

U.S. Department of Housing and Urban Development

Special Attention of:
Regional Directors, Field Office Directors,
Multifamily HubDirectors, Multifamily Program
Center Directors, Housing Project Managers,
Directors of Housing Development

Transmittal for Handbook No:
4470.1 REV-2 Change 2
Issued: June 10, 2004

1. This Transmits

Handbook 4470.1 REV-2, Mortgage Credit Analysis for Project Mortgage Insurance, Section 207, CHANGE 2

2. Summary. This change adds a new Section 8-8(A)(5), Pro-Rata Distribution of Tax Credit Proceeds, to implement the revision of the regulation 24 CFR Part 200.54, effective on August 29, 2003 (FR-4792-I-01 Distribution of Tax Credit Proceeds). 24 CFR 200.54(a) requires that funds provided by the mortgagor must be disbursed in full for project work, materials and incidental charges and expenses before disbursement of any mortgage proceeds. The revised 24 CFR 200.54(b) states that mortgagor front money for low-income housing tax credit and historic tax credit projects need not be fully disbursed before the disbursement of mortgage proceeds, where approved by the Commissioner in accordance with terms, conditions, and standards established by the Commissioner. Section 8-8(A)(5) implements the revisions to 24 CFR 200.54(b) by establishing the terms, conditions, and standards for front money in tax credit cases to be disbursed on a pro-rata basis along with the insured mortgage proceeds. Section 8-8(A)(5) explains that the mortgagor's front money, including proceeds from the sale of LIHTCs or historic tax credits must be deposited with the mortgagee in an amount sufficient to meet requirements at initial closing. The mortgagee and the HUD field office will set up a schedule for disbursement of the mortgagor's cash escrow and the mortgage proceeds comcomitantly (on a pro-rata basis). The percentages and amounts must be property documented. Release of front money on LIHTC or historic tax credit cases may not be targeted to the completion of specific on-site improvements. This change also makes two revisions to Section 8-8(A)(1). Section 8-8(A)(1) explains the funds disbursement priority for initial/interim advances that are to be disbursed before any mortgage funds: first, all funds from the mortgagor's cash escrow; second, grant/loan proceeds furnished by a national, regional, or local community service organization or a private source; third, grant/loan proceeds furnished by a government agency or instrumentality. Section 8-8(A)(1)(a) has been revised to state that the mortgagor's cash escrow must be disbursed before other sources of funds "unless a pro-rata disbursement arrangement (for tax credit projects only) has been previously approved by the Hub Director." Section 8-8(A)(1)(c) has been revised to state that the "Hub Director" (not the Director of Housing Development) will approve a pro-rata disbursement arrangement involving grant/loan proceeds furnished by a governmental agency or instrumentality. Similar changes have been made to the Multifamily Accelerated Processing (MAP) Guide and Handbook 4435.1. 3. Filing Instructions:

Remove:
Pages 8-4 and 8-5

Insert:
Pages 8-4, 8-5, and 8-5.1

Assistant Secretary for Housing
- Federal Housing Commissioner

U.S. Department of Housing and Urban Development

H O U S I N G

Special Attention of:

Transmittal Handbook No.:
4470.1 REV-2 CHG 1

Secretary's Representative's, Directors,
Office of Housing, Category A Offices,
Field Office Multifamily Division
Directors, Chiefs, Multifamily Production
Branches and Multifamily Mortgage Credit
Technicians, Category A and B Offices

Issued: October 6, 1994

1.This transmits:

Changes to Handbook 4470.1 REV-2, Mortgage Credit Analysis
for Project Mortgage Insurance, Section 207, dated 10/94.

2.Explanation of Material Transmitted:

- a.Handbook references in the Foreword have been updated to reflect recent publications.
 - b.Paragraphs 2-1.B.2.c and d and 2-6.C have been revised to reflect the change in policy relative to the submission of Forms HUD-92013 Supp and -92004-F for officers of profit-motivated and nonprofit corporations. The revision requires only operating officers, i.e., typically includes President, Vice-President, Secretary and Treasurer, to submit a Form HUD-92013 Supp. It also permits those officers who have no ownership interest (profit-motivated) and who are not being relied upon for financial support to eliminate information relative to bank account balances. This eliminated the need to obtain a Form HUD-92004-F, Request for Verification for Deposit, for these individuals. Also, paragraph 2-1.B.2.d has also been revised to reflect that a verification of deposit, completed in its entirety, is required for each bank reference included on Form HUD-92013 Supp and any additional bank account balance identified on the individual/firm's financial statement.
 - c.Paragraph 2-1.B.2.f has been revised to eliminate the requirement that officers of a corporation, who have no ownership interest and who are not being relied upon for financial support, provide a listing of other business concerns in which they serve as a principal.
 - d.Paragraph 2-1.B.2.g has been revised to clarify that credit reports must be current within 30 days of the application acceptance date.
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e.Paragraph 2-1.B.2.g.(2) has been revised to clarify that credit reports are not required on mortgagor entities that are formed after submission of the application.

f.Paragraph 2-1.B.2.g has been revised to include Notes relative the submission of credit reports to identify special requirements for specific Sections of the Act and to clarify the submission requirements when a business entity is a principal of the mortgagor.

g.Paragraph 2-1.B.2.g has been revised to reflect the requirement that the housing consultant submit a resume.

h.Paragraphs 2-1.B.2.j, 2-4.B.5, 3-2.B.7 and 3-3.B have been revised to require interim financial statements only if more than 6 months have lapsed from the date of any audited financial statement.

i.Paragraph 2-1.B.2.m has been revised to clarify that OMB Circular A-129 applies only to the applicant of a HUD insured mortgage or Section 202/811 capital advance, but that it has been administratively decided to apply the requirements of this Circular to the sponsor, principals of the mortgagor and the general contractor.

j.Paragraph 2-1.B.2.n has been added to require each principal who is a sponsor to submit a written statement indicating the parameters of their financial commitment to and contractual relationship with the mortgagor as an application exhibit. This statement was previously required under paragraph 3-9.A, but was mistakenly eliminated as an application exhibit.

k.Paragraph 2-1.B.2.o has been added to require photocopies of the documents used to verify program participant's SSN/EINs. This is a requirement under paragraph 2-2.A.3, but was mistakenly eliminated as an application exhibit.

l.A Note has been added at the end of paragraph 2-1 to emphasize that Field Offices are not to accept applications if any of the required application exhibits are missing or incomplete. This requirement is also stated in the preliminary evaluation instructions contained in paragraph 2-3.C.

m.Paragraph 2-2 has been revised to specify that 24 CFR 200 Subpart U and 207.17 requires the disclosure and verification of the applicant's SSN/EIN.

n.Paragraph 2-2.B requires the mortgagee to obtain verification of deposits for each bank reference listed on HUD-92013 Supp and the participant's financial statements.

o.Paragraph 2-3.A has been revised to indicate that the 2530 review process will be relied upon in determining the existence of any delinquent Federal debt relative to HUD insured and/or HUD held projects.

p.Paragraph 2-3.D requires all financial and credit information to be extracted from application binders and maintained by the Mortgage Credit staff.

q.Paragraph 2-5.A has been revised to give complete instructions relative to contracting for commercial credit reports.

r.Paragraphs 2-5.B has been revised to amend the information required to be provided in credit reports. For example, EIN, explanation of inquiries made within 90 days, names of creditors, dates accounts were opened, and an indication that public records have been checked have been eliminated based on discussions with Dunn and Bradstreet.

s.Paragraph 2-9 has been revised to indicate that financial statement information is confidential and that all financial and credit information is to be maintained by the Mortgage Credit staff.

t.Paragraphs 3-1 and 3-2.A have been revised to clarify financial statement submission requirements.

u.Paragraph 3-2.A.2.a has been revised to update the criminal warning that must be included on any substitute financial statement.

v.Paragraph 3-2.B.4.h has been revised to require the general contractor to submit a schedule of jobs (work) in progress.

w.Paragraph 3-2.C.8 has been revised to change the certification and criminal warning that must accompany any supporting schedules.

x.Paragraph 3-7 has been added to include instructions relative to the submission of a financing plan.

y.Paragraph 3-12 has been revised to permit the instructions relative to hypothecation to be applied if the general contractor does not have an acceptable working capital position.

z.Paragraph 8-12 relative to the release of the contractor's holdback has been amended to adopt the instructions contained in Handbook 4435.01 REV-1.

aa.Paragraph 17-1.A.2 has been amended to eliminate the initial operating deficit computed in the original processing as an exclusion of costs that may not be included in the computation of an operating loss loan.

bb.Paragraph 17-4.C.2.b has been revised to require that the estimated income be multiplied by the applicable debt service ratio before making the reductions for the current debt service requirement on the mortgage and other debt service requirements.

cc.Chapters 19 through 22, 24 through 26 and 28 have been reserved for future instructions.

dd.Chapter 23 has been added to provide instructions relative to the Section 221(d) Program.

ee.Chapter 27 has been added to provide instructions relative to the Section 241 Program.

3.Filing Instructions:

Remove:

Handbook 4470.1 REV-2
Foreword, Pages 1-3
Table of Contents and
List of Forms, Pages
i-vi
Pages 2-1 thru 2-15
dated 9/92
Pages 3-1 thru 3-12
dated 9/92
Pages 8-17 thru 8-19
dated 9/92
Pages 17-1 and 17-4
dated 9/92

Insert:

Handbook 4470.1 REV-2 CHG 1
Foreword, Pages 1-4
Table of Contents and
List of Forms, Pages
i-vi
Pages 2-1 thru 2-16
dated 10/94
Pages 3-1 thru 3-14
dated 10/94
Page 8-17 dated 10/94
Pages 17-1 and 17-4
dated 10/94

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Insert:

Page 19-1 dated 10/94
Page 20-1 dated 10/94

Page 21-1 dated 10/94
Page 22-1 dated 10/94
Pages 23-1 thru 23-7
dated 10/94
Page 24-1 dated 10/94
Page 25-1 dated 10/94
Page 26-1 dated 10/94
Pages 27-1 thru 27-31
dated 10/94
Page 28-1 dated 10/94

Assistant Secretary for Housing-
Federal Housing Commissioner

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MORTGAGE CREDIT ANALYSIS FOR PROJECT MORTGAGE INSURANCE,
SECTION 207 FOREWORD

This handbook supplies HUD personnel with basic mortgage credit instructions for analyzing proposals for project mortgage insurance. The primary aims of this handbook are:

- 1.To standardize mortgage credit rules;
- 2.To give a basis for sound mortgage credit conclusions;
- 3.To aid in deciding the acceptability and financial capacity of sponsors and general contractors; and
- 4.To clarify and emphasize instructions.

All issuances released after the publication of this handbook take precedence over the contents of this handbook where applicable.

References:

- (1)IG 2000.4 Consolidated Audit Guide for HUD Programs
- (2) 4381.5 REV-1 Compensation for Management Services in
Multifamily Housing Projects with Insured
or HUD-Held Mortgages
- (3) 4400.1 Project Mortgage Insurance Basic Section
207 Instructions
- (4)4410.1 REV-2 Project Fiscal Procedures
- (5) 4420.1 Pre-Application for Project Mortgage
Insurance

- (23) 4550.6 Sales Type Cooperatives
 - (24) 4555.1 Rental Housing in Urban Renewal Areas for
Project Mortgage Insurance Section 220
 - (25) 4560.1 REV Section 221(d)(3) Market Interest Rate for
Project Mortgage Insurance
 - (26) 4560.2 Mortgage Insurance for Moderate Income
Housing Projects Section 221(d)(4)
 - (27) 4560.3 Mortgage Insurance for Single Room
Occupancy (SRO) Projects, Section 221(d)
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- (28) 4565.1 Mortgage Insurance for the Purchase or
Refinancing of Existing Multifamily Housing
Projects Section 223(f)
- (29) 4570.1 REV Section 231 Housing for the Elderly for
Project Mortgage Insurance
- (30) 4571.1 REV-2 Section 202 Direct Loan Program for Housing
for the Elderly or Handicapped
- (31) 4571.2 Section 811 Supportive Housing for Persons
with Disabilities
- (32)*4571.3 REV-1 Section 202 Supportive Housing for the
Elderly*
- (33) 4580.1 Mortgage Insurance for Condominium Housing
Insured under Section 234(d) of the
National Housing Act
- (34) 4585.1 Supplemental Loans for Project Mortgage
Insurance Section 241
- (35) 4600.1 REV-1 Administrative Procedures for Nursing Homes
and/or Intermediate Care Facilities
- (36) 4600.2 Fire Safety Equipment Loan Insurance
Program for Nursing Homes and Intermediate
Care Facilities Section 232(i)
- (37) 4615.1 Mortgage Insurance for Hospitals Section
242
- (38) 4630.1 Group Practice Facilities
- (39) 7420.3 REV-2 Section 8 Housing Assistance Payments

Program, Existing Housing and Moderate
Rehabilitation Processing

(40) 7420.8 Section 8 Housing Assistance Payments
 Program, Part 811, Subpart A, Tax Exempt
 Financing Processing Handbook

(41) Government Auditing Standards, Standards
 for Audit of Governmental Organizations,
 Programs, Activities, and Functions, (GAO
 Yellow Book), issued by the Comptroller
 General of the United States General
 Accounting Office

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(42)*4350.6 Processing Plans of Action Under Low-Income
 Housing Preservation and Resident
 Homeownership Act of 1990

(43) 4571.4 Supportive Housing for Persons with
 Disabilities, Conditional Commitment
 - Final Closing

(44) 4571.5 Supportive Housing for the Elderly-Conditional
 Commitment-Final Closing*

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