

HANDBOOK 4355.1 - FLEXIBLE SUBSIDY  
TABLE OF CONTENTS

	Page
CHAPTER 1: OVERVIEW OF THE FLEXIBLE SUBSIDY PROGRAM.....	1-1
1-1. USE OF THIS HANDBOOK.....	1-1
a. Organization of the Handbook.....	1-1
b. Additional References.....	1-1
1-2. PROGRAM AUTHORITY AND OVERVIEW.....	1-1
a. Flexible Subsidy Components.....	1-1
b. Legislative History .....	1-2
c. Program Intent.....	1-2
d. Funding Source.....	1-2
1-3. ELIGIBLE PROJECTS.....	1-4
1-4. ELIGIBLE USES OF FUNDS.....	1-6
a. Operating Assistance.....	1-6
b. Capital Improvement Loan Program.....	1-6
1-5. STATUTORY REQUIREMENTS.....	1-7
a. Physical Soundness.....	1-7
b. Financial Soundness.....	1-7
c. Low- and Moderate-Income Character.....	1-7
d. Least Costly Alternative.....	1-7
e. Owner Contribution .....	1-7
f. Competent Management.....	1-7
g. Management Improvement and Operating (MIO) Plan.....	1-7
1-6. PROGRAM FUNDING .....	1-8
a. Funding Allocations.....	1-8
b. Funding Process.....	1-8
1-7. PRIORITIES FOR FUNDING .....	1-9
a. Operating Assistant Priorities.....	1-9
b. CILP Priorities.....	1-10
c. Funding Disclosure.....	1-11
1-8. FINANCIAL DISTRESS RANKING.....	1-12
a. Funding by Category.....	1-12
b. Funding Within Categories.....	1-12
1-9. DIVISION OF RESPONSIBILITIES.....	1-13
1-10. GENERAL PROGRAM REQUIREMENTS.....	1-13
a. Resident Involvement.....	1-13
b. Low- and Moderate-Income Character.....	1-14
c. Financial Audit Findings.....	1-15
d. Environmental Review.....	1-15

---

---

HANDBOOK 4355.1 - FLEXIBLE SUBSIDY  
TABLE OF CONTENTS  
(Continued)

	Page
e. Lobbying Restrictions.....	1-16
f. LIHTC and Other Subsidy Layering.....	1-17
g. Identity-of-Interest Disclosure.....	1-18
h. Energy Efficiency.....	1-20
i. Handicapped Accessibility.....	1-20
j. Previous Participation Certification.....	1-21
k. Uniform Relocation Act Requirements.....	1-21
CHAPTER 2: THE OPERATING ASSISTANCE PROGRAM.....	2-1
SECTION 1. BASIC PROGRAM REQUIREMENTS.....	2-1
2-1. OVERVIEW OF THE OPERATING ASSISTANCE PROGRAM.....	2-1
2-2. ELIGIBLE ACTIVITIES.....	2-2
a. Repairs and Replacements.....	2-2
b. Replacement Reserve Deficiencies.....	2-3
c. Operating Deficits.....	2-4
2-3. TERMS OF ASSISTANCE.....	2-4
a. Repayment Terms.....	2-4
b. Limitations on Assistance.....	2-5
2-4. CONDITIONS OF ASSISTANCE.....	2-5
a. For Profit and Limited Dividend Owner Contributions.....	2-5
b. Nonprofit Owner Contributions.....	2-7
c. Owner Distributions.....	2-7
SECTION 2. OWNER APPLICATION PROCESS.....	2-8
2-5. OVERVIEW OF THE APPLICATION PROCESS.....	2-8
a. Owner and Field Office Responsibilities: .....	2-8
b. Key Steps.....	2-8
2-6. ANALYZING PROJECT CONDITIONS.....	2-9
a. Management Deficiencies .....	2-9
b. Financial Deficiencies.....	2-9
c. Physical Deficiencies .....	2-10
2-7. SUBMISSION PROCEDURES.....	2-10
2-8. NEGOTIATIONS WITH THE FIELD OFFICE.....	2-12

HANDBOOK 4355.1 - FLEXIBLE SUBSIDY  
TABLE OF CONTENTS  
(Continued)

	Page
SECTION 3. FIELD OFFICE REVIEW PROCEDURES.....	2-13
2-9. OVERVIEW OF THE REVIEW PROCESS.....	2-13
a. Field Office Obligations.....	2-13
b. Field Office Determinations.....	2-13
c. Key Steps .....	2-14
d. Required Forms.....	2-14
2-10. FLEXIBLE SUBSIDY PROCESSING CONTROL LOG.....	2-15
2-11. LOCAL GOVERNMENT ASSURANCES.....	2-15
a. Purpose .....	2-15
b. Notification Requirements.....	2-15
2-12. PHYSICAL AND MANAGEMENT REVIEWS.....	2-16
2-13. PROJECT ANALYSIS WORKSHEET.....	2-16
a. Replacement Reserve Account Analysis.....	2-17
b. Analysis of Root Problems and Best Solutions.....	2-17
c. Assess Costs.....	2-18
d. Review Available Relief Tools.....	2-18
e. Justify Operating Assistance.....	2-20
2-14. EMERGENCY REPAIRS AFTER APPLICATION BUT BEFORE CONTRACT EXECUTION.....	2-20
2-15. REVIEWS FOR PREVIOUS OPERATING ASSISTANCE.....	2-20
2-16. REVIEWS FOR OTHER FEDERAL REQUIREMENTS TRIGGERED BY FLEXIBLE SUBSIDY ASSISTANCE.....	2-21
2-17. NEGOTIATIONS WITH THE OWNER.....	2-21
2-18. FIELD OFFICE RECOMMENDATION.....	2-22
2-19. SUBMISSION REQUIREMENTS .....	2-22
a. General Submission Information.....	2-22
b. Owner Submission Items.....	2-23
c. Field Office Submission Items.....	2-23
2-20. SPECIAL PROCEDURES FOR HFA FINANCED PROJECTS .....	2-24

(Continued)

	Page
CHAPTER 3: THE CAPITAL IMPROVEMENT LOAN PROGRAM.....	3-1
SECTION 1. BASIC PROGRAM REQUIREMENTS.....	3-1
3-1. OVERVIEW OF THE CAPITAL IMPROVEMENT LOAN PROGRAM	3-1
3-2. ELIGIBLE ACTIVITIES.....	3-1
a. Eligible Activities.....	3-1
b. Prohibited Activities.....	3-2
3-3. AMOUNT AND TERMS OF ASSISTANCE.....	3-2
a. Amount of Assistance.....	3-2
b. Repayment Terms.....	3-3
c. Limitations on Assistance.....	3-4
3-4. CONDITIONS OF ASSISTANCE.....	3-4
a. For Profit and Limited Dividend Owner Contributions.....	3-4
b. Nonprofit Owner Contributions.....	3-5
SECTION 2. OWNER APPLICATION PROCEDURES.....	3-6
3-5. OVERVIEW OF THE APPLICATION PROCESS.....	3-6
a. Owner and Field Office Responsibilities.....	3-6
b. Key Steps.....	3-6
3-6. ANALYZING PROJECT CONDITIONS.....	3-7
3-7. MIO PLAN AND/OR WORK WRITE-UP.....	3-8
a. MIO Plan.....	3-8
b. Work Write-Up.....	3-8
3-8. SUBMISSION PROCEDURES.....	3-9
3-9. NEGOTIATIONS WITH THE FIELD OFFICE.....	3-10
SECTION 3. FIELD OFFICE REVIEW PROCEDURES.....	3-11
3-10. OVERVIEW OF THE REVIEW PROCESS.....	3-11
a. Field Office Obligations.....	3-11
b. Field Office Determinations.....	3-11
c. Key Steps.....	3-12
d. Required Forms.....	3-12
3-11. FLEXIBLE SUBSIDY LOG.....	3-13

(Continued)

	Page
3-12. LOCAL GOVERNMENT ASSURANCES.....	3-13
a. Purpose.....	3-13
b. Notification Requirements.....	3-13
3-13. DETERMINING NEED.....	3-14
a. Review of Project Reserves.....	3-14
b. Use of Reserve Funds.....	3-14
3-14. ABILITY TO SUPPORT CILP LOAN.....	3-15
a. Estimated Current Operating Expenses.....	3-15
b. Estimated Future Operating Expenses.....	3-16
c. Current Income.....	3-16
d. Rent Structure.....	3-16
e. Estimated Future income.....	3-17
3-15. ASSESS VIABILITY.....	3-17
3-16. REVIEW OPTIONS.....	3-18
a. Increase the Owner Contribution.....	3-18
b. Reduce the Interest Rate or Increase the Loan Term.....	3-18
c. Delay Action Until Additional Assistance is Available.....	3-18
3-17. ASSESS COSTS.....	3-19
3-18. REVIEW AVAILABLE TOOLS.....	3-19
3-19. JUSTIFY CILP ASSISTANCE.....	3-20
3-20. EMERGENCY REPAIRS AFTER APPLICATION AND BEFORE CONTRACT EXECUTION.....	3-20
3-21. REVIEW FOR PREVIOUS CILP ASSISTANCE.....	3-20
3-22. REVIEWS FOR OTHER FEDERAL REQUIREMENTS TRIGGERED BY FLEXIBLE SUBSIDY ASSISTANCE.....	3-21
3-23. NEGOTIATIONS WITH THE OWNER.....	3-21
3-24. FIELD OFFICE RECOMMENDATION.....	3-22
3-25. SUBMISSION REQUIREMENTS.....	3-22
a. General Submission Information.....	3-22
b. Owner Submission Items.....	3-23
c. Field Office Submission Items.....	3-23
3-26. SPECIAL PROCEDURES FOR HFA FINANCED PROJECTS .....	3-24

---

HANDBOOK 4355.1 - FLEXIBLE SUBSIDY  
TABLE OF CONTENTS  
(Continued)

	Page
CHAPTER 4: PROJECT APPROVAL AND FUNDING.....	4-1
4-1. HEADQUARTERS REVIEW AND APPROVAL.....	4-1
a. Review Criteria.....	4-1
b. Notification to the Field.....	4-1
4-2. FUND RESERVATION.....	4-1
4-3. CONGRESSIONAL NOTIFICATION.....	4-2
4-4. COLLATERALIZING CILP LOANS.....	4-3
a. Overview.....	4-3
b. Preparation and Review of Legal Documents.....	4-3
c. Procedures for HUD-Insured Projects.....	4-4
d. Procedures for Projects with HUD-Held Mortgages.....	4-5
4-5. PLANNING CONFERENCE.....	4-5
4-6. FINANCIAL ASSISTANCE CONTRACT EXECUTION.....	4-7
4-7. FINANCIAL ASSISTANCE CONTRACT AMENDMENT.....	4-8
a. Conditions Under Which a Contract May be Amended.....	4-8
b. How Contracts Should Be Amended.....	4-9
4-8. PROJECT IMPROVEMENT ACCOUNT.....	4-11
a. Requirement for Separate Account.....	4-11
b. Deposits to the Account.....	4-11
c. Account Interest.....	4-11
4-9. FUND DISBURSEMENT PROCEDURES.....	4-11
a. Amount to be Disbursed.....	4-11
b. Owner Requisitions.....	4-14
c. HUD Review of Owner Request for Funds.....	4-14
CHAPTER 5: THE MANAGEMENT IMPROVEMENT AND OPERATING PLAN (MIO).....	5-1
5-1. OVERVIEW.....	5-1
a. Who Must Complete the MIO?.....	5-1
b. Developing the MIO.....	5-1
c. Structure of the MIO Plan.....	5-2

TABLE OF CONTENTS  
(Continued)

	Page
5-2. NARRATIVE.....	5-3
a. Overview (Optional).....	5-3
b. Energy Conservation Plan.....	5-3
c. Management Initiatives Plan.....	5-3
5-3. PART I. THE DAY-TO-DAY OPERATING PLAN.....	5-3
a. Section A: Operating Procedures.....	5-3
b. Section B: Income and Expense Budget.....	5-5
5-4. PART II. IMPROVEMENT PROGRAM .....	5-6
a. Section A: Action Items, Form HUD-9835.....	5-6
b. Section B: Management Objectives, Form HUD-9835A.....	5-7
c. Section C: Sources and Uses of Funds, Form HUD-9835C.....	5-7
5-5. NEGOTIATING SPECIFIC TERMS OF THE MIO PLAN.....	5-8
5-6. FORMALIZING THE MIO PLAN.....	5-8
CHAPTER 6: MONITORING, CLOSE-OUT, AND ACCOUNTING REQUIREMENTS.....	6-1
SECTION 1. MONITORING AND CLOSE-OUT.....	6-1
6-1. MONTHLY REVIEWS.....	6-1
a. Owner Submission.....	6-1
b. Field Office Actions.....	6-1
6-2. QUARTERLY REVIEWS.....	6-2
a. Owner Submission.....	6-2
b. Field Office Actions.....	6-3
6-3. ON-SITE VISITS.....	6-4
a. Operating Assistance Program.....	6-4
b. CILP.....	6-5
6-4. SPECIAL FEES.....	6-5
a. Management Fee.....	6-5
b. Architectural and Oversight Fees.....	6-5
6-5. ENFORCEMENT ACTIONS.....	6-6
6-6. IMPACT EVALUATION.....	6-6
a. Projects NOT Required to Complete a MIO.....	6-6
b. Projects Required to Complete A MIO.....	6-6

HANDBOOK 4355.1 - FLEXIBLE SUBSIDY  
TABLE OF CONTENTS  
(Continued)

		Page
6-7.	CLOSE-OUT PROCEDURES.....	6-8
a.	Operating Assistance Program.....	6-8
b.	Capital Improvement Loan Program.....	6-10
6-8.	REPAYING THE LOAN.....	6-11
6-9.	RECORDKEEPING.....	6-11
a.	Owners.....	6-11
b.	Field Office.....	6-12
c.	RAD.....	6-13
SECTION 2.	ACCOUNTING REQUIREMENTS.....	6-14
6-10.	GENERAL POLICIES.....	6-14
6-11.	ACCOUNT CLASSIFICATION.....	6-14
a.	Project Improvement Account (Acct. No. 1380).....	6-14
b.	Flexible Subsidy Income (Acct. No. 5180).....	6-15
c.	Accounts Payable -- Project Improvement Items (Acct. No. 2112).....	6-15
6-12.	IMPACT ON PROJECT FINANCIAL REPORTS.....	6-15
a.	Monthly Reports.....	6-15
b.	Annual Financial Statements.....	6-16
c.	MIPS.....	6-16
6-13.	RENTAL INCREASES.....	6-16

5/92

viii

---

LIST OF APPENDICES

---

No.	Title	Form Number
1	Notice to Residents	
2	Compliance and LAC Conditions Record	HUD-4128.1
3	Lobbying Certification, Disclosure of Lobbying Activities (OMB: 0348-0046)	SF-LLL
4	LIHTC and Other Subsidy Layering Certification	HUD-2880
5	Identity-of-Interest Disclosure	
6	Previous Participation Certification	HUD-2530



(OMB: 2502-0118)

7	Flexible Subsidy Residual Receipts Note	
8	MIO, Part II, Section A: Action Items (OMB: 2502-0395) MIO, Part II, Section B: Management Objectives (OMB: 2502-0395) MIO, Part II, Section C: Sources and Uses of Funds (OMB: 2502-0395)	HUD-9835 HUD-9835-A HUD-9835-B
9	Management Reviews of Multifamily Projects (OMB: 2502-0178)	HUD-9834
10	Physical Inspection Report (OMB: 2502-0369)	HUD-9822
11	Project Analysis Worksheet	HUD-9815
12	Application for Flexible Subsidy Assistance	HUD-9826
13	Sample Letters to Local Governments	
14	Field Office Worksheets A. Field Office Certification B. Least Cost Worksheets C. Project Summary D. Checklist for Evaluation E. Project Evaluation	HUD-9615 HUD-9616 HUD-9617 HUD-9618 HUD-9619
15	Flexible Subsidy Control Log Part I Flexible Subsidy Control Log Part II	HUD-9823-C HUD-9823-D
16	Monthly Status Report	HUD-9823-F
17	Justification of Flexible Subsidy Funds	HUD-9815-A
18	Contents of Application Package	
19	Reservation of Flexible Subsidy Funds	HUD-9823

ix

5/92

LIST OF APPENDICES

No.	Title	Form Number
20	Notification of Award of Flexible Subsidy Assistance	HUD-9823-E
21	Sample Use Agreement	
22	Financial Assistance Contract	HUD-9819
23	Direct Deposit Form (OMB: 1510-0007)	SF-1199-A

24	Mortgage and Note Instruments	
25	Deferred Recordation Agreement	
26	Sample Closing Memorandum for CILP	
27	Budget Worksheet (OMB: 2502-0324)	HUD-92547-A
28	Requisition for Advance of Flexible Subsidy Funds (OMB: 2502-0395)	HUD-9823-A
29	Quarterly Performance Report (OMB: 2502-0395)	HUD-9824-A
5/92	x	

---

LIST OF EXHIBITS

	Page
Exhibit 1-1: Key Differences Between OAP and CILP.....	1-3
Exhibit 1-2: Eligible Sections of the Act.....	1-5
Exhibit 4-1: Fund Disbursement Procedures.....	4-12
Exhibit 5-1: MIO Plan Outline.....	5-4