
CHAPTER 3. HUD-FHA PROCESSING AND PROCEDURES

- 3-1. FORMAL APPLICATION. A formal application, FHA Form 2013(NH-ICF), (Appendix #2) with fees equal to \$4.00 per \$1,000 of the loan amount requested (with a minimum fee of \$50.00), will be submitted to the HUD office through a HUD-FHA approved lender, after approval and certification of the plans and specifications by HEW. HEW will provide HUD with a copy of the approved architectural exhibits, statement of the reasonableness of the cost of the improvements based on bids, and a letter of determination (see paragraph 2-2b).
- 3-2. MORTGAGE CREDIT PROCESSING. The steps in mortgage Credit processing involve: Credit investigation; establishing the amount and amortization period of loan; evaluation of mortgagor's ability to close the loan transaction; analysis of acceptability of sponsorship and cost certification. Mortgage Credit procedures and analysis are to be completed in accordance with Section 207 Basic Instructions, Handbook 4470.1, except as herein modified.
- a. Loan Limitations:
- (1) Minimum loan under this program is \$10,000
 - (2) Maximum loan shall involve a principal obligation in multiples of \$100 not to exceed:
 - (a) The Commissioner's estimate of the cost of the fire safety equipment including installation; provided, however
 - (b) That the sum of the fire safety loan and the liens superior to the fire safety loan may not exceed 90% of the estimated value of the project upon completion of the installation of the fire safety equipment as determined by residual income.
 - (3) Maximum term of loan. Loan terms may be 5, 10, or 15 years or 100% of the remaining economic life whichever is lesser on loans of less than \$50,000. Loans of \$50,000 or more are eligible for a term of 20 years or 100% of the remaining economic life whichever is the lesser. The method of amortization will be limited to the level annuity monthly payment plan (LAMP).

- (4) Interest Rate. The loan shall bear interest at a rate agreed upon by the lender and borrower, but not in excess of the maximum interest rate currently in effect for Section 232(i).
- b. Previous Participation Review Procedures. FHA Form 2530 may be received by the local field office from the parties prior to receipt of an application for insurance under Section 232(i). The FHA Form 2530 will be accompanied by a letter from the owner expressing his desire to participate in this program. Once received in the local field office, the FHA Form 2530 will be routed to the Mortgage Credit Section or the Finance and Mortgage Credit Section who will set up their credit file. At this time the FHA Form 2530 should be submitted to Central Office, Washington, D. C. for clearance without waiting for the application to be submitted in order to expedite processing once the application is received.
- c. Exhibits Required for Mortgage Credit Processing. The exhibits listed in paragraph 1-17a., with the possible exception of the FHA Form 2530, Previous Participation Certificate, which may have been previously received, will be submitted with the application and routed immediately to the Finance and Mortgage Credit/Mortgage Credit Section.
- d. Review of Fees and Charges. Upon receipt of the formal application, FHA Form No. 2013(NH-ICF), the Mortgage Credit Section or the Finance and Mortgage Credit Section will review the fees and other charges for accuracy and reasonableness.
- e. Determination of Maximum Insurable Loan. The maximum insurable loan will be established subject to limitations in paragraph 3-2a.(2). This will be accomplished by determining the maximum insurable amount (existing mortgage(s) and request loan amount) that will entail a debt service not in excess of the annual net income based on the Mortgage Credit Section's or the Finance and Mortgage Credit Section's current estimate of present or projected total annual rentals and expenses based on an occupancy ratio experienced over the last two years, but in no event to exceed 93%. Calculations will be as follows:
- (1) Multiply the annual gross income by the occupancy ratio experienced over the last two years but in no event to exceed 93%. It is assumed that the installation of fire safety equipment will not increase the occupancy rate.

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- (2) From the amount determined in Step 1, subtract the total annual operating expenses exclusive of depreciation

and debt service requirements on any outstanding indebtedness against the property but including reserves for replacements, taxes, annual ground rent if leasehold, and special assessments, if any.

- (3) From the amount of remaining income, deduct normal proprietary earnings experienced over the last two years, but in no event less than 15%. This is computed by multiplying the net income determined in Step 2 by 15%.
 - (4) From the amount of net income determined in Step 3, deduct the amount of the current annual debt service requirements on the mortgage based on 12 times the current monthly payment for principal, interest, and mortgage insurance premium (if applicable).
 - (5) The maximum amount of loan available is obtained by multiplying the residual income determined in Step 4 by 95% and divide the product by the debt service rate for the term of the loan. (See Appendix #8 for initial curtail rates).
- f. Mortgage Credit Processing Procedure. Utilizing financial statements from the two previous accounting years, the year-to-date financial statements, and the FHA Form 2013 (NH-ICF), the Mortgage Credit Examiner will analyze and determine the amount of maximum insurable loan.

The addition of the fire safety equipment will in most cases result in increased Medicare-Medicaid payments to the facility. The Mortgage Credit Examiner should determine that additional income reported on the FHA Form 2013(NH-ICF) reflects the amount verified on the statement(s) from governmental agencies as required in paragraph 1-17a(11) of this Handbook.

The formula for determining the amount of loan is set forth in subparagraph e. above. The amount of front money is determined by taking the maximum insurable loan as determined by HUD and subtracting the amount of the accepted contract and any allowable related fees associated with the loan. When it has been determined that the sponsor exhibits satisfactory credit and financial capacity to support the loan and meet

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- (3-2) the required front money requirements, if any, Mortgage Credit will prepare a memorandum to the Chief of Real Estate Valuation/Valuation Section setting forth the amount of maximum insurable mortgage and the total amount of

indebtedness exclusive of the requested loan. (See sample letter Appendix #7). Since all loans will be on an insurance upon completion basis, front money will not be required to be deposited. Instead, Mortgage Credit will determine that the sponsor has the financial capacity to meet these requirements.

When the Valuation reply is received concerning its determinations regarding the economic life of the property and the acceptability of the property as an insurable risk, Mortgage Credit will prepare a memorandum to the ADTS/CU. The memorandum should either recommend approval or disapproval along with a copy of the FHA Form 2013(NH-ICF). A recommendation of approval should include a recommendation that a commitment be issued stating the maximum insurable mortgage, the term, and any other conditions found necessary. There will always be the condition that the loan shall be in the same priority position as stated in the application.

- g. Commitments. Under this subsection, commitments will be issued on an "Insurance Upon Completion" basis only. Liens prior to this loan should be recorded under item 20, "Special Conditions" of the Commitment (FHA Form No. 24-18). A statement should be included that the borrower will not incur any additional liens beyond those listed and approved by the HUD Secretary, except for the project Fire Safety Equipment Loan.
- h. Form of Security. Security will be a recorded lien against the property on a form prescribed by HUD-FHA and consistent with the laws of the State in which the property is located. In proposals where the property is already encumbered by a first mortgage or deed of trust, HUD-FHA will accept as security a mortgage or deed of trust that is subordinate to the first lien.
- i. Cost Certification. A modified form of cost certification must be completed by the borrower and reviewed by the HUD-FHA office prior to endorsement. The borrower must certify to the actual costs associated with the loan. The following language must be incorporated in all certifications and must be dated and signed by the owner/partner, or officer, if a corporation:

"No rebates, kickbacks, refunds, etc., have been or will be received. This certification is made, presented and delivered for the purpose of influencing an official action by the Federal Housing Commissioner acting for and on the behalf of the Secretary of Housing and Urban Development and this certification may be relied upon as

a true statement of the facts contained herein."

- 3-3. VALUATION INSTRUCTIONS. Processing of Section 232(i) applications in this section commences with the receipt of a memorandum from Mortgage Credit, requesting determinations from Valuation concerning the feasibility of the subject facility. A copy of the FHA Form 2013(NH-ICF) Application along with appropriate exhibits, will also be submitted to Valuation for its analysis.

The appraiser will make a physical inspection of the subject facility and make the following determinations assuming the completed installation of the fire safety equipment.

- a. Whether the subject property constitutes an acceptable insurable risk.
- b. The remaining economic life of the facility.

These conclusions will be recorded on the bottom half of Mortgage Credit's memorandum and returned to that section.

In the event the appraiser determines that the present condition of the inspected facility is not acceptable, but it could be considered an acceptable risk if certain deficiencies are corrected, the appraiser will prepare a memorandum to the ADTS/CU indicating those defective items requiring correction and recommending that the property be submitted as a rehabilitation proposal under Section 232, including the required fire safety equipment.