
CHAPTER 4. UNDERWRITING INSTRUCTIONS

- 4-1. COST PROCESSING. Follow instructions applicable to Section 203(b).
- 4-2. ARCHITECTURAL PROCESSING. Home improvement loans are to provide properties located in the area of an urban renewal project. Properties may have one to eleven living units upon completion. Processing and application of standards shall conform to instructions for Section 203(b) except as stated herein.
- a. Character of Improvements. Loans shall be for work required to bring properties into conformity with the rehabilitation standards established for the urban renewal area. Generally such loans will be for basic improvements to the real estate to make properties more livable and adequate.
- (1) Basic improvements include new work, structural alterations and reconstruction, planning and changes for improved functions and modernization, and changes for aesthetic appeal and elimination of obsolescence. Basic improvements also include reconditioning and replacement in plumbing, heating, air conditioning and electric work, new roofing and sidewall work and trim, flooring and tiling, as well as major landscape work and site improvement. When such basic improvements are to be effected, related fixtures such as cooking ranges, refrigerators and other appurtenances as well as general painting and decorating are also eligible. Improvements may be included if appropriate and acceptable in the area as part of the real estate.
- (2) Loans on structures less than 10 years old must be used primarily for major structural improvements or to correct defects which were not known at the time of completion of the structure or which were caused by fire, flood, windstorm or other casualty. "Primarily for major structural improvements" means structural improvements must be first in importance in the use of the loan funds and are major in effect on the structure. When major structural work or correction of defects is the primary purpose, other work as indicated in the paragraph above may be included.

- (4-2) (3) Loans may include or be solely for the purpose of paying the cost of public improvements for which (assessment or otherwise) the borrower is legally liable. Public improvements may include sidewalks, curbs, gutters, street paving, street lights, sewers, or other public improvements adjacent to or in the vicinity of property of the borrower.
- (4) This program is not designed to finance the acquisition of individual equipment items although loan proceeds may be used to acquire certain items of equipment determined by the Assistant Secretary-FHA Commissioner to be necessary and incidental to the accomplishment of the primary basic improvements, as stated above, and the equipment items are of a type acceptable under Section 203(b).
- b. Loan proceeds may be used to construct Family Fallout Shelters of a type that meet recommendations of the Office of Civil Defense and the minimum standards for fallout shelters.
- c. Loan proceeds cannot be used for:
- (1) Items which, by established custom, are supplied by the occupant and are removed by him when-vacating the premises, such as phonograph, radio and television sets, movable furniture and rugs.
- (2) Swimming pools, outdoor fireplaces, barbecue pits and similar improvements of a nonessential or luxury character.

Note: A swimming pool and related equipment may be accepted in properties of five or more living units where essential for rentability and to meet competitive conditions, provided the swimming pool, related equipment and installation are in addition to eligible basic improvements.

- (3) Addition or alterations to provide for commercial use, or to equip or refurbish space for such use.
- (4) Property which is not eligible under Section 220. For example, a property subjected to periodic floods or subsidence would not be eligible even though the loan was to be used to correct damage from these causes.

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- d. Exhibits shall be only those drawings and FHA Form 2005 needed to describe the work and to serve for contract purposes. Public improvements may be described without drawings.
 - e. Cost Estimation. No "Estimate of Replacement Cost of Improvements" is prepared. However, in connection with every application an estimate of the cost of the new work and rehabilitation is required. This is based upon cost data compiled by the field office for home improvements and rehabilitation work. Such data will reflect current costs encountered in the locality for home improvement and rehabilitation work. The cost of any public improvements for which the borrower is legally liable is included in an amount not to exceed the dollar amount.

4-3. VALUATION PROCESSING. Follow procedure outlined for processing existing construction in Paragraph 2-3.h. above.

A lease for a term of 99 years, renewable, or having an expiration date in excess of 10 years later than the maturity date of the loan is acceptable.

4-4. MORTGAGE CREDIT PROCESSING.

- a. Owner Occupant Borrower. When the borrower is the owner and occupant of the property the principal amount of the improvement loan shall not exceed:

- (1) \$12,000 per family unit, or

NOTE: The Secretary may increase the foregoing per-family-unit dollar amount limitation by not to exceed 45 per centum in any geographical area where he finds cost levels so require.

- (2) \$40,000, or
- (3) The Assistant Secretary-FRA Commissioner's estimate of the cost of improvements, including loan closing charges as shown on the Underwriting Report, or
- (4) The borrower's estimated cost of improvements including loan closing charges, but excluding the estimated value of any labor to be performed by the borrower, or

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- (4-4) (5) An amount which, when added to any outstanding indebtedness related to the property creates a total indebtedness not in excess of the lesser of the following:
- (a) \$45,000 for a one-family residence;
 - \$48,750 for a two-family residence;
 - \$48,750 for a three-family residence;
 - \$56,000 for a four-family residence;
 - \$63,700 for a five-family residence;
 - \$71,400 for a six-family residence;
 - \$79,100 for a seven-family residence;
 - \$86,800 for an eight-family residence;
 - \$94,500 for a nine-family residence;
 - \$102,200 for a ten-family residence;
 - \$109,900 for an eleven-family residence;
- (b) 97% of the first \$25,000 of the sum of:
- 1 The HUD-FHA estimate of value of the property before repairs or rehabilitation, and
 - 2 The estimated cost of repairs and rehabilitation, plus 90% of such sum in excess of \$25,000, but not in excess of \$35,000 plus 80% of such sum in excess of \$35,000.
 - 3 Less the value of the leased fee, if leasehold, and the principal amount of special assessment, if any.
- (6) Within the foregoing limits; a loan made for the purpose of financing any off-site improvements as defined in HUD-FHA Regulations, may include an amount not to exceed \$12,000 when added to any outstanding insured loans which were made for the same purpose under this subsection of the Act or subsection 203(k).

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- (4-4) NOTE: The Secretary may increase the foregoing dollar amount limitation by not to exceed 45 per centum in any geographical area where he finds cost levels so require.
- b. Non-Occupant Borrower - Rental Properties. (Borrowers holding properties for sale are not eligible). When the borrower is not the occupant of the property or a unit thereof the limitations under paragraph 4-4.a., will apply except that:
- An amount, which when added to any outstanding indebtedness related to the property creates a total indebtedness not in excess of 93% of the lower of the amounts computed under paragraph 4-4.a.(5)(a) and (b), less the value of the leased fee, if leasehold, and the principal amount of special assessments, if any, applies.
- c. The Term of the Improvement Loan may not exceed 20 years or three-quarters of the Assistant Secretary-FRA Commissioner's estimate of the remaining economic life of the structure, whichever is the lesser.
- d. The Existence of Outstanding Obligations related to the property being improved does not in itself make the improvement loan ineligible for insurance. Except for special assessments, the proceeds of the improvement loan shall not be used to refinance the outstanding obligations including Title I Loans. However, there may not be any outstanding obligations incurred in connection with the proposed improvements except the improvement loan to be insured.
- e. In Determining the Ratio of Loan to Value, the principal amount of the outstanding indebtedness related to the property plus the subject improvement loan will be used as the loan amount, and the sum of the "as is" value of the property and the cost of repairs and rehabilitation will be used in lieu of value. The monthly payment and/or ratio of debt service to net income, will include monthly payments for principal, interest and mortgage insurance premium. This assumes a single mortgage equal to the total principal amount of the outstanding indebtedness related to the property (reduced to the nearest \$50 multiple) including the subject improvement loan. It will also include monthly payments for ground rents, if leasehold, and any special assessments which will remain a lien against the property.
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- (4-4) f. Cost Certification. When the structure or structures contains five or more family units, certification of actual cost of the improvements upon completion is required. The principal amount of the loan when endorsed for insurance shall not exceed the approved certified cost of the improvements. The recommendation for issuance of commitment in all cases involving five or more units shall be conditioned upon cost certification in accordance with the Regulations and applicable Administrative directives.
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