

CHAPTER 2. COORDINATION OF MULTIFAMILY TECHNICAL PROCESSING

SECTION 1. RESPONSIBILITY AND AUTHORITY

- 2-1. GENERAL. The responsibility for coordinating technical processing activities and for making final underwriting recommendations to the Director of Operations/Field Office Director is vested in the Assistant Director, Technical Services Branch/Chief Underwriter (ADTS/CU). The ADTS/CU himself may act as coordinator, or, because of his workload requirements, may designate a member of his staff to serve in that capacity. In offices handling a large volume of multifamily business, it may be necessary to have two, or more, coordinators working independently on various projects. Staff members functioning as coordinators must have extensive underwriting experience in the analysis of multifamily transactions and must have the ability to work with a minimum of supervision. The ADTS/CU is authorized to delegate his authority to these individuals to the extent he deems appropriate consistent with workload requirements and the knowledge and experience of the persons selected.
- 2-2. DELEGATION OF AUTHORITY. Authority to issue SAMA Letters and commitments and to insure mortgages pursuant to such commitments on multifamily housing cases is delegated to the HUD Office Director and under his supervision to the Deputy Director, and to the Director of Operations and to his Deputy, and to the Assistant Director, Technical Services Branch. In Insuring Offices the authority is extended to the Director, and under his supervision to the Deputy Director and to the Chief Underwriter.
- 2-3. AUTHORITY TO MODIFY CONCLUSIONS. The following authority is given to the ADTS/CU:
- To modify the conclusions of underwriting processors and recommendations of section chiefs, including, but not limited to, the number, size and composition of units, rent estimates, occupancy estimates, expense estimates, capitalization rates and values, land values, cost estimates, maximum mortgage amounts, cash requirements, etc. Modification of conclusions under this authority must be justified by factual data or by program objectives and be so documented in the files.
- 2-4. Reserved.

SECTION 2. PROCESSING

- 2-5. ROLE OF SPECIALISTS IN PROCESSING. Land planning personnel and specialized engineers on field staffs will be used in the analysis of specific proposals only when the need arises as determined by the Assistant Director, Technical Services Branch/ Chief Underwriter (ADTS/CU). Their services are not expected to be needed for all projects nor necessarily needed at all stages of any one project. The activities of these specialists are to be concentrated on the training of the underwriting staff. Specialists may assist the ADTS/CU, the

Design Representative, and other key staff members in recognizing when their services are necessary.

2-6. USE OF CURRENT DATA IN PROJECT PROCESSING. It is essential that adequate banks of cost, valuation, market, planning, and mortgage credit data be available in every field office if projects are to be processed within the assigned target dates. Attention must be given to the continuous updating of data in order to maintain current data banks.

- a. A prerequisite to the effective screening of sponsor proposals at the Initial Interview is the prior accumulation of a reservoir of adequate market and racial data. Data accumulated through market studies and outside contracts with buyers, sellers, real estate brokers, property managers, mortgage lenders, and other sources, as well as contractors, builders, suppliers, etc., are vital to the screening process. The data will identify the types of units, and the rentals, services and amenities most readily absorbed in the prospective market.
- b. It is imperative that all available data from the Housing Management Division be available and utilized in screening sponsor proposals. Underwriting staff must actively solicit from HM staff all available information on operating expenses, taxes, occupancy, rent-up times and any other information of relevance in the determination of project feasibility. Such data must play a prominent role in influencing the decisions of underwriting since it is most directly related to the HUD programs and the market these programs serve.

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2-7. PROCESSING PROCEDURES. If all steps are taken, the complete processing through firm commitment is as follows:

- a. The Initial Interview with the sponsor.
- b. Sponsor's submission of the SAMA Application with fee.
- c. Site Appraisal and Market Analysis Stage Processing.
- d. Issuance of the Site Appraisal and Market Analysis Letter to the sponsor.
- e. The Findings Conference (may be omitted at discretion of the field office).
- f. Preparation of exhibits including Affirmative Marketing and Management Plans, and schematic drawings and outline specifications by the sponsor and his architect.
- g. Submission of Affirmative Marketing and Management Plans.
- h. Submission of Application for Conditional Commitment with fee by the mortgagee.
- i. HUD processing and issuance of a conditional commitment.

- j. Sponsor-Architect preparation of complete final working drawings and specifications.
- k. Mortgagee's Application for Firm Commitment with fee and appropriate drawings, documents and exhibits.
- 1. HUD review of contract drawings and exhibits, and issuance of the firm commitment.

2-8. ESTABLISHMENT OF TARGET DATES.

- a. SAMA Letter or rejection shall be issued within 30 days of receipt of the SAMA Application, except in the following two instances:
 - (1) When a full Environmental Impact Statement is required.

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- * (2) When no A-95 comments have been received and 34 days have elapsed from the postmarked date on which a copy of the application is mailed by the HUD field office to the appropriate clearinghouses. (A-note should be made to the office file reciting this date.) If comments have not been received within the above time FHAME, the office shall proceed with processing without further delay. *
- b. Conditional and/or Firm Commitment or rejection shall be issued within 30 days of receipt of commitment application.
- c. Sponsor target dates from the date of issuance of the Site Appraisal and Market Analysis Letter to receipt of Conditional Commitment Application shall not exceed 60 days or for more complex proposals, 90 days. Target date from issuance of the Conditional Commitment to Firm Commitment Application shall not exceed 120 days.
- d. Target dates must promote speedy actions by HUD-FHA and the sponsor. Once established, the dates are considered firm and not subject to revision unless subsequent unforeseen events make them impractical. Extensions are not to be automatically issued.

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SECTION 3. SITE APPRAISAL AND MARKET ANALYSIS STAGE

- *2-9. THE INITIAL INTERVIEW. The Multifamily Housing Representative in an Area Office, and the Chief Underwriter or his designee in an Insuring Office have the primary responsibility for conducting the Initial Interview. *

- a. The basic objectives of this interview are:
 - (1) To explore with the sponsor his objectives and determine the best program for his proposal.

- (2) To inform the sponsor of his obligations and responsibilities under the applicable Section of the Act.
 - (3) To inform the sponsor of HUD-FHA procedures and processing requirements.
 - (4) To screen the proposal and reject it if it is obviously ineligible or not feasible, as determined by the ADTS/CU or his designee.
 - (5) To inform the sponsor of the Optional Architectural Certification Plan.
- b. The sponsor should have a clear idea of the demand for the type of housing proposed, the extent of completion with which he will be confronted, the vacancy rates in similar housing units, and the market absorption of units at prevailing rent levels in the neighborhood. He should be aware of parking accommodations, as well as services and equipment included in the rentals for competitive projects. He should know whether his location is acceptable to the tenants he wishes to attract and whether the site zoning is permissive for its intended use.
- c. At the conclusion of this interview, the MHR/CU should advise the sponsor of the exhibits necessary for processing the proposal. The sponsor should be furnished with a kit containing all necessary written instructions and required forms. The basic kit contains the following items:
- (1) Multifamily Processing Sponsor's Guide for Proposed Construction.

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- (2-9) (2) Ground Rules for the Sponsor's Architect, and information on the Optional Architectural Certification.
- (3) FHA Application Form (2013), with instructions for its completion submitted at each processing stage.
- (4) FHA Form 2530 - Previous Participation Certificate. 1/
- (5) FHA Form 3433 - Request for Preliminary Determination of Eligibility as Nonprofit Sponsor (if applicable). 1/
- (6) FHA Form 2417 - Financial and Credit Statement on Sponsor and General Contractor. 2/
- (7) FHA Form 2010 - Equal Employment Opportunity Certification. 1/
- * (8) Forms for Submission of Affirmative Marketing Program. 2/
- (9) Management Exhibits. (See Reference (6) of the Foreword) 2/

(10) Project Selection Criteria - FHA Form 3167. (Where applicable)

(11) Requirement for evidence of Site Control. 1/

(12) Requirement for Permissive Zoning. 2/

*

1/ To be submitted with SAMA Stage Application.

2/ To be submitted with or prior to Application for Conditional Commitment.

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2-10. FISCAL INSTRUCTIONS FOR SAMA STAGE APPLICATIONS.

- a. Effective with respect to an application for SAMA Letter under any applicable (See exclusions in Para. 1-4 above). Title and section received from project sponsors., a fee of \$1.00 per \$1,000.00 of the amount of the-mortgage applied for will be required. The sponsor's remittance must be in the form of a certified check, cashier's or other bank check, post office or bank money order, or other domestic money order sold by any organization chartered under or authorized under the banking laws. The fee will be considered earned when the application has been accepted by the ADTS/CU for technical processing. This fee will be credited to the application-commitment fee of \$3.00 per \$1,000.00 of the mortgage amount due upon submission of the total application for firm commitment. (An additional fee of \$1.00 per \$1,000.00 is collected with the Application for Conditional Commitment, which is also credited toward the full \$3.00 per thousand fee.)
- b. Outstanding fiscal instructions, as set forth in Reference (7) of the Foreword, for assigning FHA project numbers, preparation of official receipts and deposit schedules of collections will be followed. Accounting code "7" will be shown in the official receipt issued to the project sponsor.
- c. Refund of the \$1.00 per \$1,000.00 fee will be made when the application is not accepted for technical processing which shall occur under the circumstances recited in paragraph 2-12 b. below.
- d. Normal fiscal refund provisions, as set forth in Reference (7) of the Foreword will apply to cases that have been assigned to the ADTS/CU for processing.
- e. For reporting purposes on FHA Form 2038P, a SAMA Stage Application will be treated as an application for a "Letter of Feasibility." When the Application is accepted by the ADTS/CU for processing, the fee is earned and is to be reported on FHA Form 2038P, Block D, Panel "Assigned to Processing." Issuance of the SAMA Letter is to be reported on FHA Form 2038P, Block D III.
- f. Any questions of a fiscal nature regarding this matter should be directed to the Director for Mortgage Insurance Accounting.

2-11. RECEIPT OF SAMA APPLICATION. The MHR/CU reviews the sponsor's submission and related exhibits to determine whether they are complete and acceptable for SAMA Stage processing. The sponsor must submit the application (FHA Form 2013), together with an initial application fee of \$1.00 per \$1,000.00 of mortgage requested. An FHA project number will be assigned and an official receipt issued in accordance with instructions in Reference (7) of the Foreword. The application must be completed as follows:

- a. Page 1, in its entirety.
- b. Page 2, Only Section G, Line 72 (or its equivalent), "Land (Estimated Market Price of Site)."
- c. Page 3, Section J to the extent known.
- d. Page 3, Section K.

In addition to the application, the required exhibits identified in Section I "Attachments" of the application not marked with a solid triangle must also be provided except for Items 7, 8, and 10. In event the case submission is incomplete, it will be returned to the sponsor and the fee will be refunded. Under no circumstances are submissions to be accepted for processing in an incomplete state. Particular attention must be given to the proper completion of the Site Information portion of Section A and all of Section B relating to land acquisition. All required information must be entered on the FHA Form 2013 itself and not by reference to other sources, documents, or exhibits except as specified in Section I. The architect (if selected and eligible) should also advise the office whether or not he intends to utilize the Architectural Certification Option if it is available to him.

2-12. ACTIONS PRIOR TO TECHNICAL PROCESSING.

- a. The following functions will be performed by the MHR/CU or his designee prior to, or in conjunction with assignment of the application for technical processing:
 - (1) Determination of interprogram impact of the application. (The relationship of this proposal to other HUD projects, proposals, policies or objectives.)

(2-12) (2) Application of the project selection criteria for Section 236 and Rent Supplement. Evaluation of Criterion #8 will be on the basis of a statement of intent on the part of the sponsor to fulfill the requirements of either an adequate or a superior rating for this criterion. When the Management Plan is subsequently submitted, it will be evaluated and the rating adjusted as necessary.

* (3) Form 2530 shall be forwarded to the Office of Mortgagee

Activities and Participant Compliance, Central Office, immediately upon receiving the application and numbering the case in accordance with Reference (8) of the Foreword.

- (4) Routing of copy of Application for EMAD review.
 - (5) Tentative reservation of contract authority for projects selected for funding (subject to cancellation in the event of rejection as infeasible).
 - (6) Submission of a copy of the Form 2013 to the appropriate clearinghouse for A-95 review.
 - (7) Determining the eligibility of the non-profit sponsor entity, if applicable, by the Mortgage Credit Section in accordance with Reference (13) of the Foreword.
- b. Applications shall be returned as unacceptable (and fees refunded) for the following reasons:
- (1) The project fails to meet the minimum rating requirement of the project selection criteria or, for nonsubsidized proposals, the project concept or location is not acceptable on its face.
 - (2) The project is proposed for subsidy and there is no probability of subsidy funding for the project.
 - (3) The submission is incomplete or the submission, on its face, does not meet statutory requirements.
 - (4) The market in which the project is located has been predetermined to be soft and project proposals in the area are not being accepted for that reason.
 - (5) The nonprofit sponsor is determined not to be eligible. *

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2-13. SAMA STAGE PROCESSING.

- a. See Reference (7) of the Foreword for instructions on earned fees. Technical processing will be limited to analysis of the proposal to determine only the following:
- (1) Environmental Impact. Environmental assessment will be conducted in accordance with the Procedure for Environmental Clearance of HUD Insured Projects, Subdivisions and Low Rent Housing Projects contained in Reference (9) of the Foreword.
 - (2) Value of the site fully improved (with offsites installed).
 - (3) Acceptability of the site and the existence of a market for a multifamily housing project of the type and of the number, size and composition of units proposed, or for a specific lesser number and/or revised composition and size of units,

at the rents proposed by the sponsor or at other specified rents, with specific amenities as applicable.

- (4) The applicable land use intensity number.
 - (5) The unit rents set forth in the SAMA Letter, for all programs, are the market rents estimated by comparison. For Section 236 proposals, the Formula Market Rent and the Basic Rent will be determined at the Conditional Commitment Stage of processing.
- b. Technical processing will be documented on FHA Form 2264, pages 1, 3, and Part 0, page 4. The "Remarks" and "Conclusions" Sections of the Form will be utilized to describe salient factors which should be brought to the attention of HUD staff and/or the Sponsor. The Sponsor will not be furnished a copy of the Form 2264 in the SAMA Stage.
 - c. While technical decisions will be limited to those mentioned above, the appraiser will exercise good judgment in determining the need for any additional technical assistance from engineering disciplines as he finds necessary.

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- 2-14. DETERMINATION OF PROJECT FINDINGS. When the described technical analysis has been completed, the CU shall make a final determination as to findings.
- 2-15. THE FINDINGS CONFERENCE.
 - a. The CU is responsible for the approval of the underwriting determinations as to the market need for the proposal and the technical acceptability of the location and site. He shall, therefore, amend, modify, approve, or reject the Form 2264 submitted by the Valuation Staff, after which, if the project is acceptable, the SAMA Letter shall be issued and the findings conference scheduled, if necessary.
 - b. If there are significant differences between the sponsor's application and HUD decisions, a findings conference shall be scheduled for discussion of the differences prior to issuance of the SAMA Letter.
 - c. When HUD findings result in a counterproposal by HUD (in accordance with paragraph 2-19b below) which is acceptable to the sponsor, the SAMA Letter shall be issued even though its provisions deviate from the sponsor's SAMA application. A new SAMA application is unnecessary and shall not be required. It shall be sufficient only that the sponsor's application for the next stage of processing conforms to the SAMA Letter. If the sponsor does not accept the counterproposal, a rejection letter shall be issued.
 - d. If a nonprofit sponsor is involved and is determined to be eligible, the sponsor must be so advised. It must also be advised

that the determination of eligibility is a preliminary one, involves only a basic credit investigation, and does not involve credit investigation and the analysis of the sponsor's financial capacity. The complete credit investigation and the analysis of the sponsor's financial capability will be done at the conditional or firm commitment stage, whichever comes first.

2-16. THE SITE APPRAISAL AND MARKET ANALYSIS LETTER. This Letter is normally written in accordance with the format appearing in Figure 1. It must contain all parts of the format applicable to the proposal at hand. Additions shall be kept to a minimum and be made only to cover unusual situations. When the land value is based on certain assumptions as to the existence or absence of unusual site conditions, a paragraph shall be included to qualify the land value subject to confirmation of the assumed conditions. Also, when the assumed offsite

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(2-16) conditions are not obvious, they may be identified in the letter. Legally, the SAMA Letter binds HUD with respect to the land use intensity number, the site appraisal, the number, and the proposed composition of the units and the unit rents. The legal significance of the SAMA Letter is that HUD is bound to accept, from the SAMA Letter recipient, a conditional or firm commitment application and to proceed to commitment stage processing, provided the recipient does not change any of the aforementioned determinations.

a. Normally, the SAMA letter shall be issued for a 60-day period or for more complex proposals 1/ a 90 day period may be authorized. A SAMA letter typically may not be valid for more than 60 days, unless the sponsor is going directly to firm commitment in which case the SAMA letter will be valid for 120 days or in the case where a maximum 30-day extension of the SAMA letter is authorized. If a SAMA letter expires and the sponsor desires to reapply for a new SAMA letter, a new application with fee must be presented. On the basis of the new application and fee, the HUD Field Office shall reexamine and analyze the proposal in accordance with instructions contained in this Handbook.

1/ A project may be considered as a "complex proposal" when the CU determines it to be atypical because of its size, design, unusual site features environmental influences, etc.

SITE APPRAISAL AND MARKET ANALYSIS
LETTER FORMAT

Mr.

x
x
x

Dear Mr.

Subject: Site Appraisal and Market Analysis Letter
 Project No.
 Section
 (Name of Project)
 (City/State)

This is to inform you that our staff has reviewed the subject proposal and finds it to be worthy of further study and consideration should you decide to submit an application for a conditional or firm commitment for mortgage insurance.

We have inspected the proposed site and have reviewed the rents. The Land Use Intensity Number is _____. The Land Value Fully Improved (with offsite improvements installed) is \$_____. Excess costs resulting from unusual onsite conditions which will be provided for in the construction cost estimate will be deducted from this value.

In the event that you desire to continue with this project and submit an application for conditional or firm commitment, it is understood that the project will have the following characteristics:

| TYPE OF UNIT | SQ. FT. | NUMBER | MONTHLY MARKET RENTAL |
|---------------|---------|--------|-----------------------|
| Efficiency | _____ | _____ | _____ |
| One Bedroom | _____ | _____ | _____ |
| Two Bedroom | _____ | _____ | _____ |
| Three Bedroom | _____ | _____ | _____ |
| Four Bedroom | _____ | _____ | _____ |

Total

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 CHAPTER 2, SECTION 3, FIGURE 1

Equipment and Services included in rent are:

Number of Parking Spaces: Enclosed _____ Open _____
 Estimated Monthly Parking Rental \$ _____
 Residential Accessory Income \$ _____
 Commercial Area _____ sq. ft. Estimated Monthly Rental \$ _____

To provide you and your architect with assistance in the development of a proposal which meets HUD Minimum Property Standards, please contact Mr./Ms. _____, our design representative, to discuss the design of the proposal. In addition, he/she is to be consulted regularly during the development of the plans and specifications of the project so that as few problems occur as possible at subsequent stages of processing.

A fee of \$1.00 per \$1,000.00 of requested mortgage must accompany your application for conditional commitment. In addition, schematic drawings and outline specifications must be included as part of the case submission. The Affirmative Marketing Plan and Management Plan =at be submitted with, or prior to, the application for conditional commitment In those instances where an application for firm -commitment will immediately follow the issuance of the SAM& letter, the Management Plan and accompanying exhibits must be received prior to the application for firm commitment. The exhibits will include:

1. Written reply to "Questionnaire for Sponsor."
2. Written reply to "Questionnaire for Managing Agent."
3. Certification of Managing Agent.
4. Management Plan and Management Agreement.

Criterion #8 of the Project Selection Criteria, if applicable, will be re-evaluated by HUD upon receipt of the Management Plan.

In the event you desire to go directly to firm commitment processing, a fee of \$2.00 per \$1,000.00 of requested mortgage must accompany your application for firm commitment. In addition, contract drawings, detailed specifications and firm cost estimates shown on FHA Form 2328, as well as the Affirmative Marketing Plan must be included as part of the case submission. The Firm commitment will not be issued until the Management Plan has been approved.

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It is important to understand that this letter is not to be construed as a commitment on the part of HUD to insure a mortgage for your proposal. It is intended only to establish a land use intensity number, the value of site fully improved, the type of project, the number, the size, and the proposed composition of the units, and the unit rents. Your application for a conditional or firm commitment will be accepted by HUD if your submission does not vary with respect to the items established herein.

It should be understood that this letter places upon you the responsibility to develop a viable project. The conclusions recited above do not reflect any cost estimate, operating expense estimate, credit or financial analysis. These determinations will be made at the next stage.

Your application for conditional commitment with the required fee must be submitted within _____ days following the date of this letter, otherwise this SAMA Letter will expire. In the event you elect to go directly to the firm commitment stage the application for firm must be submitted within 120 days from issuance of this letter. The term of this letter may be extended for on 30 day period if more time is required and good cause can be shown. However, under no circumstances will this letter be extended more than 30 days beyond its original expiration date.

Sincerely,

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SECTION 4. COMMITMENT

2-17. CONDITIONAL COMMITMENT STAGE.

- a. There are two parts to the Conditional Commitment Stage; Project Design and Processing the application.
 - (1) Project Design and Architectural Liaison: The Design Representative designated at the SAMA Stage must work closely with the sponsor's architect to ensure compliance with HUD requirements. However, the Design Representative and other architectural and engineering staff must remember

that it is the sponsor's architect who assumes full and complete responsibility for the design. This responsibility shall not be abridged, particularly in matters of aesthetics. However, the Design Representative must be concerned with any design characteristics that could affect project economics. Many architects will request and welcome assistance in architectural matters affecting marketability and cost control. Such advice and guidance shall be rendered to the fullest extent possible.

- (2) Processing the Application: The Conditional Commitment Application must be accompanied by the required exhibits indicated on Form FHA-2013. In addition, the sponsor's Affirmative Marketing Plan and his Management Plan must accompany the application or be received prior to the application.

b. MHR Functions.

- (1) The following functions will be performed by the HRR upon receipt of the conditional commitment application:
 - (a) Determine completeness of the submission and compliance with SAMA Stage Findings.
 - (b) Upon receipt, (which may be prior to Conditional Commitment Application) route the Management Exhibits (See Reference (6) of the Foreword) to Housing Management Division/Mortgages and Properties Division for review and rating of criterion #8 of the Project Selection Criteria.

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 - (c) Upon receipt, (which may be prior to Conditional Commitment Application) route the Affirmative Marketing Plan to Equal Opportunity for review.
 - (d) Forward the file for processing if complete.
- (2) Applications will be returned and conditional commitment fee refunded for the following reasons:
 - (a) The submission is incomplete or on its face does not meet statutory or HUD requirements.
 - (b) The project concept deviates significantly from the concept previously agreed upon, requiring new marketing and/or site analysis.

- c. Receipt of Conditional Commitment Application. When sketch drawings and brief specifications are completed, the mortgagee's Application for Conditional Commitment with required exhibits, with the Conditional Commitment fee (\$1.00 per \$1,000.00 of mortgage requested) is submitted for processing and issuance of the conditional commitment. The fee payment is detached for

deposit, the project number is entered on the application and exhibits and attached to the file. The file is then routed to the Deputy Director of Housing/Service Office Supervisor for processing by the underwriting sections and the Affirmative Marketing and Management plans are routed for appropriate review. (See paragraph 2-17 b.(1)(b) and (c) above.) See Reference (7) of the Foreword on when the fee is earned.

- d. Technical Processing at the Conditional Commitment Stage. All technical decisions concerning acceptable design and MPS compliance, the estimated cost of the project, the as is value of the site, the detailed estimates of operating expenses and taxes, the supportable cost, the financial and credit capacity of the sponsorship, cash requirements, and the mortgage amount are determined at this time. All applicable processing, data and documentation forms will be completed in their entirety at this time. The land value, the market rents and the LUI are carried over from SAMA Stage unless changes in the sponsor's proposal require analysis.

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- e. The Conditional Commitment Conference and the Issuance of the Conditional Commitment. At the completion of technical processing, the Deputy Director of Housing/Service Office Supervisor reviews the underwriting determinations, amends or modifies conclusions as he deems appropriate (with appropriate documentation) and prepares the conditional commitment. The conditional commitment conference is then scheduled and, upon agreement being reached between the sponsor and HUD, the commitment is issued.

2-18. FIRM COMMITMENT PROCESSING. When final contract drawings and specifications are completed to the satisfaction of the Deputy Director of Housing/Service Office Supervisor, the mortgagee's Application for Firm Commitment, Form FHA-2013, with the balance of the commitment fee may be submitted. The amount of application commitment fees collected at this stage of processing shall equal \$3 per \$1,000 of the mortgage amount. See Reference (7) of the Foreword on when the fee is earned.

- a. In order to minimize construction change orders, the final specifications must include at least two, and preferably three, equal alternates for the project equipment items, specified where applicable.
- b. After the Deputy Director of Housing/Service Office Supervisor has reviewed the mortgagee's case submission for completeness and acceptability, it is scheduled for firm commitment processing. In most cases, HUD processing at the Firm Commitment Stage will result merely in a review of the case submission to insure that the proposal conforms to previous processing conclusions outlined in the Conditional Commitment Letter. HUD conclusions determined during earlier stages of processing will not be the subject of reanalysis, except to the extent made necessary by sponsor actions.
- c. After review of the case submission by the processors and after a

favorable finding, the Deputy Director of Housing/ Service Office Supervisor completes the Underwriting Summary Report (Form FHA-2438). Information contained in this report is used for the preparation of the HUD firm commitment which is then signed and issued.

CONDITIONAL COMMITMENT FORMAT

| | |
|---|---|
| <p>Mortgagee: Street Address: City:</p> | <p>Date: Conditional Commitment on: Name of Project: Project Number: Location: Section of the Act: Mortgagor:</p> |
|---|---|

Your application for Firm Commitment for project mortgage insurance on the captioned project will be accepted at any time during the life of this commitment. Your application must conform in content to previous submissions in connection with the proposal and must be accompanied by the commitment fee of \$_____. (Firm Commitment applications must be accompanied also by contract drawings and detailed specifications, as well as firm cost estimates shown on FHA Form 2328).

The project will have the following characteristics:

Total Units, _____, Type Building _____; with unit compositions of:

| Type of Unit | Sq. Ft. | Number | Monthly Market Rental |
|---------------|---------|--------|-----------------------|
| Efficiency | _____ | _____ | _____ |
| One Bedroom | _____ | _____ | _____ |
| Two Bedroom | _____ | _____ | _____ |
| Three Bedroom | _____ | _____ | _____ |
| Four Bedroom | _____ | _____ | _____ |
| Total | _____ | _____ | _____ |

Equipment and Services included in rent are:

Number of Parking Spaces: Enclosed _____ Open _____
 Estimated Monthly Parking Rental \$ _____
 Residential Accessory Income \$ _____
 Commercial Area _____ sq. ft. Estimated Monthly Rental \$ _____

The estimated project replacement cost of this proposal is \$ _____ which includes \$ _____ as HUD's estimate of the value of the land with off-site improvements installed, (NOTE: Excess costs resulting from unusual on-site conditions which will be provided for in the construction cost estimate will be deducted from this value and will also affect the "as is" land value for cost certification purposes, or the "as is" value of the property in rehabilitation projects.) Included in the replacement cost estimates are the following items:

cost of structures and land improvements, carrying charges and financing, legal and organizational expense, consultant's fee (if applicable), design and supervisory architect's fee, bond premium, other fees, supplemental management fund (if applicable), contingency reserve (if rehabilitation), builder's and sponsor's profit and risk allowance (if applicable) or builder's profit.

The maximum insurable mortgage supportable by the economics of the proposal is \$ _____. This represents a mortgage loan to replacement cost ratio of ____%. The cash you will be expected to furnish at closing is estimated to be \$ _____ (which includes equity investment, working capital, and operating deficit, if applicable). Please contact _____ who will advise you on the correct preparation of Form FHA-2328, Contractor's and/or Mortgagor's Cost Breakdown.

You are advised that restrictive covenants purporting to prohibit the use of this property to house anyone receiving the benefits of any subsidy and/or rent guarantee program, or any other restrictions that may be construed by the Department of HUD to be contrary to the intent and spirit of the Federal housing statutes, will render this proposal unacceptable for mortgage insurance purposes.

The above basic elements of the proposal upon which our estimates are computed cannot be altered without affecting the conclusions contained herein. The completed project must meet applicable code requirements and the HUD Minimum Property Standards.

Final development of the proposal must be coordinated with the HUD Design Representative assigned to this project. He will be available to assist the sponsor and the architect with the development of the final design and off-site requirements.

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CHAPTER 2, SECTION 4, FIGURE 2

(Section 236 Contract Authority in the amount of \$ _____), (Rent Supplement Funds in the amount of \$ _____), have been allocated to this project and will be available for the life of 'this Conditional Commitment and of any Firm Commitment hereafter issued.

Your application with the required fee must be submitted within 120 days following the date of this letter, otherwise this Conditional Commitment will expire. Any renewal or extension of this commitment may be based either upon this commitment or upon re-examination of the proposal, at the option of this office.

If none of the aforementioned project characteristics and figures established

herein are changed in the application for firm commitment and if the final drawings and specifications submitted with the application and the firm cost estimates are acceptable to HUD, HUD will issue a firm commitment for mortgage insurance for a maximum mortgage in the amount shown above.

Sincerely,

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SECTION 5. SIGNIFICANT DEVIATION

2-19. INTERPRETATION OF SIGNIFICANT DEVIATION IN MULTIFAMILY HOUSING.

- a. The guiding principle in evaluating the significance of deviations under any multifamily section of the Act for any project Program, and at any stage of processing through firm commitment is the determination of the extent to which the deviation alters the original concept upon which the determination of economic and programmatic feasibility was based. Significant deviation is not in evidence if the project as modified meets the same programmatic and inter-program objectives, is economically feasible as modified, involves no change of sponsorship, market to be served, type of project or location (except in rehabilitation see 2-19.b.(6), below).
- b. In processing the sponsor's application, the question arises as to how far can the field office processing deviate from the sponsor's application in arriving at a counterproposal which is economically and programmatically feasible.

A counterproposal may contain any or all of the following deviations from the sponsor's application (provided, of course, that during the conference with the sponsor the sponsor agrees that he can proceed successfully and evidences the financial capacity to proceed with the field office's counterproposal):

- (1) Rents.
- (2) Unit Number.
- (3) Unit Mix.
- (4) Unit Size.
- (5) Number of floors and number of buildings with the same building type. (Part A of FHA Form 2013/2264.)
- (6) In rehabilitation where several buildings are involved, the deletion or substitution of one or more buildings if determined to be necessary to project feasibility.
- (7) Parking requirements.

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- (2-19) (8) Extent of Commercial Space.

- (9) Gross Residential and Commercial areas.
- (10) Equipment and Services Included in Rent.
- (11) Expenses.
- (12) Taxes.
- (13) Replacement Cost.
- (14) Market Price of Site.
- (15) Cash Requirements.

c. A sponsor's application is inappropriate if it proposes:

- (1) Change of location.
- (2) Change of building type (from low to high rise or vice versa, or from detached to row house, from walkup to townhouse, etc.)
- (3) Change of sponsorship.
- (4) Change of market to be served.
- (5) Change in the rents or number of units is of such a magnitude that it indicates a change in the market potential and requires a new analysis of market need.
- (6) Change in Section of the Housing Act to an entirely different program (from a Section 236 to a Section 221(d)(4)).

In processing an application subsequent to. issuance of a SAMA letter or conditional commitment, the question to be answered in the context of this subject is how far can the sponsor's application deviate from the project concept agreed upon at the previous stage of processing and not constitute a significant deviation which should cause rejection of the application. The guiding principle as described in paragraph 2-19.a. above applies, but the parameters of acceptability are narrower. The first question is whether the

- (2-19) sponsor's application represents the mutually, agreed upon concept in the previous stage of processing. Secondly, are the changes in the application due in any way to requirements or suggestions imposed by the Design Representative or other authorized HUD personnel: HUD personnel are not authorized to require or recommend changes which deviate from the concept agreed to in the previous stage of processing but may require changes to assure conformance with the agreed concept. Affirmative answers render the application acceptable for processing to determine

feasibility of the proposal as modified. However, if the changes result in a different concept, the case submission no longer represents the originally agreed upon project and will be rejected.

- d. All of the items under paragraph 2-19.b. above are examples of deviations in the sponsor's application which on their face do not constitute grounds for rejection but should be processed to determine economic and programmatic feasibility.
- e. Deviation in the sponsor's application involving any of the items in paragraph 2-19.c. above are cause for rejection of the application.

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SECTION 6. ARCHITICTURAL SERVICES

2-20. IN RESERVE.

2-21. ARCHITECTURAL SERVICES AND THE OWNER-ARCHITECT AGREEMENT.

- a. The architectural services for which funds are provided in the mortgage amount of multifamily housing mortgage insurance commitments shall be those determined to be appropriate to the nature of the particular project and shall include at a minimum, in addition to design of the project, contract administration during construction. Where there is an identity of interest between the design architect and the mortgagor or contractor, services during the construction stage will have to be performed by a nonidentity of interest architect.
- b. Application for conditional commitment shall be accompanied in all cases by the signed contract between the sponsor and the architect, supplemented as necessary by a clear statement of the architectural services to be performed. The services specified and the fee specified in the contract shall be reviewed by the office and unless determined to be unreasonable shall be accepted for the purpose of conditional and firm commitment processing and determination of mortgage amount.

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SECTION 7. FEE INSPECTORS

2-22.FEE INSPECTORS. Fee inspection services may be utilized on multifamily insured mortgage projects to augment the regular staff when one or more of the following conditions exist:

- a. The number of living units under construction exceeds approximately 800 units or 8 projects per staff Construction Analyst or Construction Representative assigned to multifamily inspections.

(1) This work measurement figure is to be used only as a guide.

(2) The number of living units or projects which can be monitored by a staff employee depends on factors such as, the number of units in a project, whether elevator or nonelevator construction, travel distances involved, the performance of supervising architects and contractors during construction, and duties other than project monitoring which may be assigned to the staff employee.

b. The cost to HUD for fee personnel is less than the cost would be for mileage and per them of staff members, and the staff can be profitably used elsewhere.

c. Projects are located in areas not normally visited by staff members at least twice a month.

2-23. SCOPE OF SERVICES. The inspection services to be performed will be all of those that are ordinarily performed by Multifamily Construction Analysts or Construction Representatives. These duties and responsibilities are described in Chapter 4 of Reference (14) of the Foreword. It must be emphasized that the use of fee inspectors does not relieve the owner's supervising architect of the responsibility for administration of the Construct on Contract in accordance with the provisions of the Owner-Architect Agreement, Form FHA-2719A or FHA-2719C.

2-24. QUALIFICATION OF INSPECTORS. Fee Multifamily Inspectors shall meet or exceed the Civil Service Qualification Standards for Architect GS 808-11, or Construction Analyst 828-11.

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* a. Specialized Experience in the inspection of construction of elevator buildings, either residential or commercial, will be required of fee personnel assigned to this type of buildings.

b. Application will be made in duplicate on Form FHA-2563, Application for Designation as Fee Personnel.

2-25. FREQUENCY AND DURATION OF VISITS TO SITE. The fee arrangement shall specify a frequency of visits to the site of not less than once a week and more frequently in the case of larger projects. The duration of visits should provide for a minimum of two hours per week for smaller projects with greater amounts of time for larger projects.

a. Prior to assigning a fee inspector to a project, the Chief Architect will, for each project, recommend to the Director Housing Development Division/Chief Underwriter, a frequency and duration time-frame schedule.

b. This schedule will be based on the size and location of the project, the type of construction, and the past and anticipated performance of the General Contractor and architect responsible for administration of the contract.

c. The schedule can be revised during construction as field review by the Chief Architect dictates.

2-26. FEE. Payment by HUD for fee inspectors will be at the rate of \$20.00 per hour. This fee will cover all expenses including travel to and from the site.

2-27. ESTABLISHMENT OF FEE PANEL.

a. The Director Housing Development Division/Chief Underwriter and Chief Architect will determine the approximate size of the panel needed.

(1) A feature unique to the use of Multifamily Fee Inspectors is the construction period. The typical construction period for multifamily projects is 12 - 18 months.

(2) In establishing the panel, the Field Office should advise prospective fee personnel that even though the work may not be full time, with respect to hours per week, the assignment may run 12 - 18 months and the inspector must be available during the entire construction period. *

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b. The following must be taken into consideration in establishing the number of persons on the panel:

(1) Present and prospective workload.

(2) The fact that all fee personnel selected may not be able to accept assignments when needed.

(3) Geographical location of panelists and construction activity so that qualified persons can be assigned projects reasonably near their residences.

(4) Types of construction typical in Field Office, since some inspectors may be qualified for walkup construction but not elevator construction.

c. Fee personnel will be recruited by personal contact with local professional societies (such as American Institute of Architects), contractors, mortgagees, etc.

d. The Chief Architect will send prospective fee personnel an "application package". The package will include 3 copies of Form FHA-2563, Application for Designation as Fee Personnel (two copies are returned). Qualification requirements, compensation allowed and method of assignment will also be included in the package.

e. The Director Housing Development Division/Chief Underwriter and Chief Architect will review responses, interview, check references and prior employers, and select the best qualified in terms of training, experience and availability and make their recommendations to the Field Office Director. The Field Office Director will notify each applicant of their selection or non-selection within 45 days of the date of initial contact. Those

found eligible will be informed that satisfactory completion of a training course is a prerequisite to formal designation as a fee inspector.

- 2-28. TRAINING AND ORIENTATION PRIOR TO INITIAL ASSIGNMENT. A training session must be held for any inspector selected for the panel before any assignment. The training will cover all administrative and technical duties and responsibilities of an inspector as set forth in Reference (14) of the Foreword.

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- a. One full day will normally be adequate for the training. Panelists are not reimbursed for any expenses incurred in connection with attendance at required training.
- b. The selected candidates who satisfactorily complete the training course may be formally designated by the Field Office Director. The attached format, Figure 4 of this chapter, should be used for this purpose.

2-29. TERM OF DESIGNATION.

- a. Designation may be made for periods not exceeding two years and may be renewed upon recommendation by the Director Housing Development Division/Chief Underwriter when the individual has :
 - (1) Satisfactorily completed refresher or additional training courses prescribed by the office.
 - (2) Shown a satisfactory level of technical competence and performance of assignments.
 - (3) Accepted assignments when offered and completed them without undue delay.
- b. Unsatisfactory performance will justify removal from the fee roster at any time.
- c. Allocations for Fee Assignments are made on request of Field Offices through the Regional Administrator. Assignments may be made until the allocations are exhausted, withdrawn or terminated (as at the end of a fiscal year). Under no circumstances may fee assignments be made without an allocation nor may assignments be made in excess of outstanding allocations.

2-30. ASSIGNMENT. Fee assignments may be made when allocations are given to the Field Office by the Region.

- a. A Fee Inspector selected from the established panel by the Chief Architect will be assigned as inspector prior to the date set for the beginning of project construction. The Chief Architect selects the fee inspector on the basis of competency with due regard to the scope of the project, the type of construction involved, and the location of the pro-

(2-30) ject. Several projects being constructed concurrently may be handled by one inspector. There shall be no identity of interest between the fee inspector and the owner, contractor or architect administering the construction contract.. An Identity of Interest will be construed to exist:

- (1) When the fee inspector has any financial. interest in the project other than the fee from HUD for services,
- (2) When the owner, contractor or architect has any financial interest in the fee inspector,
- (3) When the fee inspector has any stock or financial interest in the architect, owner or contractor,
- (4) When there is a family relationship between the fee inspector and any of the following:
 - (a) The General Contractor or any officer, director, stockholder or partner of the contracting firm,
 - (b) The mortgagor or any officer, director, stockholder or partner of the contracting firm,
 - (c) Any HUD employee who has the responsibility for making the selection or a ranking position that may directly influence the selection.
- (5) When there exists or come into being any side deals, agreements, contracts or undertakings entered into or contemplated, thereby altering, amending, or canceling any of the required closing documents, except as approved by the Secretary.

b. Upon Assignment, the Chief Architect issues to the inspector the following:

- (1) Set No. 3 of the contract drawings and specifications. This set becomes the HUD as-built set.
- (2) A Copy of the Construction Contract, Forms FHA-2442 or 2442A when insured advances are involved.

- (3) The Owner-Architect Agreement, Form FHA-2719A or 2719C, when required.
- (4) The Contractor's and/or Mortgagor's Cost Breakdown Schedule of Values, Form FHA-2328, when insured advances are involved.
- (5) The drawings and Specifications pertaining to off-site

improvements.

- (6) The Agreements or Contracts providing for off-site construction.

2-31. REVIEW. The Chief Architect is responsible for the proper performance of all functions relating to inspection, as well as the instruction and supervision of all Architectural staff personnel involved. Although immediate supervision and other activities may be delegated to a deputy, the Chief Architect shall make sufficient inspections to remain familiar with the problems involved and to keep informed of the general progress of the work. All actions of, and material submitted by, the inspector are subject to the review of the Chief Architect or deputy. Conditions indicated in the HUD Representative Trip Report, Form HUD-5379, necessitating further action must be observed promptly. The Chief Architect should advise the inspector of any unsatisfactory action or detail in the material prepared, so that similar mistakes will be avoided in the future. Fee inspectors may be required to attend additional training if considered necessary by the Chief Architect.

2-32. FISCAL REQUIREMENTS.

- a. Form HUD-3650 shall be used to make fee inspection assignments for each site visit. Form HUD-3650 will be modified as follows:
 - (1) Insert the word "Multifamily" in any available space in the heading of the form.
 - (2) Include the Project Number in the "FHA Case No." block and include the Section of the Act.

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- (3) insert the number of hours the inspector will be expected to be at the site, multiply by \$20.00 per hour and enter the product in the "inspection fee" space.
- b. A Special Form is being designed to accommodate the summary report for multifamily inspections. Until the new form is made available, it will be necessary for the field offices to submit Form HUD-3650A, with certain modifications, to report inspection assignments relative to multifamily projects. All items in Parts A and B of Form HUD-3650A shall be completed for multifamily as they are listed for single family. The following special notations shall be made when using the Form HUD-3650A, "Summary Report of Fee Mortgage Credit Examination, Appraisal, and Inspection Operations," for multifamily inspections:
 - (1) Insert the word "MUTIFAMILY" in any available space in the heading of the form.
 - (2) Prepare a separate Form HUD-3650A for multifamily inspections; do not commingle with report prepared for single family fee inspections.
 - (3) Use only those spaces set aside for inspections in both

Parts A & B.

- (4) Insert actual expense (dollar amounts) instead of number of assignments in both Parts A & B.
- (5) Use the reverse side of the form to break out expenses reported (on Lines 2, 4a and 4b only) by Section of the Act, hours per section, and total fee, all of which should tie back to the total reported on line 2 of Part A.

2-33. PAYMENT OF INSPECTION FEES. Details concerning the payment of fees to the inspector are in References (15) and (16) of the Foreword. The fee inspector shall accumulate the certified Forms HUD-3650 and prepare a covering voucher on SF 1034 (original) and 1034a (copy), Public Voucher for Purchases and Services Other than Personal, and forward them to the Area or Insuring Office for certification of the SF-1034. The Area or Insuring Office shall then forward the SF-1034 to the Diversified Payments Division on a monthly basis.

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2-34. HEADQUARTERS FEE INSPECTORS. Fee inspection services may be utilized by Headquarters on multifamily insured mortgage projects instead of regular staff when the cost to HUD for fee personnel is less than the cost would be for salary, travel and per them of staff members.

- a. The Director, Office of Multifamily Housing Development will determine the size of the panel needed. In general, the foregoing instructions shall apply as to qualifications, establishment of fee panel, training and orientation and term of designation.
- b. Work orders will be made on Form HUD-3650 for each inspection of a specific project. The HUD Representative's Trip Report, Form HUD-5379, will be used to report the inspection.
- c. Contract payments by HUD for Headquarters fee inspections will be at the rate of \$20.00 per hour but not to exceed \$240 per calendar day. This fee will cover all expenses including travel by auto to and from the site. Where air travel is required, the actual cost of air coach transportation will be paid.
- d. Upon completion of the contract task, the Headquarters fee inspector will prepare a covering voucher on SF-1034 (original) and 1034 a (copy), Public Voucher for Purchases and Services Other than Personal. The FHA project case number must be shown for each inspection. The voucher (SF-1034), work order (HUD-3650) and inspection report (HUD-5379) shall be sent to the Director, Office of Multifamily Housing Development. After review and certification, the SF-1034 shall be forwarded to the Diversified Payments Division, Office of Finance and Accounting.

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CHAPTER 2, SECTION 7, FIGURE 4

CERTIFICATION OF HUD MULTIFAMILY INSPECTOR

This is to certify that

Name: _____

Address: _____

has demonstrated to the satisfaction of the Department of Housing and Urban Development that he-/she is qualified as a Multifamily Inspector and is familiar with HUD requirements, procedures and standards and is hereby authorized to make inspections of multifamily properties and to complete required reports, in order that properties may be accepted as security for mortgage loan insurance under the National Housing Act.

This authorization may be withdrawn upon written notice from the Director of the HUD Field Office and will expire on _____.

Signed _____
Director

Field Office

Date _____