hereby acknowledged, and in order to induce the Administrator to insure the Mortgage, and in order that the Mortgagor may be regulated by the Administrator as required by said

PROCEDURE SUBSEQUENT TO COMMITMENT

Section 207, so that the Mortgage will be insured by the Administrator, the parties hereto do hereby agree as follows:

A. The Mortgagor agrees that, until such time as the Contract of Mortgage Insurance shall terminate without obligation upon the Administrator to issue debentures as a result of such termination, except with the prior written approval of the Administrator:

(1) It will not sell, assign, transfer, lease, mortgage, or otherwise dispose of or encumber, the Rental Housing Project, or any part thereof, or any real or personal property, including rents, except as is required or specifically permitted by the Mortgage, unless the vendee, assignee, transferee, or lessee thereof, as the case may be, is approved as an eligible Mortgagor by the Administrator, and assumes the obligations of this Agreement and consents to be bound thereby as fully and effectively as if it were the Mortgagor: Provided, That the Mortgagor may without such written consent rent or lease (a) dwelling accommodations to tenants solely for occupancy, and garage accommodations, for a period not exceeding one year, and (b) store accommodations for a period not exceeding three years;

(2) It will not rent any dwelling accommodations, or store space unless and until it shall have filed with, and had approved by, the Administrator, a Schedule of Rentals therefor (and such Schedule when so filed and approved shall become a part hereof as fully and effectively as if originally incorporated herein); and it will not charge for such dwelling accommodations an average rental in excess of \$..... per room per month based upon a count of rooms, or charge for any particular dwelling accommodations any rental in excess of the rental therefor as specified in such Schedule of Rentals; or rent any store space at less than a fair and reasonable rental: Provided, That the Mortgagor may charge tenants such additional amounts as may be approved in writing by the Administrator for any facilities and services furnished by the Mortgagor to such tenant, over and above the facilities and services to which such tenant may be entitled by virtue of his lease;

(3) It will not incur any liabilities, direct or contingent, exceeding in the aggregate \$2,500 at any time, or maturing more than one year from the date of the creation thereof except the indebtedness secured by the Mortgage;

(4) It will not consolidate or merge into or with any other corporation; go into voluntary liquidation or carry into effect any plan of reorganization; redeem or cancel, purchase or otherwise acquire any of its shares of stock, or effect any changes whatsoever in its capital stock or capital, or the shares thereof; alter or amend any provision of its Certificate of Incorporation or by-laws originally required by the Administrator; fail to establish and maintain the reserves mentioned in its Certificate of Incorporation;

(5) It will not make disbursements from the reserve for replacements provided for in its Certificate of Incorporation;

(6) It will not make disbursements from the general reserve fund provided for in its Certificate of Incorporation;

(7) It will not fail to maintain its accommodations and the grounds and equipment appurtenant thereto in good and substantial repair and condition or fail promptly to make or cause to be made all such repairs to any portion of the premises subject to the Mortgage as will preserve said premises in such good repair and condition and in such manner as may be necessary for the health and safety of its tenants; and it will not reconstruct or demolish any of the premises subject to the Mortgage or make any improvement or construct any structure on such premises involving an expenditure in excess of \$2,500: Provided, That in the event all or any of the buildings covered by the Mortgage shall be destroyed or damaged by fire or other casualty the Mortgagor shall reconstruct or remodel

REGULATORY AGREEMENT

said building or buildings in accordance with the original Drawings and Specifications unless any departure from the original Drawings and Specifications is authorized by the Administrator;

(8) It will not refuse to permit the Administrator to examine and inspect at any reasonable time the Mortgagor, its property, equipment, buildings, plans, offices, apparatus, devices, books, contracts, records, documents, and papers which the Administrator or his duly authorized agent shall desire to inspect and examine;

(9) It will not fail to keep and maintain its accounts, records, and books according to the uniform method prescribed by the Administrator;

(10) It will not fail to file with the Administrator semiannually on dates specified by him reports in form prescribed by the Administrator and verified by the oath of such officers of the Mortgagor as the Administrator may designate;

(11) It will not pay any compensation except for necessary services and except at such rate as is fair and reasonable in the locality for similar services; and it will not pay, except with the prior written approval of the Administrator, any compensation to the officers, directors, or stockholders of the corporation, or to any person or corporation for supervisory or managerial services, and it will not pay any compensation in excess of \$1,800 per annum to any employee except with such prior written approval; and it will not fail to file with the Administrator a schedule, to be approved by the Administrator, of compensation to be paid to its officers, and to be paid to any employee in excess of \$1,800 per annum; and upon approval of such schedule shall not fail to maintain the same without change;

(12) It will not declare or pay any dividends upon the shares of its capital stock in any fiscal year except to the following extent and under the following conditions: (a) Not in excess of \$-----, (b) except out of net earnings or earned surplus legally available for dividends, (c) until all amortization payments due under the Mortgage have been paid, including amortization payments permitted by the terms of the Mortgage to be waived as a result of prepayments theretofore made, and (d) until proper provision for reserves as provided in the Certificate of Incorporation has been made: Provided, That, notwithstanding the limitation contained in (a) above, additional dividends not in excess of \$----- in the aggregate may be paid as otherwise provided above if the principal of the Mortgage is prepaid in an amount at least equal to one-half the required interest and principal payments for the first amortization year;

(13) It will not fail to devote to the reduction of the principal amount of the Mortgage at the end of each calendar year all of its funds remaining after providing for the immediate reasonably necessary operating expenses and for the aforesaid reserves as required by its Certificate of Incorporation and after payment of dividends as hereinabove provided.

B. The Mortgagor agrees that it will not fail to observe and perform each and every one of the covenants, conditions, and provisions on its part to be observed and performed under its Certificate of Incorporation, the Mortgage, and will not fail to construct the Project in accordance with the drawings and specifications approved by the Administrator and with the Agreement with the Mortgagee, and any modifications thereof and supplements thereto.

C. It is specifically agreed between the parties hereto that the breach of any of the terms of this Agreement by the Mortgagor will substantially damage and injure the Administrator in the proper performance of his duties under the National Housing Act, and will impede and injure the proper operation intended under such Act; that such damage will be irrespective of and in addition to any damage to the security of the mortgaged premises or to any financial damage the Administrator may suffer as insurer; that, except for the agreements herein contained the Administrator would not endorse, and would not be authorized to endorse the

PROCEDURE SUBSEQUENT TO COMMITMENT

Mortgage for insurance under the provisions of Section 207 of the National Housing Act, as amended, and that the Mortgagee would not lend the sum above mentioned on the security of the said Mortgage unless the same were insured by the Administrator.

D. It is further specifically agreed that the amount of any damage ensuing by reason of a breach by the Mortgagor of any of the terms, conditions, or provisions of this Agreement will be impossible to ascertain and that the Administrator shall, in addition to any other right or remedy which he may have hereunder, have the right to resort to injunction in any Federal or State Court to restrain a breach or threatened breach of this Agreement.

E. Concurrently with the execution of this Agreement and in consideration thereof, the Administrator will endorse the Mortgage as insured under Section 207 of the National Housing Act, to the extent of advances made with his approval.

IN WITNESS WHEREOF, the undersigned parties hereto have caused these presents to be executed and their seals to be affixed on the day and year first above mentioned.

Federal Housing Administrator.

By _____

Authorized Agent.

ATTEST:

_____ Mortgagee.

By _____

(In the following space acknowledgments appropriate under the law of the Jurisdiction should be typed and duly executed for both parties.)

FHA Form No. 2434.
(For Section 207 Small Scale Mortgages).

FORM XVII

MORTGAGEE'S CERTIFICATE

(Execute in triplicate)

Project Name _____

Project No. _____

FEDERAL HOUSING ADMINISTRATOR,
Washington, D. C.

DEAR SIR: We hand you herewith a check for _____ dollars (\$ _____) covering the initial mortgage insurance premium, together with the other items called for in your Commitment dated _____, 19____, issued to us in the above captioned Project (hereinafter referred to as the "Project"), and in any extensions or amendments thereof, and we certify that all conditions thereof required to be fulfilled at this date have been fulfilled. We further certify as follows:

(1) To the best of our knowledge and belief, at this date, none of the statements made in our Application for Mortgage Insurance in the above captioned case are untrue or incorrect.

(2) We are the beneficiary under a certain instrument (hereinafter referred to as the Mortgage) dated _____, 19____, executed by _____ (hereinafter referred to as the Borrower), given to secure a credit instrument evidencing a loan by us as Lender to the Borrower in the

MORTGAGOR'S CERTIFICATE

principal sum of dollars (\$.....) which we have agreed to make on condition that it be insured by you pursuant to your Administrative Rules and Regulations for Small Scale projects under Section 207 of the National Housing Act.

(3) The agreement between us and the Borrower for the advancement of said loan is embodied in a certain written instrument (hereinafter referred to as the Building Loan Agreement) dated, 19...., two copies of which are submitted herewith, which said instrument is in substantially the form customarily employed by prudent lenders in the vicinity in which the property (herein sometimes referred to as the "site") described in said Mortgage is located and contains all provisions required by local lien laws or other statutes for the protection of the Lender's interests. The said agreement or any construction contract for the Project will be duly recorded if the effect thereof will be to relieve the Project from mechanics' and materialmen's liens which otherwise might be filed against the same and where possible the contractor will be required to waive mechanics' and materialmen's liens.

(4) There is submitted herewith a survey and preliminary title evidence for the Project. Final title evidence and all data, certificates, hazard insurance policies, and assurance of completion of construction required to be furnished to the Administrator under paragraph (9) hereof have been or will be furnished in accordance with and subject to the conditions set forth in such paragraph.

(5) Not less than five days' notice, upon a form prescribed by the Administrator, will be given to the Administrator of the amount of any proposed advance for which approval for insurance is desired.

(6) Except as provided in paragraph (7) the following charges only have been made by the undersigned for the items enumerated below and all such items have been fully paid or will be fully paid out of such charges and not out of mortgage funds:

Cost of title evidence and continuations thereof.....	\$.....
Surveys of property.....	\$.....
Cost of mortgage and stamp taxes.....	\$.....
Finance charge, if any, [not exceeding one and one-half per centum (1½%)].....	\$.....
Recording fee.....	\$.....

(7) The undersigned has collected from the Borrower the following sums for the following purposes to be held by it in trust as one fund for application to the following items as they become due under the Mortgage, and for application for such other purposes as may hereafter be agreed to by us and the Borrower with your approval:

Interest.....	\$.....
Ground rents, real estate taxes, and special assessments..	\$.....
Fire and other hazard insurance premiums.....	\$.....
First and second years' F. H. A. mortgage insurance premiums.....	\$.....

(8) We understand that nothing herein contained or contained in the said credit instrument or Mortgage securing the same is to be deemed a waiver of any of the provisions of the aforesaid Rules and Regulations, but all of said instruments are intended to be subject thereto. We hereby agree to conform with and abide by such Rules and Regulations in all matters with respect to the aforesaid loan and the Project in so far as they are applicable to us.

(9) The Building Loan Agreement hereinabove referred to provides among other things:

(a) That the Lender shall make the aforesaid loan and in consideration thereof the Borrower, on or before the day of, shall

PROCEDURE SUBSEQUENT TO COMMITMENT

cause to be constructed on the site, a project in accordance with Drawings and Specifications (including general conditions and prevailing wage schedule) identified by the Administrator, the Lender, the Borrower, the Contractor, and the Architect, and in accordance with prescribed ordinances and statutes and requirements of all regulatory authorities having jurisdiction and of the Board of Fire Underwriters or similar body. The Master Set of said Drawings and Specifications shall be deposited with the Administrator. Said Project shall be constructed entirely upon the aforesaid property and will not encroach upon or overhang the property of others or any easement or right-of-way of others, and the buildings when erected shall be wholly within the building restriction lines and shall not violate applicable use or other restrictions contained in prior conveyances, zoning ordinances, or regulations.

(b) That prior to any advance of the aforesaid loan there shall be furnished to the Lender (and a duplicate original to the Administrator) a survey and a mortgagee's title policy (or other evidence of title approved by the Administrator) on the property secured by the Mortgage and in form and substance satisfactory to the Administrator and covering him and the Lender as their respective interests appear. Such policy (or other title evidence) shall be extended to cover each and every advance of the loan at the time it is advanced.

(c) That the Borrower shall cause to be furnished proper receipts and releases of lien and other evidence of proper application of the loan to construction of the Project and shall cause to be filed with the Administrator the certificates required with respect to prevailing wages, and upon application for the final advance the Borrower shall furnish the certificate required by the Administrator to the effect that construction of the project is complete, that the Mortgage is a good and valid first lien on the property therein described, that the mortgaged property is free and clear of all liens other than that of the subject Mortgage, and that there are not outstanding any unpaid obligations contracted in connection with the purchase of such property, construction of the Project, or the Mortgage transaction, except obligations for payment of which funds are held by the Borrower and obligations which will be fully paid out of the final advance.

(d) That the Borrower, with the application for final advance, shall execute and deliver to the Lender a chattel mortgage or other similar instrument covering all property which, by reason of its nature, is not clearly subject to the lien of the insured Mortgage under the laws of the jurisdiction.

(e) That the Borrower is obligated to provide insurance against fire, lightning and windstorm payable to the Borrower, and during construction to the contractor also as interest may appear, with standard mortgagee endorsement attached making loss payable to the Lender or its assigns, as mortgagee.

(f) That the Administrator and his authorized representatives are authorized to enter upon the premises at any and all times prior to the insurance of the final advance of the said loan for the purpose of inspecting work done, labor performed, and materials furnished.

The Administrator's insurance of advances during construction is desired by us, and we, therefore, further certify that the said Building Loan Agreement additionally provides as follows:

(g) That the Borrower will obtain and furnish, prior to the endorsement of the Mortgage for insurance, assurances of completion of the Project in the form of

(h) That the Borrower is obligated to provide insurance as is specified in subparagraph (e) above which shall include the Administrator, as interest may appear, on the standard mortgagee endorsement together with the Lender, and such policies shall be in companies, form and amounts satisfactory to the Lender and

REGULATORY AGREEMENT

the Administrator and certificates thereof shall be furnished to the Administrator prior to the insurance of the first advance.

(i) That the loan shall be advanced in accordance with this subparagraph and the Payment Breakdown attached to the Building Loan Agreement and previously approved by the Administrator, a copy of which is attached hereto. All applications for advances to be insured by the Administrator shall be submitted on or about the first day of each month. The Lender may make advances more often, but the Administrator shall not be obligated to insure more often than is herein provided. The Building Loan Agreement shall contain verbatim the following: "Application shall be made by the Borrower to the Lender, approved by the Architect, for a sum of money representing (a) according to said Payment Breakdown and this subparagraph, the value of all work and materials furnished to the date of the application with respect to the entire Project, and (b) if a Contractor's cash fee is provided for, such amount on account thereof as bears to the aggregate Contractor's cash fee the same proportion as the value of work and materials furnished to such date bears to the aggregate value of work and materials. There shall be paid in *cash* on account of any such application only the sum of the 'amounts payable' computed as follows: (1) From the value, as approved by the Administrator, of work and materials furnished to the date of the application (exclusive of Contractor's cash and stock fees and Contingency Fund, if any) there shall first be deducted such amount, if any, which bears to such value of work and materials, the same proportion which the Contractor's construction stock bears to the 'Value of New Physical Improvements' as shown on the Breakdown, and from such result shall be deducted a 10% holdback thereon, and from that result there shall be deducted payments previously made hereunder, which final result shall be the 'amount payable' under this subdivision; (2) From that amount which bears to the Contractor's total cash fee the same proportion which the value, as approved by the Administrator, of work and materials furnished to the date of the application (exclusive of Contractor's cash and stock fees and Contingency Fund, if any,) bears to the 'Value of New Physical Improvements' as shown on the Breakdown, there shall be deducted a 10% holdback, and from that result there shall be deducted payments previously made hereunder, which final result shall be the 'amount payable' under this subdivision. Adjustments in payments to cover additions and deductions shall be made as approved by the Administrator. Final payment of the 10% holdback and of any balance of the Mortgage funds not allocable directly to new construction shall be due thirty (30) days after completion of the Project to the satisfaction of the Lender and the Administrator. Any portion of the Mortgage funds designated on the payment schedule as not directly allocable to new construction shall, however, be available for improvements and additions during construction approved by the Lender and the Administrator."

(j) That, in the event of default by the Borrower, the Lender shall have the right to complete the Project and for that purpose to advance for the account of the Borrower the undisbursed balance of the Mortgage.

(10) So long as the Contractor, or upon its default, its Surety or any other person acting in its behalf or in substitution for it shall be ready, able and willing to complete its contract for the construction of the Project, we will, upon notice from you, and whether or not the Borrower is then in default, advance the undisbursed balance of the Mortgage for that purpose, to the Borrower if it is not in default, or, if the Borrower is in default, then to such Contractor, Surety, or other person as the case may be. The term "Contractor" shall mean any person,

PROCEDURE SUBSEQUENT TO COMMITMENT

firm, or corporation contracting with the Borrower for the construction of all or a portion of the Project.

NOTE.—If insurance of advances during construction is not desired, strike out all after subparagraph (f) to and including paragraph (10).

Date -----
By ----- Mortgagee

FHA Form No. 2433.
(For Section 207 Small Scale Mortgages.)

FORM XVIII
MORTGAGOR'S CERTIFICATE
(Execute in triplicate)

Project Name -----
Project No. -----

FEDERAL HOUSING ADMINISTRATOR,
Washington, D. C.

DEAR SIR: The undersigned hereby agrees to accept a loan insured by you upon the terms set forth in your Commitment for the above captioned Project (hereinafter referred to as the "Project") and extensions and amendments thereof, and certifies to you as follows:

(1) That the instrument securing said loan is a good and valid first lien on the property therein described, and the mortgaged premises are free and clear of all liens other than that of the insured mortgage except those specifically permitted by the Administrator.

(2) That upon completion of the Project there will not be outstanding any unpaid obligations contracted in connection with the purchase of the property, construction of the Project, or the mortgage transaction except obligations for the payment of which funds are held by the Borrower and obligations which will be fully paid out of the mortgage funds.

(3) That the undersigned has read the Mortgagee's Certificate submitted to you concurrently herewith, and that the agreements therein stated to have been executed between the Mortgagee and the undersigned have been so executed.

(4) That, except as has been previously approved in writing by the Administrator, no construction has been commenced (as the term "commencement of construction" is defined in Section V of the Small Scale Administrative Rules and Regulations) prior hereto.

(5) That the determination of the Department of Labor with respect to prevailing wages has been received by us and is included as a part of the specifications for the construction of the Project, and all contractors employed directly by the undersigned have been or will be fully advised prior to performance of any work that all laborers and mechanics employed on construction of the Project must be paid not less than such prevailing wages, and that each such contractor, as a condition precedent to any payment to him, must certify in the form prescribed by the Administrator that all laborers and mechanics employed by him or his subcontractors on the Project have been paid not less than such wages.

(6) That we shall cause to be furnished the items referred to in Paragraph 9 (c), (d), and (e) of said Mortgagee's Certificate.

(7) That the following contracts, three certified copies of which are enclosed herewith, provide for the full construction of the Project in accordance with the Drawings and Specifications approved by you, and that the aggregate cash payment required under such contracts is in accordance with the Payment Breakdown attached to said Mortgagee's Certificate and does not exceed the proceeds of the

PROCEDURE SUBSEQUENT TO COMMITMENT

Mortgage except to the extent of _____ dollars (\$.....) and that a deposit in said latter amount has been made in escrow with _____ to meet such excess:

(a) Architect.—Terms of payment:

(b) Construction contract or contracts.—Terms of payment:

(8) That the funds deposited with the Mortgagee are sufficient to pay the items enumerated in Paragraph (7) of the Mortgagee's Certificate, and that the items enumerated in Paragraph (6) of the Mortgagee's Certificate have been fully paid or payment provided for as set forth therein.

(9) That organization expenses, legal fees incident to closing the Mortgage transaction including the preparation of all legal instruments, and other necessary expenses to complete the Project for occupancy except as enumerated in Paragraphs (7) and (8) have been fully paid or unobligated funds other than Mortgage funds set aside for the payment thereof.

(10) That cash funds, in excess of the Mortgage loan, necessary to pay the obligations referred to in the three preceding paragraphs are capital contributions to the undersigned.

Date _____

(Mortgagor)

By _____

FHA Form 2429.
(For Section 207 Small Scale Mortgages)

FORM XIX

FEDERAL HOUSING ADMINISTRATION—APPLICATION FOR INSURANCE OF PROGRESS ADVANCE

(To be submitted in triplicate. Original, when endorsed, is to be returned to mortgagor)

Date _____ Project No. _____
FEDERAL HOUSING ADMINISTRATOR. Project Name _____
Application for Insurance of Advance No. _____

You are hereby notified that Application for an Advance of Funds in the sum of _____ dollars (\$.....) for the above project has been received by the undersigned, and a duplicate copy thereof is attached hereto. To the best of our knowledge, information and belief, the construction of the improvements, in connection with which this advance is to be made, has been completed as set forth in said application and the sum requested in said application is now payable, and the aforesaid application and all other matters in connection with this project are in proper order. We, therefore, intend to accept said application and advance said sum on the _____ day of _____, 19_____.

We hereby certify that (a) the mortgagor has furnished to us a list represented by it to set forth all contractors with whom it is dealing directly for the construction of the above project, and (b) each has executed a certificate or certificates, covering all his work to the date of the application by the Mortgagor for this advance, in the form endorsed on the reverse side hereof (or attached hereto in like language).*

You are advised (a) that hazard insurance against loss by _____ in an amount sufficient to cover the value of the improvements on the project as of the date of said application is in full force and effect and appropriate evidence of said insurance coverage is hereto attached, and (b) that the title insurance policy (or other title evidence approved in this case) has been

PROCEDURE SUBSEQUENT TO COMMITMENT

extended to cover each and every advance made prior hereto with no exceptions other than those contained in the original policy approved by you, and this advance will be made only after like extension.

You are further advised that after the advance herein referred to has been made, a total sum of ----- dollar (\$-----) will have been disbursed.

It is, therefore, requested that you issue a certificate within four (4) days from the date hereof, approving for mortgage insurance the sum herein first mentioned or advising us of your non-approval and reasons therefor.

(Mortgagee)

By -----

* The law requires that such certification shall be obtained as a condition precedent to the insurance of any advance. The certification does not in any manner otherwise affect the insurance.

(Note.—Original and all copies must be signed.)

(For use of Federal Housing Administration only)

CERTIFICATE OF MORTGAGE INSURANCE

Date ----- Project No. -----
To ----- Project Name -----
(Mortgagee)

(Address) (City) (State)

Application for Insurance of Advance No. -----

You are hereby notified that the sum of ----- dollars (\$-----) is hereby approved for mortgage insurance when advanced by you in accordance with your Application for Insurance No. ----- (said advance being in addition to such advances, if any, as may heretofore have been approved by the Administrator), and this certificate constitutes approval of the Federal Housing Administrator for mortgage insurance within the meaning of the contract of insurance evidenced by the endorsement by the Administrator of the credit instrument under which the advance is to be made.

This certificate is issued in accordance with the request contained in the afore-said application by you, the original of which, together with the documents attached thereto, will be retained in the files of this office.

Date -----
Signed ----- FEDERAL HOUSING ADMINISTRATOR,
Approved ----- By -----
(Authorized agent)

CONTRACTOR'S PREVAILING WAGE CERTIFICATE

(Date of mortgagor's application to mortgagee for advance of funds) Project No. -----
Project Name -----

I (We) hereby certify, knowing that such certification will be submitted to the Federal Housing Administrator in order to induce him to issue his approval for mortgage insurance of an advance under a certain mortgage endorsed by him for insurance, that all laborers and mechanics employed by me (us, respectively,) or by anyone else pursuant to any contract with me (us, respectively), for work on the above project to the date hereof have been or will be paid for such employ-

APPLICATION FOR INSURANCE OF PROGRESS ADVANCE

ment prevailing wages in accordance with the determination made by the Secretary of Labor as set forth in the specifications for the construction of such project.

(Contractor)
By -----

(Contractor)
By -----

(Contractor)
By -----

FHA Form No. 2430.
(For Section 207 Small
Scale Mortgages.)

FORM XX

FEDERAL HOUSING ADMINISTRATION—APPLICATION FOR INSURANCE OF FINAL ADVANCE

(To be submitted in triplicate. Original, when endorsed, is to be returned to mortgagee)

Date ----- Project No. -----
Project name -----
FEDERAL HOUSING ADMINISTRATOR. Application No. -----

You are hereby notified that Application for the Final Advance of Funds in the sum of ----- dollars (\$ -----) constituting the entire undisbursed balance of the mortgage has been received by the undersigned, and a duplicate copy thereof is attached hereto. We hereby declare that construction of this project is complete and said sum is now payable, and the aforesaid application and all other matters in connection with this project are in proper order. We, therefore, intend to accept said application and advance said sum on the ----- day of -----, 19 -----.

We hereby certify that (a) the mortgagor has furnished to us a list represented by it to set forth all contractors with whom it is dealing directly for the construction of the above project, and (b) each has executed a certificate or certificates, covering all his work, on the form endorsed on the reverse side hereof (or attached hereto in like language).*

You are advised that (a) hazard insurance against loss by ----- in an amount sufficient to cover the value of the improvements on the project is in full force and effect and appropriate evidence of said insurance coverage is hereto attached; (b) all required certificates and approvals of authorities having jurisdiction over the premises and of the Board of Fire Underwriters or similar body have been obtained and exhibited to your construction inspector; and that (c) the title insurance policy (or other title evidence approved in this case) has been extended to cover each and every advance made prior hereto with no exceptions other than those contained in the original policy approved by you, and this advance will be made only after like extension.

There is submitted herewith a chattel mortgage in form appropriate to the jurisdiction in which the property is located, which constitutes a valid and prior lien on all property which, by reason of its nature, is not clearly subject to the lien of the insured mortgage.

*The law requires that such certification shall be obtained as a condition precedent to the insurance of any advance. The certification does not in any manner otherwise affect the insurance.

PROCEDURE SUBSEQUENT TO COMMITMENT

Please approve for mortgage insurance the sum above stated or advise us of your nonapproval and reasons therefor, and issue your certificate in conformity therewith within four (4) days from the date hereof.

(Mortgagee)
By -----

NOTE.—Original and all copies must be signed.

Date -----

FEDERAL HOUSING ADMINISTRATOR.

The undersigned mortgagor hereby concurs in the above application for final advance and represents to you as follows: (1) Construction of this project is complete in accordance with the Drawings and Specifications (a master set of which has heretofore been deposited with you) as amended from time to time with your consent, and in accordance with all applicable laws and requirements of all authorities having jurisdiction and of the Board of Fire Underwriters or similar body. (2) The project is constructed entirely upon the property and does not encroach upon or overhang the property of others or any easement or right-of-way of others, and the buildings are wholly within the building restriction lines and do not violate applicable use or other restrictions contained in prior conveyances, zoning ordinances, or regulations. (3) The mortgage is a good and valid first lien on the mortgaged property therein described, which is free and clear of all liens other than that of the subject mortgage. (4) There are not outstanding any unpaid obligations contracted in connection with the purchase of the property, construction of the project or the mortgage transaction, except obligations for the payment of which funds are held by the Borrower and obligations which will be fully paid out of the advance herewith requested. (5) Adequate sewer, water, gas, and electric facilities have been connected, and abutting sidewalks and curbing outside the project site have been fully constructed, and public streets serving the project have been fully constructed or binding arrangements for the construction of such streets on or before the ----- day of ----- have been made and evidence thereof and assurance of performance have been submitted to you.

(Mortgagor)
By -----

(For use of Federal Housing Administration only)

CERTIFICATE OF MORTGAGE INSURANCE

Date ----- Project No. -----
To ----- Project name -----
(Mortgagee)

(Address) (City) (State)

You are hereby notified that the sum of ----- dollars (\$ -----) is hereby approved for mortgage insurance when advanced by you in accordance with your Application for Insurance No. ----- (said advance being in addition to such advances, if any, as may heretofore have been approved by the Administrator), and this certificate constitutes approval of the Federal Housing Administrator for mortgage insurance within the meaning of the contract of insurance evidenced by the endorsement by the Administrator of the credit instrument under which the advance is to be made.

APPLICATION FOR INSURANCE OF PROGRESS ADVANCE

This certificate is issued in accordance with the request contained in the aforesaid application by you, the original of which, together with the documents attached thereto, will be retained in the files of this office.

Upon completion of this advance the original credit instrument together with Request for Final Endorsement of Credit Instrument (FHA Form No. 2431) and the items therein required should be presented to the Director of the local Federal Housing Administration office in the area in which the project is situated for final endorsement of the credit instrument.

Date -----
Signed ----- By -----
Attest -----
FEDERAL HOUSING ADMINISTRATOR,
(Authorized agent)

CONTRACTOR'S PREVAILING WAGE CERTIFICATE

(Date of mortgagor's application to
mortgagee for advance of funds) Project No. -----
Project Name -----

I (We) hereby certify, knowing that such certification will be submitted to the Federal Housing Administrator in order to induce him to issue his approval for mortgage insurance of an advance under a certain mortgage endorsed by him for insurance, that all laborers and mechanics employed by me (us, respectively,) or by anyone else pursuant to any contract with me (us, respectively), for work on the above project to the date hereof have been paid for such employment prevailing wages in accordance with the determination made by the Secretary of Labor as set forth in the specifications for the construction of such project.

(Contractor)
By -----

(Contractor)
By -----

(Contractor)
By -----

PROCEDURE SUBSEQUENT TO COMMITMENT

FHA Form No. 2431.
(For Section 207 Small
Scale Mortgages.)

FORM XXI

**FEDERAL HOUSING ADMINISTRATION—REQUEST FOR FINAL ENDORSEMENT OF
CREDIT INSTRUMENT SECTION 207**

Project name----- Project No.-----
Address----- Date of commitment-----
Mortgagor----- Principal amount of loan, \$-----

FEDERAL HOUSING ADMINISTRATOR. Date -----, 19-----

The undersigned holds your certificates of mortgage insurance, including a certificate approving the final advance, pursuant to which advances were made on the dates and in the amounts set forth in the schedule below. We hereby request final endorsement of the attached credit instrument for mortgage insurance in the total sum below indicated. The credit instrument, after being endorsed by you, should be returned to the undersigned.

The title insurance policy (or other title evidence approved in this case) has been extended to cover the final advance with no exceptions other than contained in the policy originally approved by you.

Date	Amount	Date	Amount

Total, \$-----

(Mortgagee)

By -----

FEDERAL HOUSING ADMINISTRATOR. Date -----, 19-----

The undersigned acknowledges receipt of the sum of ----- dollars (\$-----) constituting the full principal amount of the mortgage for this project, advanced as set forth above.

The undersigned refers to its statement attached to the Application for Insurance of Final Advance which was submitted to you, and ratifies the statements therein made.

(Mortgagor)

By -----



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U.S. Federal Housing Administration.

Rental housing manual.

DATE	ISSUED TO
11/9/77	PP House Rental R 855#18
	##32772
9/17/80	J. HOWENSTINE T 57518
	9/20/80