



**MEMORANDUM FOR: Minnesota MF Hub Lenders**

**SUBJECT: Pre-payments of FHA Insured Loans/Section 250(a) and a change to the Active Partner Performance System (APPS)**

**Circular 07-01**

**Date: March 30, 2007**

Pre-payments of FHA Insured Loans and Section 250(a): With the exception of projects insured under Section 223(f), any FHA Insured project that has a provision in the note requiring HUD's approval prior to pre-payment is subject to Section 250(a) of the National Housing Act. Section 250(a) does not apply to Section 202 projects. It does apply to Section 236 decouplings. Details on Section 250(a) are in Notice H 06-11. Moreover, there was a clarification recently posted on HUD's website that stated the following:

For the Department to approve prepayments under this Section (250(a)), the project owner must provide documentation evidencing rehabilitation costs that meet one or more of the criteria below to be considered a "significant amount of rehabilitation".

- Rehabilitation cost is at least \$15,000 per unit. The minimum amount is calculated excluding all costs except hard construction costs (no contingencies) which must be supported by a sources and uses statement.
- There is a replacement or modernization of one or more mechanical systems or major building components such as roof structures, wall or floor structures, foundations, plumbing, central heating and air conditioning; or electrical systems, as defined by paragraph 4-2B of HUD Handbook, 4460.1, Architectural Analysis and Inspections for Project Mortgage Insurance; or,
- The total hard cost of repair/rehabilitation is at least 25% of the total development cost. Total development cost is the sum of the costs of acquisition, site improvements, rehabilitation, fees, carrying charges and financing, legal organizational and audit. (Generally, the amount shown on line G72 of form HUD-92264, Multifamily Summary Appraisal Report.)

Subject: Circular 06-02

Page 2 of 2

If you have a question about how this requirement affects a project that you are working on, please contact us.

APPS: Please see the attached memorandum, which eases the APPS requirements on passive investors. This memorandum is available at the following address:

<http://www.hud.gov/offices/hsg/mfh/apps/passiveinvestor.pdf>

If you have questions on how this memorandum affects APPS submissions that are in process (you may want us to cancel them and re-submit), please contact the processing office (Milwaukee or Minneapolis).

If you have any questions regarding this circular, please contact Tim Gruenes at 612-370-3051, Ext. 2252 (email address = [tim\\_p\\_gruenes@hud.gov](mailto:tim_p_gruenes@hud.gov)).

Note that these local policy positions only apply to projects in the Minnesota Hub and may be revised by future national policy issuances such as MAP Guide revisions, Notices and Mortgage Letters.
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