
CHAPTER 2. PROGRAM APPLICATION AND APPROVAL PROCESS

2-1. NOTICE OF FUND AVAILABILITY (NOFA)

HUD will inform project owners of the availability of LMSA funds through annual NOFAs published in the Federal Register. The NOFAs will announce the amount of funds to be awarded for the current fiscal year and the requirements owners must follow in applying for these funds. The NOFA will also document any special conditions that apply to the LMSA awards made that year.

Headquarters will prepare the NOFA each year, and inform the Regional and Field Offices of the anticipated publication date.

2-2. OWNER APPLICATION PROCEDURES

A. Application Form (HUD-52530)

1. To apply for LMSA assistance, owners must submit to the HUD Field Office having jurisdiction a completed application (HUD Form 52530) and all required accompanying materials. Exhibit 2-1 summarizes the information requested on the application. A copy of the application form is included in Appendix 1.
2. Owners should follow all instructions on the application form and make sure they respond to any special instructions contained in the NOFA. If instructions included in the NOFA conflict with instructions on the application form, the language contained in the NOFA will take precedence.
3. An owner who applied for LMSA assistance in a prior year and did not receive the desired number of units may re-apply and be considered for LMSA assistance under the current NOFA. Owners who wish to re-apply

must submit current information on the project and respond to all of the

requirements specified in the current NOFA.

6/92

2-2

4350.2 REV-1

CHG-1

EXHIBIT 2-1

SUMMARY OF DATA REQUIRED BY FORM HUD-52530

Owner's name, full address, Social Security Number(s) (SSN) or Employer Identification Number (EIN), and documentation to verify SSNs or EIN.

The project's name, project number, and the management agent's name and address.

A list of units in the project containing information about unit size, gross monthly family income, family size, unit rent, and monthly rent amount paid by tenant.

The owner's estimate of the effect of the availability of Section 8 assistance on the marketability of units in the project.

Information on vacancies and turnovers.

Total number of units by bedroom size for which Section 8 assistance is requested.

Description of project's financial problems and owner's proposed plan for addressing the problems.

Sources and uses of all financial resources needed to complete the owner's plan, including any cash contributions from the owner.

Listing of other government assistance received by the project. (See Section 1-5.A.2.)

Written certification by the owner stating that lobbying services will not be used in support of the application. (See Section 2-2.B.3. and 4.)

Written certification that the owner will comply with the provisions of the Fair Housing Act and a completed Affirmative Fair Housing Marketing Plan.

Written certification by the owner that the proposed plan for the project will be executed as presented. As part of this certification, the owner must also agree to revise the plan to incorporate any modifications specified by HUD as

necessary to correct problems overlooked or insufficiently addressed by the original plan.

2-3

8/93

4350.2 REV-1

CHG-1

B. Required Attachments

1. Proposed budget for the project showing the use of LMSA funds (see Form [HUD 92547-A](#), Appendix 3);
2. Affirmative Fair Housing Market Plan submitted on Form HUD 935.2 (Appendix 4). For further information, refer to HUD Handbook 8025, Affirmative Fair Housing Marketing;
3. Written certification by the owner stating that LMSA funds will not be used for lobbying activities; and
4. Disclosure of Lobbying Activities Form, Standard Form LLL, if warranted.

Appendices 3 through 6 contain copies of items 1 through 4.

C. Concurrent Request for Rent Increase

Owners wishing to request a rent increase at the same time as the LMSA application should do so in accordance with Handbook 4350.1, Chapter 7. In such circumstances, the proposed budget required in Paragraph 2-2.B.1. above, should include some assumptions based upon the requested rent increase.

D. Submission Requirements

1. General Funding
 - o Completed applications and all accompanying materials must be submitted by the application deadline specified in the NOFA. The completed application must be submitted in an envelope package, or binding that contains all parts of the application in its entirety. The Department will treat as ineligible for consideration any

application that is received after the deadline.

- o Applications submitted must be received at the Field Office at the date and time specified in the NOFA.
 - o Incomplete applications or applications received by Field Office after the deadline may be submitted for emergency LMSA assistance.
2. Emergency Funding: Applications for emergency funding may be submitted in accordance with instructions in the NOFA. However, owners are encouraged to contact the Field Office to determine whether emergency funding is available and whether the project is a good candidate for emergency funding assistance.

E. Correcting Deficient Applications

1. After the NOFA deadline for submitting applications, no owner-initiated changes to the application will be accepted, except for corrections of technical deficiencies which do not alter the substance of the application.
2. After the application response deadline, the Field Office will notify applicants in writing of any technical deficiencies in their applications. Applicants must submit all corrections of technical deficiencies by the official close of business of the fourteenth calendar day from the date of the HUD notice of deficiency to the owner.

2-3. LOCAL GOVERNMENT COMMENT

A. Purpose

LMSA assistance is not contingent upon approval from the local government. However, nonbinding

4350.2 REV-1

comments from the chief executive of the unit of general local government (UGLG) are relevant to the determination to be made by HUD that there is a need for such housing assistance and that there is or will be available in the area adequate public facilities and services. If the local government finding is negative, it must be accompanied by supporting evidence.

B. Notification Requirements:

Within 10 days of receipt of an owner's application that has more than 12 units, the Loan Management staff must notify the chief executive of the unit of general local government in which the project is located and seek the following assurances:

- o the community in which the project is located is providing, or will provide, essential services to the project in keeping with the community's general level of these services; and
- o the real estate taxes on the project are or will be no greater than would be the case if the property were assessed in a manner consistent with normal property assessment procedures for the community.

A sample letter to local governments seeking such assurances is provided in Appendix 7.

2-4. REVIEW FOR COMPLIANCE WITH PROGRAM REQUIREMENTS

Before an application can be considered for approval, the Field Office must confirm that the following program requirements are met. Requirements marked with an asterisk (*) in the list below are explained in more detail in subsequent paragraphs. The Field Office must determine that:

- A. The owner has submitted written certification that the owner will comply with the provisions of the Fair Housing Act, Title VI of the Civil Rights Act

of 1964, Executive Orders 11063 and 11246, Section 504 of the Rehabilitation Act of 1973, Americans with Disabilities Act of 1990, the Age Discrimination Act of 1975, Section 3 of the Housing and Urban Development Act of 1968, Affirmative Fair Housing Marketing Plan, as well as with all regulations issued pursuant to these authorities.

- B.* The condition of residential units meets HUD's Housing Quality Standards (See paragraph 2-5 below.)
- C. A significant number of residents or potential residents are eligible for, and in need of, assistance.
- D. The requested Section 8 assistance will not adversely affect other HUD-related multifamily housing units within the neighborhood (e.g., contribute to substantial move-outs or divert prospective applicants from nearby HUD-related multifamily housing).
- E. The project faces serious financial problems, which:
 - are likely to result in a claim on the insurance fund in the near future, OR
 - appear to have a high probability of producing a claim on the insurance fund within the next five years.
- F.* The requested assistance would solve an identifiable problem and provide a reasonable assurance of long term project viability (See Paragraph 2-7 below).
- G.* The proposed unit rents are approvable within the limitations set forth in 24 CFR 886.110 (See Paragraph 2-8 below).
- H. For projects with a history of financial default, financial difficulties or deferred maintenance, the plan for remedying defaulted or deferred

obligations is adequate.

- I.* The proposed units comply with procedures to eliminate the hazards of lead-based paint poisoning (See Paragraph 2-6 below).

2-5. HOUSING QUALITY STANDARDS (HQS)

The Field Office must ensure that the property is in satisfactory physical condition or that the owner will make changes necessary to correct deficient conditions upon receiving LMSA assistance.

A. Housing Quality Standards

Before assistance is provided units must meet the housing quality standards set forth in 24 CFR 886.113. The Field Office may approve variations in the acceptability criteria based upon local climatic or geographical conditions, or local codes.

B. Purpose

The inspection process is intended to identify physical deficiencies in the unit that affect the health and safety of the occupants. The Multifamily Unit Inspection Forms ([HUD-9602](#) and [9602A](#)) found in Appendix 13 are to be used by HUD staff in performing unit inspections. Although the inspection forms provide for comments on overall unit condition, the inspection process is not intended to identify all routine or preventive maintenance needs, nor to require the owner to modify schedules for routine replacement of items subject to normal wear and tear.

C. Section 8 HQS Inspection

HUD Field Office staff is responsible for conducting inspections of units receiving Section 8 assistance for which HUD is the contract administrator. Unit inspections may be performed during on-site management reviews, physical inspections or at the discretion of the Loan

Chapter 6 of Handbook 4350.1 for HUD-insured or HUD-Held projects assisted through the Loan Management Set-Aside program.

D. Required Components and Amenities

Multifamily projects have been built or rehabilitated to HUD standards in effect when the project was approved for insurance or assistance. Therefore, the unit inspection process is not intended to require the owner to provide amenities that were not approved or required when the project was initially approved. However, owners must comply with requirements that affect the health and safety of project residents.

E. Condition of Provided Components and Amenities

All provided components and amenities must be in working condition. For example:

1. appliances must be in working condition;
2. windows designed to be opened must open and those that are accessible from the outside must have working locks;
3. Heating, Ventilation and Air Conditioning (HVAC) system must provide adequate heating, cooling, and ventilation;
4. the condition of walls, ceilings, floors must be free from hazardous conditions;
5. smoke detectors must be present and in operating condition;
6. all electrical outlets must work and be free from hazards;
7. entry doors, handrails, and guard rails must be sound and secure.

F. Inspection, Procedures

The inspection form (Form [HUD-9602](#)) requires the inspector to rate unit conditions in one of the following four categories:

1. Good. It should be used to identify elements that are in notably good condition.
2. Acceptable. HUD staff is required to determine if the condition of the elements listed are acceptable or require one of the actions identified in either Action Required or Immediate Action Required described below. owner and residents may use the acceptable section to note minor conditions that will not be corrected but should be noted as a condition predating occupancy by the current tenant.
3. Action Required. This category includes unit deficiencies that should be repaired or replaced but do not represent an immediately hazardous condition. Examples of such deficiencies would be minor leaks, some burners not working on a stove, windows cracked or not weather tight, etc.
4. Immediate Action Required. This category includes unit deficiencies that pose an immediate threat to the health or safety of unit occupants. Examples of such deficiencies include: electrical hazards, tripping or falling hazards, unit not secure, etc.

G. Exit Meeting and Target Dates for Correction

For each deficiency, the inspector must establish a target date for completion of repairs. The target dates should be discussed with the owner or the management agent in an exit meeting before the inspector leaves the project.

1. For Action Required items, 30 days is the generally accepted practice. The time may be

extended if the owner can demonstrate that the action is scheduled within a reasonable period as part of an overall maintenance program or provide other good reason for an extension (e.g., the project has been approved for assistance under the Flexible Subsidy Program and the required repairs are scheduled).

2. For Immediate Action Required items, 72 hours is the generally accepted practice. If a serious condition cannot be corrected immediately, consideration must be given to relocating the resident to another unit.
3. If correction of all unit deficiencies will take more than 30 days, the inspector must specify dates for periodic status reports on the owner's progress in making corrections.

H. Owner Certification and Compliance

When corrections have been made, the owner must notify the HUD Field Office and certify that the required corrections have been made. See Appendix 14a and 14b for sample certification letters. The certification must include the date of completion and the fraud statement shown on the sample letter.

The owner is responsible for correcting all deficiencies, even if they were the result of tenant neglect or abuse. In accordance with the tenant's lease, the owner may require the tenant to pay for the cost of the repairs.

I. Review of Previous Inspections and Management Reviews

Loan Management staff must review current (completed within the last 12 months) Income and Operating Expense Analysis, Management Review Report, Form HUD-9834 (Appendix 8), and the Annual Physical Inspection Report, Form HUD-9822 (Appendix 9), to help assess the project's physical condition. If these forms have not been

completed within the past 12 months an on-site inspection should be scheduled.

J. Consideration of Tenant Comments

Loan Management staff must also review any written tenant comments, particularly those that deal with the condition of the project or individual units within the project.

2-6. LEAD-BASED PAINT

- A. TESTING FOR LEAD-BASED PAINT. The owner will be responsible for obtaining testing services. Testing must be performed by a State or local health or housing agency; or an inspector certified or regulated by the State or local health or housing agency; or an organization recognized by HUD. If a positive reading for lead-based paint is questionable, it must be confirmed by laboratory testing. The owner is permitted to forego all testing requirements and abate all units without testing if they choose. The testing entity shall certify the results of the test and a copy will be available for review by the HUD Field Office. Loan Management staff should maintain certifications and document all actions taken concerning lead-based paint and other environmental issues in the project file.
- B. ABATEMENT OF LEAD-BASED PAINT. If the owner is required or chooses to abate lead-based paint the following guidelines must be followed. Lead-based paint is classified as a toxic waste by the Environmental Protection Agency (EPA) and thus can be more dangerous during and after removal if the proper procedures are not followed. At a minimum, abatement will consist of abating chewable surfaces, unless otherwise specified by law. Chewable surfaces are defined as protruding painted surfaces up to five feet from the floor or ground which are readily accessible to children under seven years of age.
1. Allowable methods of Abatement. The

following methods of abatement are permitted by HUD:

- a. Covering the existing surface. Covering the existing surface is allowed because it reduces lead dust often generated in the removal of lead-based paint. Covering shall be a sturdy permanent binding that cannot be removed or damaged by children. The following methods are permitted:
- i. Adding a layer of wallboard to the

wall surface.

- ii. Wallcoverings which are permanently attached.
 - iii. Covering or replacing trim surfaces.
- b. Removal of Lead-based Paint. Removal is recommended as a more permanent solution to the problem.
- i. The following methods of removal are permitted:
 - o Scraping
 - o Heat Treatment (infra red or coil type heat guns)
 - o Chemical Removal
 - ii. The following methods of removal are prohibited:
 - o Machine Sanding
 - o Use of propane or gasoline torches
 - o Washing and repainting the surface without thorough removal or covering.
- c. Defective Paint Spots. In the case of defective paint spots, scraping and repainting the defective paint area

will be considered adequate treatment.

2. Worker protection during abatement. It is recommended, but not required, that workers adhere to the Occupational Safety and Health Administration (OSHA) guidelines. These requirements are detailed in 29 CFR 1910.1025 and will need to be modified for the abatement industry. For additional guidance in this matter it will be helpful to review Lead-Based Paint: Interim Guidelines for Hazard Identification and Abatement in Public and Indian Housing and to contact your local OSHA office.

3. Tenant protection during abatement. It is important that the following minimum steps be taken to assure tenant safety as well as the protection of management during this process.
 - a. All tenants in the project should be notified of the fact that abatement is taking place, where the abatement is occurring and the dangers of entering the worksite area or allowing children to play near the area.
 - b. Tenants and furniture should be removed from the abatement area prior to the abatement by the removal of lead-based paint. This precaution is necessary due to lead dust that may be present and effects that this dust can have now and in the future on the health and safety of the tenants.
 - c. If the covering of lead-based paint is used as the method of abatement, then the owner should take into consideration the health and safety of the tenants and the future consequences when deciding whether or not to remove the tenant and their possessions from the abatement area.

6/92

2-14

4350.2 REV-1

-
4. State and Local Laws. Owners and managers are responsible for adhering to all State and local laws regarding the testing, abatement and disposal process.

2-7. POTENTIAL FOR PROJECT LONG TERM VIABILITY

To make a determination of long-term viability the Field Office should determine whether:

- A. The property is subject to any serious problems that are not economic in nature, such as structural deficiencies, poor management or disinterested ownership;
- B. The owner is in substantial compliance with the Regulatory Agreement, regulations and other contract terms and conditions, including:

- o Project funds are not being diverted for personal use;
 - o Distributions are taken as defined in the Regulatory Agreement and in conformance with HUD Handbook 4350.1;
 - o The current management agent is in compliance with the instructions in HUD Handbook 4381.5, Management Documents, Agents, and Fees;
 - o Financial records are being adequately kept; and
 - o Occupancy requirements are being met.
- C. Marketing and maintenance programs are being carried out in an adequate manner;
- D. The projects, record is generally free of significant or repetitive complaints, or that the LMSA assistance will remedy the cause of any complaints;
- E. The project's problems are primarily the result of problems beyond the control of the present ownership and management;

2-15

6/92

4350.2 REV-1

- F. The major problems are traceable to an inadequate cash flow;
- G. The requested Section 8 assistance is likely to solve the cash flow problems by: (1) making it possible to grant needed rent increases; and (2) reducing turnover, vacancies and collection losses; and
- H. The owner's plan for remedying any deferred maintenance, financial difficulties, or other problems is realistic and achievable; there is positive evidence that the owner will carry out the plan. Examples of such evidence include the owner's past performance in correcting problems and, in the case of profit-motivated owners, any cash contributions made to correct project problems.

2-8. RENT LIMITATIONS FOR NEW CONTRACTS

A. General Contract Rent Limitation

The HUD approved unit rents shown on the current Form HUD-92458 plus any HUD-approved utility allowance generally must fall within the Section 8 Existing Housing Fair Market Rents (FMRs) for the jurisdiction published in the Federal Register.

1. The Field Office Manager may approve exception rents up to 10 percent above the published FMRs.
2. The Regional Administrator may approve rents up to 20 percent above the published FMRs. The Field Office should include a justification for this exception in its application package to Headquarters.

B. Recently Completed Housing

1. For housing that was completed not more than six years prior to the date of request, the Field Office may approve initial contract rents as high

6/92

2-16

4350.2 REV-1

CHG-1

as 75 percent of the published Section 8 FMRs applicable to newly constructed housing.

2. The Field Office Manager may approve exception rents up to 10 percent above the published FMRs.
3. The Regional Administrator may approve rents up to 20 percent above the published FMRs. The Field Office should include a justification for this exception in its application package to Headquarters.

2-9. FIELD OFFICE RECOMMENDATION

The Field Office Manager recommends approval of the project's application by recommending to Headquarters that the project be approved subject to the owner's agreement to certain conditions. Any recommendation from the Field Office must contain certification by the Field Office Manager that the necessary review and follow-up have been completed. Final approval will be

contingent upon satisfactory modification of the owner's plan to include final solutions to all documented problems and deficiencies.

2-10. FIELD OFFICE DETERMINATION

All applications received by the Field Office must be: (1) unconditionally recommended for funding; or (2) conditionally recommended for funding; or (3) rejected by the Field Office.

A. Recommended Applications

For applications that meet the program requirements listed in Paragraph 2-4 (unconditional and conditional approvals), the Field Office must complete the analyses described in Paragraph 2-11 and submit these projects to Headquarters for review.

B. Rejected Applications

For each application rejected at the Field Office level, the Field Office must notify the owner of the rejection and specify the reasons.

2-17

8/93

4350.2 REV-1

CHG-1

2-11. ANALYSES FOR RECOMMENDED PROJECTS

A. Preliminary Determination of Priority

1. Based on data supplied by the owner and the Field Office, Headquarters will categorize all recommended applications. Projects will be funded in the following priority, unless otherwise specified in the NOFA, as long as funding is available:
 - a. Insured projects with presently serious financial problems likely to result in a mortgage insurance claim in the near future.
 - b. Insured projects with potentially serious financial problems which appear to have a high probability of producing a mortgage insurance claim within approximately the next five years.

- c. HUD-Held and Section 202 projects with presently serious financial problems.
- d. HUD-Held and Section 202 projects with potentially serious financial problems.
- e. Insured formerly coinsured projects with presently serious financial problems likely to result in a mortgage insurance claim in the near future.
- f. HUD-Held formerly coinsured projects with presently serious financial problems.
- g. Insured Retirement Service Centers (RESCs) with presently serious financial problems likely to result in a mortgage insurance claim in the near future.
- h. HUD-Held RESCs with presently serious financial problems.

The Field Office should make a preliminary priority determination for projects within their jurisdiction.

- 2. Projects are considered to have presently serious financial problems if, for example, there is a net loss during the period or when net income before depreciation was less than annual debt service plus reserve payments.
- 3. Further, projects that are in poor physical condition, but the financial statement indicates there is surplus cash may be an indication of presently serious financial problems. If deferred liabilities have increased during the last year or within the last eight or nine months, there may exist a potentially serious financial problem. Such projects can be added to category (a), for insured projects or category (c) for HUD-held or Section 202 projects if the Field Office justifies and documents the special circumstances which would give the project this higher priority rating. For example, a substantial increase in vacancies in recent months may warrant elevating the project's priority category.

B. Number of Units to be Assisted

Using the data submitted in the application, Loan Management staff must determine the number of units to be assisted. The estimate generally must be the sum of units currently occupied by residents who appear to be eligible plus any vacant units.

1. Any resident at or below the Section 8 Lower Income limit (80 percent of median income) who is paying over 30 percent of income for rent shall be assumed to be eligible for Section 8 assistance.
2. Rent Supplement and RAP units may be converted to LMSA units when HUD receives appropriations to do so. Owners will be

properly notified by HUD when the last opportunity to convert is possible.

3. Regional Office Review: If the Field Office recommendation exceeds the sum of vacant units plus the number of tenants paying more than 30 percent of their adjusted income for rent, the Director, Regional Office of Housing, must review and approve the number of units recommended for LMSA assistance.
4. Projects with an unsubsidized mortgage: For these projects, if the number of units to be assisted exceeds 40 percent of the total units in the project, the Field Office recommendation will be subject to further review by the Office of Multifamily Housing Management. In the recommendation to Headquarters, the Field Office must document that the owner has a workable plan for leasing the market rate units in the project.

C. Estimate of Contract Authority Required

1. Loan Management staff must estimate the annual dollar amount of the contract by providing the information on rents, utilities and number of units. To do so, use the following formula for each size:

(Current HUD-approved unit rent) plus
(HUD-approved utility allowance) times (# of
units) times (12 months).

2. If a rent increase or utility allowance increase is proposed, use the proposed amounts to estimate contract authority.

D. Subsidy Layering Review

Until further guidelines have been issued, Loan Management Staff should refer to Notices and other guidance circulated by HUD, including Notice 90-17 and Philip Salamone's memo or April 17, 1991 on subsidy layering to assure that the LMSA

6/92

2-20

4350.2 REV-1

CHG-1

assistance requested is not excessive when considered in combination with the other assistance received by the project.

Headquarters will assess any tax credits or other government assistance received by the project in determining the number of units of LMSA assistance to award.

2-12. SUBMISSION TO HEADQUARTERS

A. Annual Needs Survey (ANS)

1. The ANS package is an automated system which enables the Field Office to enter relevant project information into a database and print hardcopy reports.
2. Each year, Headquarters will distribute the LMSA ANS software package and instructions to the Field Offices. Loan Management staff should complete the ANS after having reviewed all applications received by the NOFA deadline and identify those projects that meet LMSA requirements.
3. The Director, Housing Management Division, must sign a hard copy of the ANS report certifying that the projects listed are acceptable under program regulations and instructions. The database file, printed

final report, and any required supporting materials must be forwarded to Headquarters by the ANS deadline.

4. Any additional instructions regarding determining project needs will be included in the NOFA.

B. Supplementary Documentation

The Checklist of Application Submission Requirements, referred to in the NOFA, is completed for each application to document the detailed review and to provide justification for approval of recommendations and must contain the signatures of both the Loan Management Branch

2-21

8/93

4350.2 REV-1

CHG-1

Chief and the Director, Housing Management Division. The Checklist, along with appropriate documents, must be transmitted to Headquarters by memorandum under the signature of the Field Office Manager. This transmittal will take the form of a certification that the necessary review and follow-up have been completed. The Field Office must provide supporting documentation as specified in Headquarters instructions each year. This may include:

1. Information pertaining to subsidy layering requirements;
2. Documentation to support a higher project priority than indicated by the priority determination described in Paragraph 2-11.A; and
3. Other documentation specified by Headquarters listed in Paragraph 2-11.

2-13. HEADQUARTERS PROCESSING -- GENERAL FUNDING

A. Priority Determinations

Headquarters will assign a priority rating to each application, using the procedures described in Paragraph 2-11. To address special needs, the NOFA may modify priorities for funding.

B. Selection Criteria

The selection criteria for LMSA applications will be announced and defined in the NOFA.

2-14. FIELD OFFICE REQUEST FOR HEADQUARTERS PROCESSING OF EMERGENCY FUNDING

After the deadline for HUD Field Offices' response to the Annual Needs Survey, applications for LMSA assistance can only be considered under emergency funding procedures. Consideration will be given only to the extent that sufficient resources are available to fund emergency requests. Headquarters staff will

8/93

2-22

4350.2 REV-1

CHG-1

examine the Field Office justification for an emergency funding request and must determine that the provision of LMSA assistance is an appropriate response to the circumstances documented by Field Office staff. Requests for Emergency Funding must follow the same application and Field Office review procedures as described for general funding requests. In addition, emergency requests must have written concurrence from the Director of Housing in the appropriate HUD Regional Office.

Field Office staff must demonstrate that the provision of LMSA units is likely to avert a mortgage default or assignment in the near future and the request to HUD Headquarters must explain why funds are needed on an emergency basis.

2-15. FUND RESERVATION

A. Reservation of Contract Authority

1. Headquarters will notify Regional Offices of all LMSA funding awards. Regional Offices will receive a Fund Assignment Form (HUD 185) and transmittal instructions from Headquarters indicating the number of units, and the amount of contract and budget authority for each approved project.
2. The Regional Offices will issue a Sub-Assignment Form (HUD 185.1) and transmittal instructions to each Field Office showing the projects receiving LMSA awards, the number of

units approved for assistance, and the contract and budget authority for each project. More detailed information about fund assignment procedures can be found in Housing Fund Control, HUD Handbook 7400.10.

3. After receiving this notice, the Director, Housing Management Division, should complete the Section 8 Contract List and request a reservation of units and budget authority for the project from the Regional Office.

B. Completing the Section 8 Contract List (HUD 5041C)

Loan Management staff should follow the following steps when completing the Section 8 Contract List (see Appendix 10).

1. Part B -- Project Identification, No. 3:
Leave this space blank, and insert the FHA case number under Part F -- Remarks.
2. Part C -- Project Assistance Data, No. 5:
Leave this space blank.
3. Part C -- Project Assistance Data, No. 6:
Enter 75 percent of gross rent and insert the following statement under Part F -- Remarks,
"The Loan Management staff has established the dollar amount of the contract based on 75 percent of the current HUD-approved rents including utilities (current Form HUD 92458, see Appendix 11) for the units to be assisted under Section 8."

C. Field Office Procedures for Reserving LMSA Funds

1. The Director, Housing Management Division, should ensure that a completed Form HUD 5041C is processed and request a HAP list approval in accordance with Processing Control and Reports (PC&R) procedures.
2. Upon receipt of RAD confirmation, PC&R shall enter the date of the confirmation in Part H of the list and transmit the list to the Field Office Manager for signature.

3. Upon release of the list, PC&R shall send the original to the Director, Housing Management Division, with copies to the Regional Director of Housing; Regional Accounting Division; and the Director, Office of Multifamily Housing Management, Headquarters.
4. After the Section 8 Contract List has been approved, Field Office Counsel will prepare the appropriate Section 8 Contract, Form HUD

8/93

2-24

4350.2 REV-1

CHG-1

52537, for execution by the Field Office Manager.

5. To reserve the units and budget authority awarded to a project, Loan Management staff must also prepare the Assisted Housing Project Accounting Data Form (HUD 52540, see Appendix 12) for submission to the RAD. The Field Office Manager must sign and submit the 52540 to the RAD.

2-16. NOTIFICATION TO OWNER

A. Approved Applications

The Director, Housing Management Division, must send to the owner a notice of application approval indicating to the owner the number of units for which assistance has been approved and the annual dollar amount to be made available under the contract. A copy of the HAP Contract (HUD 52537) should be transmitted with the notification.

B. Disapproved Applications

The Director, Housing Management Division, must notify the owner by letter and indicate the reasons why the application was not approved.

2-17. HAP CONTRACT EXECUTION

A. Pre-Conditions for Contract Execution

1. Owners of projects with a conditional approval must satisfactorily meet each of the specified conditions.

2. By executing a HAP Contract, the Director, Housing Management Division, is certifying that the units to receive assistance are decent, safe, and sanitary, consistent with Section 886.113 of the LMSA regulations.

2-25

8/93

4350.2 REV-1

CHG-1

B. HAP Contract Execution

1. The project owner must sign six copies of the HAP contract and forward them to the Field Office.
2. A copy of Form 1199A, Direct Deposit Sign-Up Form (Appendix 16), must be attached to the copy of the contract going to the RAD.
3. The Field Office Manager executes the Contract on behalf of the Secretary. Loan management staff will distribute copies of the executed Contract as follows:
 - o Owner;
 - o Field Office Project File;
 - o Regional Office of Housing staff;
 - o the Regional Accounting Division (RAD);
 - and
 - o Director, Office of Multifamily Housing Management, HUD Headquarters.

C. Term of Contract

The term of the LMSA contracts awarded each year will be specified in the NOFA. In general, LMSA contracts will have a term of five years. The effective date of the contract should be the first day of the month in which the contract is executed. The expiration date should be the last day of the month preceding the month of the effective date and the year being five years later (i.e., if the effective date is July 1, 1992; the expiration date would be June 30, 1997--June 30 being the last day of the month preceding the month of the effective date and 1997 being five years from the year of the effective date). For extensions, the effective date would be the first day of the month in which the current contract expires, except for projects with an expiration date of the last day of a month. In that case,

the effective date would be the first day of the following month. The provisions for extension of LMSA contracts as described in Section 3-4 of this handbook will apply unless otherwise specified in the NOFA.

8/93

2-26

4350.2 REV-1

CHG-1

2-18. RECORDS RETENTION

Pursuant to 24 CFR 12.14, Field Offices must maintain files on LMSA applications and related documents, including financial analyses and recommendations, for a period of no less than five (5) years.

2-27

8/93