

CHAPTER 4. UNDERWRITING RECOMMENDATIONS
DISPOSITION OF ACQUIRED MULTIFAMILY PROPERTIES

- 4-1. RECOMMENDATIONS. Recommendations to the Field Office Director with respect to sales prices and disposition of HUD-FHA acquired multifamily properties must be sufficiently comprehensive to advise him of the highest and best and most likely use of the property, the proper repair program, the estimate of value and the best method of disposal.
- 4-2. THE NATURE AND SCOPE. The recommendations that can be made by underwriting personnel are unlimited, provided the best interests of HUD-FHA are served. Therefore, the analysis must be comprehensive and deliberate with consideration being given to all probable uses to which the property may be put. Determining highest and best use will, in most instances, also determine the most logical program to pursue and result in the greatest recovery by HUD-FHA in a reasonable length of time.
- 4-3. THE APPRAISAL FORMS AND EXHIBITS. These are prepared by the Housing Management Division and are to be reviewed in detail. The file will be submitted to the DO/CU. If, after staff review, the DO/CU concurs in the findings of the Management Division, he will signify by signing the appraisal report. If the DO/CU concurs in all respects, he will so indicate and forward the file to the Director. If he is not in full agreement, complete separate findings shall be prepared by his underwriting staff.
- 4-4. UNDERWRITING REPORTS AND FORMS. These shall be prepared only by qualified senior underwriting personnel. Underwriting recommendations shall be supported by adequate data. Unsupported opinions shall not form the basis of any recommendations.
- 4-5. DETAILED VALUATION INSTRUCTIONS. These instructions include the statement that "there is no limit to the nature and scope of recommendations provided the best interests of HUD-FHA are served." The freedom of action this statement envisions precludes the use of any "instructed" capitalization rates, estimates of economic life, occupancy percentages or any other limitations upon the appraisal process. The recommendation made by the DO/CU to the Director, therefore, must be that which is his own best professional judgment.

- 4-6. PROCEDURE OUTLINED. The procedures discussed in detail in architectural and valuation handbooks are presented here in outline form. Analysis and further calculations or estimates will always stop when the best use, value, and disposition have become clearly evident. The technical analysis will be under the direction of the DO/CU. He will determine the

depth of analysis and the degree of participation by elements of the staff.

a. Joint inspection and tentative determinations:

The DO/CU will call in:

- Sanitary Engineer, Site Planner, Site Engineer, Market Analyst, and other specialized aides, as necessary.
- Chief Appraiser and/or selected staff members.
- Chief Architect and/or selected staff members.

(1) Highest and Best Use Determination (an analytical determination based upon economics, without regard to current use, or limited uses for which mortgage insurance may be written).

(a) Present use (presumably continued as multifamily rental housing project).

1 As is, except for cleaning, etc.

2 With repair expenditures ("as repaired").

a Deferred maintenance only.

b Major repairs, alterations, rehabilitation.

(b) Conversion to other use, such as:

1 Furnished apartments.

2 Apartment hotel.

3 Commercial hotel or motel.

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4 Office or professional building.

5 Cooperative, condominium or subdivided parcel.

a Sale to consumers.

b Sale to an entrepreneur, for subsequent resale to consumers.

(c) Conversion of land to other use.

1 Separate sale of land, and buildings for removal.

a Subdivision of land, as into commercial or industrial parcels.

2 Sale "as is," with or without requirement for removal of buildings by purchaser.

(d) Other, including any combination of above.

(2) Determination of Procedure in HUD-FHA's best interest. (The decision as to the method that obtains the best and speediest recovery.)

b. Architectural Considerations (may precede, be concurrent with or follow paragraph 4-6.c., below).

Consideration of FHA Form 2475 (Property Management) Property Report - Rental Project Consideration of FHA Form 2060a (Property Management) Report of Physical Condition and Repair Recommendation Consideration or Preparation of FHA Form 477 (Property Management) Repair Specifications (or review if prepared by Valuator)

(1) Prepare repair (rehabilitation, alteration) recommendations.

(2) Property Insurance Schedule prepared as required by the Office of Property Disposition, Washington, D.C.

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c. Cost Considerations. Cost Analyst prepares such estimates as requested by the DO/CU.

d. Valuation Considerations. (May in part precede paragraph 4-6.a., and in part or in toto precede, be concurrent with or follow paragraph 4-6.b. above.)

Prepare Appraisal(s).

(1) Prepare FHA Form 2264.

(a) As is.

(b) As repaired (altered, rehabilitated).

(2) Prepare FHA Form 477, Repair Specifications (or review if prepared by Architect).

(a) Or refer to Architect for preparation.

(3) Prepare Summary Report and Recommendations for handling and disposition.

e. DO/CU. Review file and recommendations of staff. Make final recommendations to Director.

(1) Value as is, as repaired and cost of repair.

(2) Recommended price and method of disposal.

4-7. INITIAL ANALYSIS. The outline provides for handling the most complex situations to be encountered. Therefore, all the considerations discussed are not likely to be encountered in any single submission. Nor need the analysis be carried beyond the point of clear determination of the facts required. The DO/CU, Chief Valuator, and Chief Architect shall

thoroughly review the available information and then make an initial inspection of the property for the purpose of arriving at tentative conclusions with respect to the highest and best use of the property.

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4-8. PRESENT USE.

- a. If it is concluded that the present use is the highest and best use, the next tentative conclusion to be made is whether or not conversion, such as increasing or decreasing the number of efficiency suites, or otherwise altering the composition of the units, would be advantageous to HUD-FHA, as indicated by the estimated cost of making such changes in relation to the added value increment resulting from the adoption of such a program.
- b. If present use is the best use, and the conversion would not increase marketability and value equal to, or in excess of, the cost of the alterations, a tentative determination would then be made as to whether or not HUD-FHA's interests would be best served by offering the property on an "as is" or "as repaired" basis. This would, of course, call for rough estimates as to the nature and extent and cost of proposed repairs, as well as rough estimates with respect to the net revenues to be anticipated.

4-9. COMPLETION OF INITIAL ANALYSIS. It should be clearly apparent from the scope of the determinations required of the DO/CU on, and subsequent to, the initial visit to the property, that this phase of the analysis must be performed in a thorough and objective manner. The soundness of the conclusions developed will be a direct reflection of the competence, diligence and vision of the underwriting staff participating in the analysis.

- a. The DO/CU shall utilize the services of the Sanitary Engineer, Site Planners and Site Engineer or specialists in the initial analysis stage and subsequently when such services are essential in arriving at sound solutions.
- b. Either of two alternate programs may appear to be feasible. In such instances final determination as to which program is to be recommended could only be made through more detailed analysis subsequent to the assignment of the case for appraisal.
- c. Upon completion of the initial analysis, the DO/CU shall prepare a memorandum setting forth in narrative form the staff conclusions indicating the recommended program and briefly setting forth the reasons. Brief reasons for elimination of alternate programs should also be recorded.

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- d. The purpose of this memorandum is to acquaint the Architectural and Valuation processors with the tentative conclusions reached and the reasoning back of them, and to answer questions which should normally arise in the minds of processors as to possible alternate

treatments. This memorandum is not to be considered a directive to the processors which would preclude their exercising independent judgment as to the highest and best use of the property, the proper repair program, the determination of value, or the method of disposal of the property.

- 4-10. FINAL REVIEW AND DO/CU RECOMMENDATIONS. The DO/CU shall review the conclusions of the staff and supporting data, and set forth his recommendations with respect to:
- a. Most profitable or Highest and Best Use of property.
 - b. Fair Market Value of Property "as is."
 - c. Fair Market Value "as repaired" or rehabilitated, if necessary, to achieve Highest and Best Use.
 - d. Recommended plan of disposal. (If recommended disposal plan calls for repair or rehabilitation - a brief description of the scope of the work and the estimated cost shall be set forth.)
 - e. Recommended price and terms of sale.
- 4-11. DETERMINATION OF DO/CU. The DO/CU recommendation to the Director should be set forth as follows:

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CERTIFICATION

I certify that I have carefully analyzed the project known as _____ located at _____ and I have no personal interest, present or prospective, in the property, applicant or proceeds of the mortgage.

[] I recommend the disposal as set forth in the Report, attached hereto.

[] I recommend the following disposal plan.

Date _____

Chief Underwriter/
Director of Operations

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