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Section II Production

Chapter 1

Introduction and Application Processing

1.1 Introduction

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10 The Production section of the Office of Residential Care Facilities reviews and approves
11 applications for new Section 232 loans. ORCF has standardized submission and review
12 requirements for all Section 232 applications. This portion of the handbook details the process
13 for application submission, review, construction administration and closing.
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1.2 Section 232 Approved Lenders

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17 Only an approved Section 232 Lender and underwriter may submit an application for mortgage
18 insurance for Section 232 projects. As the Section 232 approved Lender is the key player in the
19 process, potential borrowers are encouraged to contact a Lender as early in the process as
20 possible. The Lender will explain the process from initial discussions to underwriting and
21 submittal of the application to the closing of the loan. The approved Lender list can be found at:
22 <http://portal.hud.gov/hudportal/documents/huddoc?id=aprvlend.pdf> on the [Section 232 Program](#)
23 [website](#). Those Lenders marked with an asterisk can originate Section 232 loans.
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1.3 Application Requirements

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27 Application checklists for all of the Section 232 programs are located on the Section 232
28 program website. All exhibits on each application checklist are required, as applicable.
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30 It is the Lender’s responsibility to diligently review every exhibit to assure that it is complete and
31 accurate prior to submitting the application to ORCF. The Lender is to submit an electronic
32 version of the entire application. ORCF retains the right to request a hard copy of any
33 application exhibits that facilitate the underwriting review process, e.g., documents with original
34 signatures, documents illegible in electronic format, or large exhibits such as [site plans, surveys](#)
35 [or third-party reports](#). Lenders are required to maintain a copy of the application in their files
36 for monitoring.

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38 The submission of computerized forms generated by a Lender is acceptable, as long as the
39 retyped form has the Office Management and Budget (OMB) number, expiration date, form title,
40 and form number, and is identical in content and in the order of the line items on the ORCF
41 Form. The retyped form must be completed subject to that form's instructions.
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Application Process

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45 Under ORCF processing procedures, the Lender submits an application for a Firm Commitment.
46 In the application, the Lender completes a full underwriting analysis of the transaction and must
47 present its recommendation to ORCF in the Lender Narrative. The Lender Narrative provides a
48 summary of the Lender's analysis as it relates to each of the exhibits in the application.
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50 There are two application processes, Direct-to-Firm and the Two-Stage Process. Projects under
51 Section 232/223(f), ~~Section 232/241(a)~~, 232/223(a)(7), 223(d), and 232(i) may only submit a
52 Direct-to-Firm application. For New Construction and Substantial Rehabilitation and 232/241(a)
53 projects the Lender may choose whether to submit the application Direct-to-Firm or via the Two-
54 Stage process.
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- 56 **A. Direct-to-Firm Application Process.** The Lender submits the entire Firm Application at
57 one time for review by ORCF. ORCF will either issue a Firm Commitment or will reject the
58 application. In either instance, HUD will retain the application fee.
59
- 60 **B. Two-Stage Application Process.** The Lender submits exhibits for the Initial Submission
61 review by HUD. HUD's Initial Submission review includes the Underwriting Review,
62 Appraisal and Market Study Review, ~~Part 1 Legal Review~~, Title/Survey Review and
63 Environmental Review. ORCF will either issue an Initial Submission Firm Commitment or a
64 rejection letter. This differs from the Multifamily Firm Invitation process in that a Firm
65 Commitment can be issued at the initial review phase. Once an Initial Submission Firm
66 Commitment is issued, the Lender has 120 days to submit the Final Submission application.
67 HUD will review the Final Submission application, which includes architecture, cost,
68 professional liability insurance, labor relations and satisfaction of any conditions from the
69 Initial Submission Firm Commitment. ORCF will confirm that there are no material changes
70 to the application prior to issuing an Amended and Restated Firm Commitment. Mortgage
71 increases of 5% or more will be re-evaluated by the ORCF Loan Committee. If an Amended
72 and Restated Firm Commitment is issued, the project may proceed to closing.
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74 The HUD application fee is paid at the Initial Submission stage. If the Initial Submission
75 stage does not result in a Firm Commitment being issued, the Lender may request a refund of
76 50% of the HUD application fee.
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- 78 **C. Deficiencies.** When an application is received, the ORCF underwriter will advise the Lender
79 of any defects or deficiencies. The Lender will have 10 business days, or such other brief
80 timeframe as specified by ORCF, to cure the defects or deficiencies. Other applications
81 pulled for review while the application is on hold awaiting Lender revision will take

precedence over the on-hold application. If not cured, the ORCF underwriter may take the project to Loan Committee as is, which could result in rejection of the application.

D. Underwriting Large Loans. Certain large loans require an additional review by HUD, so lenders should be prepared for additional review time on these loans.

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Use of Lean Thinking

Lenders are encouraged to contact ORCF at LEANThinking@hud.gov during assembly of their applications in the following instances or with any other questions that impact the underwriting of the application:

A. **Waivers.** When the approval or denial of a waiver impacts the feasibility of a project, ORCF may review waiver requests in advance of the application submission.

B. **Environmental Concerns.** Where single item environmental concerns warrant consultation in order to avoid wasted time and effort, ORCF may review the issue prior to application submission. Examples of items that may merit early consultation include:

1. **Unusual Site Conditions,** such as soil contamination, explosive hazards, unacceptable noise levels, fall hazards, etc.;
2. **Flood Hazards or Wetlands:** If the site contains flood hazards or wetlands, an 8-step process can be initiated prior to application;
3. **State Historic Preservation, US Fish and Wildlife:-** In cases where HUD involvement is required to contact the State or regional office, Lenders can request that ORCF initiate the consultation process. The Lender must provide the research necessary for HUD to make a recommendation.

B-C. Davis-Bacon. When the Lender is unsure whether Davis-Bacon prevailing wage requirements apply, or which wage decision will be required, ORCF will work with HUD Labor Relations staff, as necessary, to provide an initial determination.

D. Lean Thinking Inquiries. The Lean Thinking (LT) email client is for project-specific pre-application inquiries or inquires that are not project specific. Project-specific inquiries related to projects that are already in ORCF's portfolio or to applications that have already been submitted should be direct to the Account Executive or assigned Underwriting Reviewer, as applicable.

Lenders are reminded that LT responses for specific project inquiries should be included in the application when it is submitted to HUD.

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Loan Committee

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127 Once the ORCF underwriter has reviewed the application and the Lender's conclusions, the
128 ORCF underwriter will make a recommendation of approval or rejection to the ORCF Loan
129 Committee. The Loan Committee will review the application and will either approve or reject it.
130 If the Loan Committee approves of the application, a Firm Commitment will be issued. If the
131 Loan Committee does not approve the application, a rejection letter will be issued and HUD will
132 retain the application fee. In some instances, the Loan Committee may approve an application
133 with special conditions or added risk mitigation so the project will be an acceptable risk to the
134 FHA insurance fund.

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Closing Process

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138 After a Firm Commitment is issued for a project, the Lender and the Lender's attorney must
139 begin compiling the required closing documents. The Lender must work directly with the ORCF
140 closing coordinator, and the Lender's attorney must work directly with the assigned HUD
141 closing attorney. A closing date will be ~~scheduled between~~ set by the HUD closing attorney and
142 the ORCF closing coordinator. The Lender must inform the HUD closing attorney and ORCF
143 closing coordinator of any deadlines that must be met. While ORCF is unable to guarantee a
144 specific closing date, the HUD closing attorney and ORCF closing coordinator will make every
145 effort to accommodate deadlines whenever possible.

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147 ORCF encourages Lenders to make every effort possible to accomplish the closing within ~~this~~ the
148 prescribed effective date of the ~~firm commitment~~ Firm Commitment. In the event of extenuating
149 circumstances, the Lender may request an extension. The extension request must provide
150 justification acceptable to ORCF to support why extension of the Firm Commitment is warranted
151 and necessary. See Production, Chapter 9.3 for more information.

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153 Prior to the closing of most Section 232 loans, specifically when a project is new to the FHA
154 portfolio, or where inherent risks warrant it, a pre-closing conference call among the Borrower,
155 the Servicing Lender, and the assigned ORCF Account Executive will be required to be
156 scheduled. The purpose of this meeting is to provide project participants with pertinent
157 information and resources about the Section 232 Program policies, procedures and compliance
158 requirements.

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160 To the extent Amendments to the Firm Commitment are required during the closing process, the
161 Lender is encouraged to consolidate these requests to minimize the number of amendments
162 requiring review and processing. The Lender's Underwriter must provide an analysis and
163 recommendation on any material risks or changes that occur between issuance of the Firm
164 Commitment and Closing.

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166 See Production, Chapter 9 for more details on closing requirements and the closing process.

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