

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000


ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

March 16, 2010

MORTGAGEE LETTER 2010-10

TO: All FHA-Approved Multifamily Mortgagees

SUBJECT: Revision to Criterion 4 of the Form HUD 92264-A,
“Supplement to Project Analysis”

Purpose

This Mortgagee Letter (ML) sets forth the revision of Form HUD 92264-A, “Supplement to Project Analysis,” changing line “c” of Criterion 4, “Amount Based on Limitations per Family Unit.”

Line “c” currently reads “Site not Attributable to Dwelling Use.” This has now been changed to read, “Warranted Price of Land.”

Background

The per unit Statutory Mortgage Limits are used as part of the calculation made in Criterion 4 to determine the maximum mortgage amount that may be insured by FHA. The Department has historically assumed that the cost of the land associated with dwelling use plus the building costs was included in the per unit Statutory Mortgage Limits. This practice has inadvertently prevented the development of needed housing in areas where the cost of land suitable for multifamily development is very high.

The FHA has found that the statutory language “for such part of the property or project as may be attributable to dwelling use” located at Sections 207(c)(3)(A), 213(b)(2)(A), 220(d)(3)(B)(iii)(I), 221(d)(3)(ii)(I), 221(d)(4)(ii)(I) and 231(c)(2)(A) of the National Housing Act does not require that the cost of the land (i.e., the “Warranted Price of Land”) be included in the calculation of the per unit mortgage limits. FHA is aware that interpreting these statutory provisions as including land cost has the effect of precluding the development of much needed rental housing in some cities. By virtue of assuming that the cost of the land is included in the per unit Statutory Limits in areas where land values are high, the requested loan amount often exceeds the Statutory Limits. FHA therefore has revised Form HUD 92264-A as set out below to achieve the above statutory interpretation where the cost of land is not assumed to be in the per unit Statutory Limits.

The Form HUD 92264-A is used to determine the maximum insurable mortgage with a number of parameters (referred to as criteria) depending on the requirements of the particular mortgage insurance program. Criterion 4 determines the maximum insurable mortgage based on statutory limits per family unit established and updated in accordance with procedures set forth in the National Housing Act. The purpose of the per unit Statutory Limits is to limit the cost based on

the number of units and unit mix for components of a project that relate directly to dwelling use. They do not include project amenities (community rooms, exercise rooms, playgrounds, etc.)

To account for non-dwelling use items, Criterion 4 also includes an entry (b) for “Cost Not Attributable to Dwelling Use” (CNA). In addition Criterion 4 also contains an entry (a) for “Site Not Attributable to Dwelling Use” (SNA), to account for the land value associated with CNA items. CNA and SNA are both added to the total of the per family unit amounts to yield the mortgage amount for Criterion 4.

The land value associated with dwelling use was always thought to have been included within the per family unit amounts established by statute. However, it has been concluded that the statute does not actually state that the value of land is included. In actual practice this is revealed in certain high cost areas where large increases in value for land zoned for multifamily development cause the cost of the project to exceed the mortgage amount determined by Criterion 4. The revision of line “c” will alleviate major differences in the mortgage amounts determined by Criterion 4, and Criterion 3, “Amount Based on Value or Replacement Cost” and also brings the process of determining the maximum insurable mortgage to be more in line with conventional multifamily practices.

Revision of Form HUD 92264-A

As of the date of this ML, line “c” in Criterion 4 of the Form HUD 92264-A shall be changed to read “Warranted Price of Land.” This corresponds to Section G, line 73a of the Form HUD 92264, “Multifamily Summary Appraisal Report,” for new construction cases, and for existing properties under Section 223(f). For substantial rehabilitation cases, the “estimated value of the land without improvements” from Section H must be used.

This change applies to all Multifamily Mortgage Insurance programs that require completion of Criterion 4 of Form HUD-92264-A. This change is effective on the publication date of this ML for Multifamily Mortgage Insurance applications submitted henceforth including applications in processing. In cases where a Firm Commitment has been issued, the Commitment must be amended upon the request of the Mortgagee.

This revision will cause the Criterion 4 mortgage to fully reflect the value of the land. The form will be revised in HUDClips, and revisions will be made to processing instructions to eliminate the term “Site not Attributable to Dwelling Use.”

If there are any questions regarding the revision to the Form HUD 92264-A, please contact Joseph Sealey, Director of Technical Support at (202) 402-2559.

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