

## CHAPTER 8. LOAN APPROVAL AND FUND OBLIGATION

8-1. FUND ASSIGNMENT PLAN. The Office of Community Planning and Development in HUD Headquarters issues an annual funding plan, called the Fund Assignment Plan, early in the Fiscal Year. This plan allocates projected funds availability for the year among the HUD Regional Offices. It also advises the Field Offices about how funds are to be allocated within their jurisdiction in the Fiscal Year. The funding plan establishes priorities and the proration of funds among Regions, and sets goals for the year. Based upon this plan, HUD Regional Offices may then allocate their funds to the HUD Field Offices. The Field Office has the responsibility for determining the amount of funds to be made available to each locality in its area, based upon the Regional Office's directives.

If Section 312 funds are made available for specific localities, the Regional or Field Office may at any time review a locality's fund use and reallocate funds, either within its jurisdiction, elsewhere in the Region, or possibly to other Regions. With this in mind localities should strive to establish and maintain an even flow of production activity throughout the Fiscal Year and avoid an undue rush of applications in the fourth quarter of the Fiscal Year.

- 8-2. LOAN APPROVAL. The HUD Field Office reviews and approves or rejects all loan applications, except the following;
- a. Single-family loan applications, which are approved by LPA's with Local Loan Approval Authority;
  - b. Loan Assumptions, which must be submitted to the Office of Urban Rehabilitation in HUD Headquarters for approval;
  - c. Loans Exceeding \$200,000, which must be submitted through the HUD Field Office to the Office of Urban Rehabilitation in HUD Headquarters for approval.

Once a loan application is approved by an LPA, HUD Field Office or HUD Headquarters, as appropriate, the Rehabilitation Management Specialist in the HUD Field Office enters the loan into the Cash Management System and refers it to the Regional Accounting Division, which then obligates the needed Section 312 funds.

8-3. FINAL REVIEW OR APPROVAL. The original and four (4) copies of all loan applications (Exhibit 4-1 or 4-2), including single-family applications approved by LPA's with Local Loan Approval Authority, must be submitted to the Field Office Rehabilitation Management Specialist in the

locality's HUD Field Office. The Rehabilitation Management Specialist must review all loans to be set up on the Cash Management System to ensure that the loans meet basic eligibility requirements, such as

income level for low interest loans, and interest rate for the date the loan was approved. In the cases of loans approved by Field Offices or HUD Headquarters, the Rehabilitation Management Specialist should ensure that the interest rate has been adjusted to the date approved in accordance with Paragraph 2-3-b of this Handbook. If these basic items are incorrect, the application should be returned to the LPA with instructions to correct, or if the LPA has Local Loan Approval Authority, the Field Office should request that the LPA review the application to ensure compliance with Section 312 requirements. The Master Servicer may also review loan packages after they receive them to further ensure that the loan meets basic eligibility requirements. Following the review and/or approval of the loan, the Rehabilitation Management Specialist must follow the procedures in the Cash Management Notice to reserve the funds for approved loan. The steps to accomplish this are summarized below:

- a. Funding the Loan. To fund a loan, the Rehabilitation Management Specialist must contact the Cash Management Contractor. If there are adequate funds available under the Funds Assignment Plan, the Cash Management Contractor will reserve the loan and issue a loan number to the Rehabilitation Management Specialist in the Field Office for the particular loan. The Rehabilitation Management Specialist must enter the loan number on all copies of the loan application and forward them to the HUD Regional Accounting Division (RAD), the Department's official accounting arm. The RAD verifies funds availability, records the obligation, and notifies the Cash Management Contractor that the loan has been legally obligated. The RAD will then forward three copies of the approved, validated loan application to the Field Office and one copy to the Cash Management Contractor, and will keep the original for its records. Only the Regional Accounting Division can obligate a loan. Any loan not obligated by the RAD, whether or not reserved under the Cash Management system, is not a valid obligation.
- b. Notification of Obligation. The Cash Management Contractor informs the HUD Field Office and the LPA in writing of the obligation. Upon receipt of the copies of the approved application from the RAD containing a confirmation of obligation, the Field Office returns three approved validated copies of the loan application to the LPA (one for the LPA file, one for the servicer, and one for the borrower). Upon receipt of the validated application, the LPA should notify the borrower of formal approval and make arrangements for loan settlement. (See Chapter 9 for requirements for settlement.)

8-4. SUMMARY REGISTER. The LPA should maintain a log of all applications sent to the HUD Field Office for processing for obligation. The LPA must

track the date the application is submitted to HUD, as well as the obligation and settlement dates and the dates drawdowns are requested

and made. A Summary Register Guideform is included as Exhibit 8-1.