



MEMORANDUM FOR: Minnesota MF Hub Lenders

SUBJECT: FHA Streamlining, Davis Bacon, Third Party Reports for Pre-Applications, New Staff Member and Revision to Circular 07-01

Circular 07-02

Date: December 31, 2007

A. Streamlining Our Programs: We have received guidance from HUD Headquarters and are making the following changes in an attempt to streamline our programs:

1. Expanded Guidance for Mortgage Fees and Charges:

Per MAP Guide requirements contained in Section 3.2 I, HUD notes that the maximum fee the lender may charge is 3.5% of the mortgage amount (inclusive of the financing fee, and the permanent placement fee). The mortgagee's legal fees are also to be paid out of the fee.

Headquarters has urged us (if the local market dictates) to be flexible on the maximum percentages we allow on smaller projects – those with mortgages of \$1.5 million or less.

Alternatively, we will review the possibility of allowing mortgagee legal fees to be listed outside the prescribed cap on smaller projects. For instance, our Small Projects Program in Seattle allows total financing fees of up to 5.5%.

Please contact the applicable office (Minneapolis or Milwaukee) if you have a situation that you believe merits higher financing fees than called for in our directives.

2. Bank and Trade References: When credit reports do not contain adverse information, and the credit history is acceptable, HUD will no longer require inquiries of bank and trade references per Form HUD-92013-Supp Supplement to Application for a Multifamily Housing Project. Traditional Application Processing (TAP) and Multifamily Accelerated Processing (MAP) applications must continue to contain bank and trade inquiry letters when credit reports do contain adverse information and the credit history is not acceptable. The Department

will continue to require commercial credit reports, residential mortgage credit reports, Form HUD-92004-F, Request for Verification of Deposit and Form HUD-92013-Supp as exhibits in applications for FHA mortgage insurance.

3. Plans and Specifications: We will now only require 2 sets of plans and specifications to be submitted. One “full size” set will go to the construction site after the pre-construction conference. The other set will be considered the Master Set and kept by HUD. Due to limitations in our storage space, we request that the Master Set of plans be “half size” (50% reduction from normal, full size plans). The Master Set must be bound. Moreover, the Master Set must include a cover page that includes the following: language identifying it as the Master Set, a note that the Master Set will be adhered to in the event of any dispute, and signatures of all relevant parties. At the Pre-Construction Conference, the Master Set will be stamped and initialed on the first and last page by the mortgagor, bonding company, general contractor and the architect.

B. Minneapolis Multifamily Website:

The Minneapolis Multifamily website now contains the Multifamily Development circulars. As new circulars are issued, we will continue to e-mail them out and now we will be putting them on the web for ease of use. There is also a section on the website devoted to cooperatives. The website URL is as follows:

<http://www.hud.gov/local/mn/working/mf/index.cfm>.

C. Labor Relations & Davis Bacon:

As the Minneapolis Office has lost its Labor Relation’s staff person, monitoring for Davis Bacon compliance has been and will continue to be completed by other HUD offices in our Region. Until further notice, please send all Davis Bacon compliance documents (payrolls, etc.) to the below office:

Office of Labor Relations, 5ASL
US Department of HUD
77 West Jackson Boulevard
Chicago, IL 60604-3507
Telephone: (312) 353-9090
Fax: (312) 353-5164

Should your project be monitored by another office, we will notify you of the reviewer's contact information.

On projects with subsidy (where one of the entities involved has the capability to monitor Davis Bacon for HUD), we encourage lenders to request that the entity monitor. In these situations, we ask for an email or letter from the entity indicating that they have agreed to do so. Moreover, prior to Final Closing, we need an email or letter from the entity that the project is cleared for Final Closing.

D. Third Party Reports for Pre-Applications

The MAP Guide contains requirements for Third Party Reports submitted to HUD. The HUD requirements for third party appraisals and market studies can be found in Chapter 7 of the MAP Guide. Requirements for third party environmental reports can be found in Chapter 9 of the MAP Guide. Additional information on third party report requirements can be found in Appendix 4 of the MAP Guide. The MAP Guide can be found at: <http://www.hud.gov/offices/hsg/mfh/map/mapguide/mapguide.cfm>.

If the third party reports that are submitted as a part of a pre-application do not meet our requirements, our review results are subject to change.

E. New Architecture/Cost Staff Member: The Minneapolis Office has hired a new Architecture/Cost staff person. His name is Steve Sorola and his contact information is as follows:

Email: Stephen.M.Sorola@hud.gov

Phone: 612-370-3051 Ext. 2294

E. Revision to Circular 07-01: In Circular 07-01, we stated that Section 250(a) applies to Section 236 decouplings. This is incorrect. We have since learned that Section 250(a) does not apply to Section 236 decouplings.

If you have any questions regarding this circular, please contact Tim Gruenes (Supervisory Project Manager) at 612-370-3051, Ext. 2252 (email address = tim.p.gruenes@hud.gov).

If you have questions regarding issues relating to Milwaukee, WI projects, please contact:

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