This handbook provides basic information to HUD Personnel and to prospective sponsors who are interested in developing multifamily projects under Section 207 of the National Housing Act. Under this program HUD-FHA insures mortgages made by HUD-FHA approved private lenders. After HUD-FHA informs the sponsor of its feasibility determination, the sponsor secures financing from a HUD-FHA approved lender who submits the application with fee for mortgage insurance.

This handbook is divided into two chapters. The first chapter sets forth the basic eligibility requirements, and the second chapter explains HUD-FHA processing in general terms.

Sponsors doing business with Field Offices for the first time will find a willing and capable staff anxious to assist in every way possible to produce needed housing as efficiently and expeditiously as possible. One of the prime functions of HUD-FHA is to encourage and assist in the production of well conceived multifamily rental projects. Field Office personnel will be happy to explain the Department’s programs in greater detail and assist sponsors in utilizing the rental housing programs best suited to the market and location.

The program described in this handbook is designed for occupancy by persons whose incomes are above the levels established for subsidized housing. There are no rent supplement, interest subsidy, or similar types of federal assistance payments permitted under this program.
References:

(1) 1350.2A Change 1 - Central Information on Previous Participation Experience

(2) RHM 4370.1 SUPP 1 - Insured Multifamily Projects Annual Financial Reporting and Analysis Handbook

(3) RHM 4350.1 SUPP 1 - Insured Project Servicing Handbook

(4) 4425.1 - Application thru Firm Commitment for Project Mortgage Insurance

(5) 4565.1 - Mortgage Insurance for the Purchase or Refinancing of Existing Multifamily Housing Projects, Section 223(f)

* (6) 4371.1 - Financial Operations and Accounting Procedures for Multifamily Projects *

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1-1. GENERAL.

a. The Purpose of Section 207. Section 207 assists in financing the construction or rehabilitation of rental projects. The program is intended primarily to provide housing for families with children, although rental housing in locations close to a central or business district may provide for a reasonable number of efficiency units. The subject project must include at least 8 units of which not more than 30 percent should be efficiencies. If a greater percentage of efficiencies is contemplated the Area Manager/Service Office Supervisor shall obtain prior clearance from the Director, Office* of Multifamily Housing Development.

b. Income Limits. There are no income limits. However, the rental rates established under this program must be tailored to the incomes of the market to be served. No mortgage will be accepted for insurance under this Section unless the proposed project is economically sound.

c. Furnished Apartments. In considering any proposal in which furnished units are to be provided, the prohibition against the use of multifamily housing for hotel or transient purposes will be made plain. Subject always to a finding as to long range market demands, preliminary discussions with the sponsors should proceed on the assumption that satisfactory occupancy can be attained initially without leasing any of the dwelling units as furnished units. This concept is basic and there shall be no deviation from it without a special written recommendation of the Area Office Manager/Service Office Supervisor which must be approved by the Director, Office of Multifamily Housing Development, Headquarters.*

1-2. SELECTION OF PROGRAM. The purpose of this particular program will be more fully explained to the sponsor at the first meeting with the HUD Field Office to secure assistance in selecting the specific program that best suits the proposal. If the proposal is obviously ineligible for any of our programs, the sponsor will be so advised before any substantial effort is expended. If the proposal appears to meet the objectives of this program, the HUD Field Office personnel will assist in preparing a request for project analysis.*

1-3. FEES AND CHARGES. HUD requires the following fees:
a. Application Fee - An application Fee of $1.50 per thousand dollars of the amount of the mortgage applied for will accompany the application for conditional commitment.

b. Commitment Fee - A Commitment Fee, which when added to the Application Fee, will aggregate $3.00 per thousand dollars of the face amount of the mortgage applied for, will accompany the application for firm commitment.

c. Inspection Fee - An Inspection Fee of $5.00 per $1,000 of the mortgage amount is paid at initial endorsement for insurance of advance cases and prior to the start of construction for insurance upon completion cases.

d. No Fee is collected by HUD until the project is determined to be feasible.

1-4. MORTGAGEE FEES AND CHARGES. The mortgagee may collect from the mortgagor an initial service charge not to exceed 2% of the face amount of the mortgage and a 1 1/2% commitment fee. These charges are included in the estimated replacement cost of the project. No other fees and/or charges made by the mortgagee may be included in the estimated replacement cost.

1-5. ELIGIBLE MORTGAGORS.

a. Type of Mortgagor. The mortgagor must be a private, profit-motivated corporation, trust, partnership, or individual regulated or restricted by the Assistant Secretary for Housing as to rents or sales, charges, capital structure, rate of return, and methods of operation. Other types of sponsorships may be accepted under Section 207 if they appear promising and particularly well suited for the type of project proposed.

b. Form FHA 2530, Previous Multifamily Participation Review Procedures. Sponsors are to file Form FHA 2530 with their request for feasibility analysis or immediately when the person or firm first becomes associated with the project if the participation begins at a later date.

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(1-5) c. The Purpose of this Procedure is to provide a central source of information relating to a Principal's previous participation in HUD programs in all jurisdictions as an aid in the evaluation of the mortgage insurance risk of a proposed project. Such information is also useful in instances where approval of a new venture should be accompanied or
preceded by corrective action on an existing project involving the same participants. Approval of a proposal under these procedures is limited to the consideration of the previous participation of the Principals. It in no way amends or deletes other outstanding administrative and under-writing instructions as to project acceptability, credit capability, competency, etc., and in no way implies approval of these matters.

d. Scope of Evaluation. The evaluation of a Principal's previous participation includes a review of project dockets, audit reports, compliance records, reports by the HUD Office of Investigation and the recommendation of RAs and Field Office Managers/Supervisors. The initial source of this information is the Previous Participation Certificate, Form FHA-2530, on which the Principals are required to disclose their past participation in all HUD and other HUD programs (except HUD home mortgage programs) and their interest in the proposed project.

e. Who Must File Form FHA-2530. A Previous Participation Certificate, Form FHA-2530, must be executed and filed by every person and organization planning to:

(1) Participate as a Principal in a proposed multifamily, Title X, Title XI or nursing home/intermediate care facility project.

(2) Obtain an interest in an existing project.

(3) Submit a bid to purchase a Secretary-owned project.

f. Who Is A Principal. The term Principal, as used in these procedures, includes:

(1) Sponsors and owners of the project.

(2) General Contractors.

(3) Project managers and management agents.

(4) Packagers, consultants and other persons or organizations engaged to furnish advisory services in connection with the financing, construction or operation of a project, or to select and negotiate contracts with contractors, architects, attorneys or managing agents, or to secure financing or to meet HUD requirements.
(5) Architects and attorneys who have any interest in the project other than an arms-length fee arrangement for architectural or legal services to be rendered.

g. Organizations as Principals. An organization which participates as one of the Principals specified in Sub-paragraph f. above must file as follows:

(1) If a Principal is a profit motivated corporation, the Certificate must be executed on behalf of the corporation and by its principal officers, directors, and each stockholder having 10% or more interest in the corporation. If the corporation is wholly or partially owned by another corporation, a Certificate must also be filed by the parent organization, its officers, directors, and stockholders having 10% or more interest. Where a corporation is publicly held or unusually large and it would be unreasonable to require filing by all officers, directors and stockholders, this requirement may be modified.

(2) If the Principal is a non-profit corporation, the Certificate must be executed on behalf of the corporation and by the head of the organization (the head of the local unit if it is a national organization) and the officers who will represent the organization to HUD.

(3) If the Principal is a partnership, the Certificate must show the partnership name and must be executed by each general partner and each limited partner with 25 percent or more interest. (Reference 24 CFR, 200.212).

(4) If the Principal is a trust or other similar entity, the Certificate must be executed on behalf of the entity and by each trustee.

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(1-5) h. Time of Filing.

(1) Proposed Projects - The Certificate must be filed at the time of filing FHA Form 2013, requesting feasibility analysis or
immediately when the person or organization first becomes associated with the project, if participation begins at a later date.

(2) Transfer of Physical Assets - The Certificate must be filed no later than the other documents required for preliminary approval of the transfer.

(3) Purchase of Secretary-owned project - The Certificate must be filed with the bid directly to the Director, Office of Property Disposition, HM.

i. Preparation of Certificate.

(1) The name, location, and number of the proposed project and the number of units and the proposed mortgage amount must be shown.

(2) All HUD-FHA and other HUD projects in which the Principal has previously participated must be identified by name, location, and project number, and the nature of his participation in each project must be disclosed. If a Principal participated as an owner, his percentage of ownership must be shown.

(a) Where an organization is a Principal in the proposed project, previous projects in which the corporate officers, directors and stockholders or partners participated must be shown, as well as those in which the organization participated.

(b) The column headed "Name of Principal" should be used to identify the certifying Principal who participated in the listed project, when more than one person executes the form.

(3) The Certificate must show whether the previous project is or ever has been in default or subject to mortgage relief. A history of default or mortgage relief may seriously affect the determination of the feasibility of the proposed project, therefore the Principal may attach an explanation as an aid in evaluation. If the Principal's
participation has terminated and he does not know whether there has been a default or mortgage relief (e.g., a general contractor) he may enter "Unknown, Terminated (Date)."

However if the mortgage was in default or subject to relief during his participation it should be noted and an explanation attached.

(4) A Principal who has previously filed a Certificate in any Field Office may identify such Certificate on the face of the new submission, attach a copy, and list only additional projects and additional information on the new Certificate.

(5) Each Principal must sign the Certificate and type or print his name under the signature, together with the type of participation he will have in the proposed project. If he will be an owner of the project the percentage of ownership must be shown. The Certificate must also show the date of execution and the Social Security number for individual Principals and the Employer Identification number for organizations.

(6) If Subparagraph b.(1) applies to the project manager or other Principal, a certificate must be filed by such Principal as soon as he has been selected.

(7) If one or more additional or substitute Principals will participate in a project previously approved under these procedures a Certificate must be filed by the new Principals together with a statement giving the names and type of interest of all of the Principals whose participation in the project was previously approved. The previously approved Principals should not execute the new Certificate unless the Field Office wants a current review of their participation.

(8) The following participants are not considered Principals under these procedures and need not execute a Certificate:

(a) Stockholders having less than 10% interest in a corporation.
* (1-5) (b) Limited partners having less than 25 percent interest in the partnership.

(c) Attorneys and architects having only an arms-length fee arrangement for legal or architectural services to be rendered.

(d) Minor corporate officers.

(e) Sub-contractors.

j. Action in Field Office.

(1) Upon receipt of a Previous Participation Certificate, Form FHA-2530, the form should be reviewed carefully to determine that it has been completed in all respects. Particular attention should be given to the following:

(a) All copies must be clear and legible.

(b) The project number must be shown for the proposed project and for each previous project listed. When the Principal is unable to furnish a project number the Field Office should insert the number. If the number is not available to the office, so indicate on the form.

(c) The certifying Principal's type of participation and the percentage of ownership, where applicable, must be shown for each listed project.

(d) The Certificate must be executed by every Principal who will participate in the proposed project. If the Certificate involves only substitute or additional Principals, a statement relating to Principals who were previously approved must be attached.

(e) The name of the Principal and his/her participation in the proposed project must be typed or printed under each signature and his/her Social Security or Employer's Identification Number must be shown.

(f) If the Certificate refers to an earlier Certificate a copy of the earlier Certificate must be attached.
(g) If a proposed Principal is subject to an existing Section 512 determination or an Unsatisfactory Risk Determination, advise him/her that the project will not be approved with respect to his/her participation.

(h) Caution Principals that every project in which they have previously participated as a Principal must be listed, and the default and mortgage relief history of each listed project must be disclosed. A Certificate which fails to provide complete disclosure will be returned without approval and may subject the Principal to prosecution for violation of Section 1010 of Title 18, United States Code.

(2) Complete Form HUD-1441.1, request for information concerning Previous Participation, taking the information from the filed Certificate. The name, Social Security number and city and state of residence of each Principal who executed the Certificate must be entered. If the Principal is an organization, its Employer's Identification number and the location of its business office must be entered. In those cases where an individual conducts his/her business under a business name, enter both the individual's name and his/her business name together with the appropriate addresses, Social Security number and Employer's Identification number. If several Forms FHA-2530 are submitted for one project the information should be consolidated for entry on Form HUD-1441.1.

(3) When it has been determined that Form FHA-2530 and Form HUD-1441.1 are properly completed:

(a) Retain the original copy of Form FHA-2530 and the third (pink) copy of Form HUD-1441.1 for filing in the Field Office docket.

(b) Forward the first copy of Form FHA-2530 to the Regional Administrator.

(c) Forward to the Director, Participation
and Compliance Review Division, the remaining three copies of Form FHA-2530 and two copies of Form HUD-1441.1. That office will forward the copies of Form HUD-1441.1 to the Office of Investigation as required by Reference (1) of the Foreword.

(1-5) If FHA Form 2530 was submitted to the Participation and Compliance Review Division before a project number was assigned, or if the project number is changed after submission, or if the project is withdrawn or rejected, promptly notify that Division of the assignment, change, withdrawal or rejection.

k. Action by Regional Office. When the Regional Administrator receives a copy of FHA Form 2530 which discloses previous participation in another HUD program he should report any adverse information regarding the Principal in HUD-FHA or other HUD programs to the Director, Participation and Compliance Review Division, by memorandum or telephone. If no report is received within five days it will be presumed that the Regional Administrator has no adverse information.

i. Action by Participation and Compliance Review Division. After evaluating the information referred to in Sub-paragraph 1-5.d., the Participation and Compliance Review Division will advise the Field Office whether or not the proposed project has been approved with respect to the participation of the Principals who executed the Certificate. The commitment should not be issued until the participation of each Principal listed in Sub-paragraph 1-5.f., has been approved. The participation of Principals who have not executed the Certificate will not be approved.

m. Clearance Priority. If there is reason to believe that the proposal will be ready for commitment in less than 60 days from the date the request for feasibility analysis is filed, indicate by memorandum attached to the FHA Form 2530 the date on which the request for feasibility analysis was filed and the expected date of issuance of the commitment prior to which FHA Form 2530 clearance is needed. Processing priority will be given to these cases so that within the specified time an approval letter will be issued or the originating office will be advised of any adverse information which may delay or preclude approval.
n. Project Disapproval. In the event a project is disapproved under these procedures the Field Office should notify the Principals who executed the Certificate of the disapproval. Persons and organizations who did not execute the Certificate are not Principals and should not be notified. Only the Principal whose previous participation is found unacceptable should be advised of the basis for disapproval.

If a project is disapproved because of the participation of one or more Principals, new Principals may be substituted but a Previous Participation Certificate must be filed for each substitute.

o. Reconsideration. A Principal whose previous participation has been found unacceptable may request reconsideration of the proposal by the Multifamily Participation Review Committee. Such request must be accompanied by a statement in writing fully setting forth appropriate grounds for approval of the project with respect to his previous participation. Exhibits may be submitted with the statement. Oral argument will not be heard by the Committee.

Requests for reconsideration should be submitted to:

Executive Secretary, Multifamily Participation Review Committee
Room 6236
451 Seventh Street, S. W.
Washington, D. C. 20411

1-6. CONTROL OF MORTGAGOR. The Secretary's control over the mortgagor will be exercised by a Regulatory Agreement, FHA Form 2466. This requirement as well as the others set forth in this chapter will be discussed with sponsors and explained to them fully at the initial interview.

1-7. RESPONSIBILITIES AND OBLIGATIONS OF MORTGAGORS. Financing under the HUD-FHA mortgage insurance programs imposes certain responsibilities and obligations on all mortgagor. The basic description and outline material indicated below pertain to all rental housing programs. The most important of these responsibilities and obligations are:

a. Equal Opportunity in Housing. Federal law and HUD-FHA Regulations require that neither the mortgagor nor anyone authorized to act for him will decline to sell, rent, or otherwise make
available any of the properties or housing units in a multifamily project to a prospective purchaser or tenant because of his race, color, creed, or national origin. The mortgagor must further agree to comply with state and local laws and ordinances prohibiting discrimination.

b. Cost Certification Requirements. Cost Certification is required by Section 227 of the National Housing Act and HUD Regulations for all multifamily housing projects, except those insured under Section 810(g) of the Act, rehabilitation sales type projects under Sections 221(h) and 235(j), and sales type projects under Section 213. The Field Office will determine the maximum insurable mortgage based on actual cost of the project and the amount of the reduction of the original mortgage amount, if any. This determination will be based on the cost certification of items and amounts included in the mortgagor's cost certification after a careful review has been made of the items and amounts included, without making an audit of the mortgagor's books and records which subsequently may be required.

(1) Joint Pre-Cost Certification Conference. When the project has attained a construction completion percentage of no more than 90 percent the Cost and Mortgage Credit staffs shall hold a joint pre-cost certification conference with the mortgagor, mortgagee, general contractor, and accountants. At this conference, provisions of HUD Handbook 4470.2, Cost Certification Handbook for Mortgagors and Contractors of HUD Insured Multifamily Projects, and IG 4200.1A Audit Guide for Auditing Costs of HUD Insured Multifamily Projects for use by Independent Public Accountants shall be explained and the mortgagor and contractor shall be asked to submit the required statements and certifications. The importance of a careful review by all parties, including the mortgagee, mortgagor and accountant, prior to submitting the cost certification documents to HUD shall be stressed. Particular emphasis shall be placed on the necessity for completeness with respect to required documentation, dates and signatures and upon the timeliness of the submission.

(2) Costs. As a general rule, only costs
which have been paid in cash or will be paid in cash upon release of the balance of the mortgage proceeds are eligible for inclusion as a certified cost.

(a) Land and Builder's Profit. Excepted from the general rule above are amounts allowed for land in all types of cases and amounts allowed for builder's profit in the case of a profit-motivated project where there is an identity of interest between the general contractor and the mortgagor. The amount allowable for land is the HUD "as is" value found in Section J, Block 14(7) of Form FHA-2264. When there is an arms length relationship between a mortgagor and a builder under a lump sum contract, the builder's profit and general overhead expense lose their identity as such and only that portion of the lump sum contract price (including fee) paid in cash, or to be paid in cash at final closing, is includable. In the case of a non-profit mortgagor, builder's profit must be certified as an actual cost since it cannot be treated as an allowance.

(3) Form FHA-2330. Mortgagor's Certificate of Actual Cost, is required in all cases upon completion of construction and prior to the approval of the final advance of mortgage proceeds.

(4) Form FHA-2330-A. In the event there is or has been any identity of interest between the mortgagor, on the one hand, and any subcontractor, supplier or equipment lessor, on the other hand, each such subcontractor, supplier or lessor will be required to submit a certification of actual costs. Form FHA-2330-A, Contractor's Certificate of Actual Cost, will be required for such subcontractors and evidence of actual costs will be required for such suppliers and lessors. If there is an identity of interest between the mortgagor and general
contractor, any subcontractor, supplier or lessor having an identity of interest with the general contractor will be treated as having an identity with the mortgagor.

c. Annual Financial Statements. Mortgagors are required to keep their books and accounts in accordance with Handbook 4371.1, Financial Operations and Accounting Procedures For Insured Multifamily Projects. Mortgagors also are required to provide annual financial reports meeting the requirements set forth in Reference (6) of the Foreword.

d. Annually a form is mailed to all project mortgagors to determine occupancy ratios and rentals by type of unit. The Rental Housing Occupancy Report, Form FHA-2474, is used to determine whether there exists any violation of the approved maximum rent schedule for the project.

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1-8 ELIGIBLE PROPOSALS. To be eligible for insurance under any of the unsubsidized rental housing programs, the proposal must fall into one of the following categories:

a. Proposed New Construction. In proposals involving new construction, work may not have been done to the site prior to the issuance of a firm commitment. The driving of foundation pilings, pouring of foundation footings, or pouring or placing of a pier or caisson constitutes the start of construction. Therefore, no project mortgage can be accepted for insurance if any of the above actions transpired prior to filing an application for mortgage insurance and issuance of a firm commitment.

b. Substantial Repair and Rehabilitation of existing dwelling units and facilities. Mortgage proceeds may be used to acquire the project and satisfy any previous existing mortgage.

c. Purchase and Refinancing Transactions. Where the primary purpose of the mortgage insurance proposal is to refinance or purchase an existing multifamily housing project, the proposal is eligible for mortgage insurance only under Section 223(f). See Reference (5) of the Foreword.
1-9. ELIGIBLE MORTGAGES. Maximum Mortgage Amount - The mortgage shall involve a principal obligation not to exceed the lesser of:

a. For such part of the property or project attributable to dwelling use (excluding exterior land improvements as defined by the Field Office Director) an amount per family unit depending on the number of bedrooms which may be:

<table>
<thead>
<tr>
<th></th>
<th>non-elevator*</th>
<th>elevator*</th>
</tr>
</thead>
<tbody>
<tr>
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<td>$15,000</td>
</tr>
<tr>
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</tr>
<tr>
<td>4-bedroom</td>
<td>30,000</td>
<td>36,465</td>
</tr>
</tbody>
</table>

*NOTE: The amounts stated above may be increased by up to 75% depending on the Field Office's determination of the cost level prevailing in the area. There are specific high cost determinations for Alaska, Guam and Hawaii.

b. For New Construction. 90% of the estimated value of the property after construction of improvements.

c. For Rehabilitation.

   (1) Property held in fee - 100% of the estimated cost of repair and rehabilitation.

   (2) Property subject to existing mortgage - the estimated cost of repair or rehabilitation; plus the lesser of: (1) the outstanding indebtedness or (2) 90% of the estimated fair market value of the property prior to rehabilitation.

   (3) Property to be acquired - 90% of the estimated cost of repair or rehabilitation; plus 90% of the lesser of: (1) the actual purchase price of the property prior to repair or rehabilitation or (2) the appraised value of the property prior to rehabilitation.

1-10. INCREASED MORTGAGE AMOUNT - OPERATING LOSS.

   a. If the mortgagor suffers an operating loss during the first two years of the project's operation, the mortgagor may request, and the Commissioner may insure a loan to cover the excess of taxes, interest, mortgage insurance premiums, hazard
insurance premiums, and the expense of maintenance and operation of the project (excluding depreciation) over project income during the first two years following the date of completion of the project. The mortgage term of such a loan cannot exceed the unexpired term of the original mortgage.

b. It must be shown that sustaining occupancy has been obtained or there is every indication that sustaining occupancy will be attained at a predictable date in the immediate future (in most cases 18 months or less). Also the competency and responsibility of the project management must have been established to the satisfaction of HUD-FHA.

1-11. MAXIMUM TERM OF LOAN. The mortgage term cannot exceed the lesser of 40 years or 3/4 of the remaining economic life.

1-12. INTEREST RATE. The interest rate cannot exceed the maximum rate established by the Secretary.

1-13. MORTGAGE COVENANTS. The mortgage will contain covenants which:

a. Prohibit any form of discrimination on the basis of race, sex, creed or color in connection with the occupancy of the mortgaged property.

b. Prohibit the use of the mortgaged premises for any purpose other than that for which it is intended at the date the mortgage was executed.

c. Prohibit the creation by the mortgagor of liens against the property superior or inferior to the liens of the mortgage.

d. Bind the mortgagor to keep the property insured by a standard policy or policies against fire and such other hazards as the Director may stipulate.

1-14. ELIGIBLE MORTGAGEES. To be eligible to apply for and receive commitments for mortgage insurance under any section of the Act, a lender must be an approved mortgages. Also, if it is contemplated that the mortgages will be sold to FNMA or GNMA, the lender should also be an approved FNMA/GNMA seller-servicer.

1-15. OBLIGATIONS OF GENERAL CONTRACTOR.

a. Prevailing Wages and Equal Employment Opportunity - Pre-Construction Conference. In the pre-construction conference, labor standards, prevailing wage determinations and HUD-FHA's Equal
Employment Opportunity Policy are outlined to all participants. The principal contractor must certify that all laborers and mechanics will be paid not less than the prevailing wages in the project area and that he accepts the responsibility for such payment by all subcontractors.

(1) A HUD-FHA representative will read and explain HUD Form 907, Instructions for Contractors Regarding Affirmative Action, which sets forth pertinent obligations which are assumed by a contractor or subcontractor as well as a statement of the sanctions that may be applied in the event of non-compliance.

(2) A copy of HUD Form 907, is to be given to every contractor and subcontractor at the conference. Each contractor should be given additional copies to pass on to absent subcontractors who will be used on the project. This publication explains in more detail some of the pitfalls a contractor should avoid, as well as some affirmative steps he should take to assure an effective, and therefore acceptable, program of Equal Employment Opportunity.

(3) Copies of the Equal Employment Opportunity poster, which each contractor and subcontractor must agree to post in conspicuous places available to employees and applicants for employment, will be given to the contractors and subcontractors present, and additional copies will be furnished each general contractor to be given to any subcontractor not present who will be involved in the project.

b. Inspection. Inspections of multifamily housing projects are made to insure that the project is being constructed in accordance with the identified drawings and specifications and all approved construction changes. Failure on the part of the contractor to remedy any unacceptable work practices will result in either a reduction in the amount of the insured mortgage or a notification to the mortgagee that the project will be considered unacceptable for insurance unless correction is made.

c. Builder's Fee. HUD-FHA includes a builder's fee, which consists of two basic considerations:
(1) General overhead, which represents expenses necessary for the continued operation of a construction business.

(2) Builder's profit, which is the return typically anticipated by builders performing their services under competitive conditions in its computation of the total cost of construction.

d. Overhead. General overhead will be computed by applying 2% of the subtotal for construction which includes the cost of land improvements, structures and general requirements. The total builder's fee will be determined from data obtained from builders on multifamily housing projects. The data will reflect the risk and responsibility inherent in the type of construction proposed and also will take into consideration the location in which the project will be built. The percentage remaining after subtracting the 2% allowance for general overhead will be the builder’s profit. The profit percentage will then be applied to the same subtotal as the overhead percentage. The allocation for general overhead expense will be allowed in all cases regardless of the total construction cost or the size of the project.

e. General Requirements (Job Overhead). This is an allowance for miscellaneous items encountered in the construction of, and directly pertaining to, a specific project. Items of cost to be considered in the allowance include but are not limited to: supervision, field engineering, field office expense (including clerical employee's wages), temporary heat, water, light and power for construction, equipment rental (if not included in trade item costs), clean-up and rubbish disposal, building permit, watchmen's wage and/or theft and vandalism insurance or allowances for such losses, medical and first-aid facilities, temporary walkways and fences, sidewalk and street rental, temporary roads, sidings, docking facilities. Items will vary due to project type, location and site conditions.

f. Builder's Fee for Projects Utilizing Factory Built Modular Units or Components. This method of construction is defined as the utilization of panels or components, assemblies or complete subsystems, which are manufactured to use for or provide a space enclosing unit.
(1) It is recognized that the builder is fully responsible for the total amount of the contract and acceptable completion of the project. However, until this method of construction has become more widely used and factual information can be obtained, the following will be considered when determining an appropriate builder's fee:

(a) On-site construction time should be substantially reduced.

(b) The number of subcontractors and on-site work relating to the structure is much less.

(c) The risk of construction delays is reduced due to the controlled conditions inherent in manufacturing, and the reduced on-site construction time they create.

(d) Many of the interim responsibilities such as compliance with various local, state and federal codes relating to the use and acceptability of materials and also structural requirements are assumed by the manufacturer.

(2) Bearing the above in mind, the same guidelines will be followed as outlined in subparagraph 1-5.c., Builder's Fee, in establishing a reasonable fee. Full consideration must be given to the work the builder actually directs and performs and to the risk and responsibility he retains. In so doing it is expected that a total fee will be developed which is commensurate with this method of construction. The fixed percentage of 2% for general overhead will apply and the difference between it and the total percentage developed for the builder's fee will constitute profit. These percentages will be applied to the total construction costs including general requirements.

1-16. OCCUPANCY REQUIREMENTS AND RENTAL RATES.

a. Occupancy Requirements. There is no restriction to
occupancy by virtue of the tenants income. The only requirements are:

(1) In selecting tenants the mortgagor may not discriminate against a family because of race, color, creed or national origin or due to the fact that there are children in the family;

(2) There may not be any leases executed for a period of less than thirty days, nor can the mortgagor provide occupants with the customary hotel services such as room service for food and beverages, maid service, furnishing and laundering of linens, and bellboy services. The intent of Congress is that housing built with the aid of mortgage insurance is to be used principally for residential purposes and not transient or hotel purposes.

b. Rental Rates. The maximum rental that may be charged is determined on a project-by-project basis. Project owners may not charge a gross rental in excess of that determined by HUD-FHA as necessary to pay a fee for adequate management and meet all expenses, reserve, mortgage obligations and provide a reasonable profit. With prior HUD-FHA approval the rental income maximum may be increased in response to demonstrated increases in operating expenses (primarily maintenance and taxes).

1-17. PROPERTY REQUIREMENTS.

a. To be Eligible for Insurance of the mortgage the project must be located on real estate held in fee simple or subject to a lease for not less than ninety-nine years which is renewable or under a lease having a period of not less than seventy-five years to run from the date the mortgage is executed, or under a lease executed by a governmental agency, an Indian or an Indian tribe for the maximum term consistent with the legal authority for the execution of such a lease provided that the term of any such lease shall run for a period of not less than fifty years from the date the mortgage is executed. The property must be free and clear of all liens other than that of the insured mortgage.

b. Leaseholds: Whenever a proposal for the development of a rental housing project involves a leasehold which is determined to be freely marketable, it
shall be explained to the sponsors that the maximum mortgage amount will be subject to a reduction in an amount equal to the capitalized value of the ground rent. Further, it should be emphasized that the annual ground rent shall not exceed that amount resulting from the application of the insured mortgage interest rate to the HUD value of the land. In addition, if it is contemplated that the terms of the lease will provide for the payment of ground rent during the construction period, it should be made clear to the sponsor that such rents may not be paid from mortgage proceeds but must be provided for in the required working capital deposit. Form FHA 2070, Lease Addendum, together with a copy of Instructions for Leasehold 207 Projects is to be furnished the sponsor. The Addendum provides that the Assistant Secretary for Housing shall have the option to purchase fee title unless this * option right is waived under any of the provisions of Reference (4) of the Foreword. In such event, Paragraph 2. of the Addendum shall be deleted and the last three lines of paragraph 5.(a) following the words "the total value of the land as established by" are to be deleted and there is to be added "the Federal Housing Commissioner at $________." The amount to be inserted would be the value of the fee as determined at the time of initial processing and which other-wise would have been indicated in Paragraph 2. The annual rental is to be fixed for the initial 55-year period but not necessarily limited to one rate; however, any change in rental must be fixed and not determined through negotiation or arbitration.

1-18. DEVELOPMENT OF PROPERTY. The project shall consist of eight or more units on one site.

a. The site may consist of two or more non-contiguous parcels of land when the Director has determined that the parcels are:

(1) So situated as to comprise a readily marketable real estate entity.

(2) Within an area small enough to allow convenient and efficient management.

b. The property, including improvements, shall comply with the zoning or deed restrictions applicable to the project site and with all applicable local building codes and governmental regulations.

*1-19. COMMERCIAL FACILITIES. Only commercial facilities adequate to serve the needs of the project's occupants may be included. Commercial
areas should not normally exceed 10 percent of the total gross floor area of the project, and commercial income should not normally exceed 15 percent of the estimated total gross project income. When accessory income exceeds 15 percent of the estimated total gross project income, prior clearance shall be obtained from the Director, Office of Multifamily Housing Development, Headquarters.

a. Commercial leases. See Reference (3) of the Foreword for detailed instructions.

b. Ineligible commercial leases. Leasing of commercial facilities for uses incompatible with the residential character of the property as a whole will not be approved.

c. Garage facilities. See Reference (3) of the Foreword for detailed instructions.

1-20. RATE OF RETURN ON INVESTMENT. The rate of return achieved by the owner varies from project to project. HUD sets a maximum project rental rate sufficient to allow sponsors a fair return on their investment.

1-21. TAX BENEFITS. The rate of return on investment does not include the tax benefits of depreciation on the property which, for many sponsors, may be the primary reason for investing in rental housing. Persons interested in tax shelters may find it advantageous to consult with an authority in the tax field to learn of these tax benefits.
CHAPTER 2. PROJECT PROCESSING

2-1. THE STAGES OF PROJECT PROCESSING. The HUD-FHA multifamily coordinator (Program Manager) who is the point of contact with the sponsor, will schedule project processing in one, two, or three stages.

a. Under single-stage processing, the sponsor provides at the first submission all necessary exhibits conforming to HUD-FHA requirements. The sponsor's firm commitment is then issued. Total elapsed time between the first contact and HUD-FHA's issuance of the commitment is approximately 30 days.

b. Under multiple-stage processing, the sponsor may be unable to satisfy all of the HUD-FHA requirements in the first submission. In this instance, the sponsor will go through two or three stages - the first leading to a feasibility letter, the second leading to a conditional commitment, and the third to a firm commitment.

c. The total processing procedure is as follows:

(1) The initial conference is the first contact between the sponsor and the Field Office on the proposal.

(2) Sponsor's preparation of a request for feasibility analysis (FHA Form 2013) outlining his proposal.

(3) Preparation for the feasibility conference by both the sponsor and the Field Office.


(5) Preparation and submission through an approved mortgagee, of an application for mortgage insurance (FHA Form 2013) with exhibits, preliminary sketches, brief specifications and payment of the application fee. Processing may be for either conditional or firm commitment depending on sponsor's wishes and/or degree of preparation as determined by the Director of Technical Services or the Chief Underwriter.

(6) Processing of the sponsor's submission.
If the processing is for a firm commitment there must be a complete architectural design of the project with full working drawings and specifications submitted to HUD-FHA with payment of the commitment fee. If for a conditional commitment, only schematic drawings are required. HUD-FHA then issues the conditional and/or firm commitment.

(7) Initial endorsement of the original mortgage, referred to as the initial closing.

(8) Pre-Construction Conference.

(9) Construction of the Project.

2-2. INFORMATION REQUIRED FROM THE SPONSOR FOR FEASIBILITY DETERMINATION.

a. The Sponsor should be prepared to give the multifamily coordinator (Program Manager) all the information not marked with solid triangles on the application (FHA Form 2013 Rev.). This application form is used in all stages as a sponsor's summary and preapplication in the feasibility stage and as the mortgagee's application at the conditional and firm commitment stages.

b. The Only Required Information is that necessary to identify the site, the access to the site, the number of units, the expected income, a rough estimate of total construction and improvement costs, and a requested loan amount and the details of the management plan. The sponsor should have a clear idea of the demand for the project he proposes, the extent of competition with which he will be confronted, the vacancy rates in similar projects, and the prevailing unit rentals in the area. He should also know the equipment and services included in the rentals of competing projects and whether his site location is acceptable to the type of tenants he wishes to attract. He should know whether zoning for his site permits his proposed project. At this point, it is also desirable that the sponsor have an indication of the total construction and land improvement costs of the proposed project.

*(2-2) c. Using Data Available in the Field Office, the HUD Director Deputy Director, Housing Development/Service Office Supervisor will analyze the sponsor's information. From this study it will be
d. Assignment of Project Number. An official project number shall be assigned to a case upon determination by the HUD Director/Deputy Director, Housing Development/Service Office Supervisor that submission is sufficiently complete for processing. The project number is to be recorded on Form FHA-2530, Previous Participation Certificate, and other documents before the copies are forwarded to the Director, Office of Multifamily Housing Development, Headquarters.

e. Real Estate Tax Abatement or Exemption: If in any case the sponsor claims that the project will receive abatement or exemption from real estate taxes, the concurrence of the Office of the Regional Counsel in the validity of the claim must be obtained before the claim may be accepted in determining the feasibility of the proposed project. The Area Manager/Service Office Supervisor, therefore, must receive such concurrence before issuing any SAMA letter. The Area Manager's/Service Office Supervisor's memorandum to the Regional Counsel transmitting the sponsor's claim and supporting document, shall include any information available regarding similar projects in the Jurisdiction where abatement or exemption was requested and whether or not allowed. Copies of the transmittal memorandum are to be sent to the Director, Office of Multifamily Housing Development, Headquarters. Outlined below are the procedures to be followed:

(1) Sponsor submission: The sponsor must submit a full statement of the facts, including a copy of the application for the abatement or exemption which has been or will be presented to the local authorities. The statement of facts and application must correctly describe the project and its proposed operation on which the claim is based. Also to be submitted is an opinion letter from the prospective mortgagor's attorney, making reference to the statement of facts *
and application, advising the basis and extent of the claimed exemption or abatement, and that except for a future change in the statute or material change in the facts, the project will be entitled to the exemption or abatement claimed. The letter must cite the state statute involved and must attach any other material supporting the claim, i.e., local administrative rulings or court decisions, opinions of local private or public counsel or the state attorney general.

(2) Exemptions based on special legislation: In some states, special legislation has been passed granting tax exemption to particular types of housing, e.g., housing located in urban renewal areas or housing for low or moderate income groups or for other social needs. Generally, tax exemption pursuant to such legislation may be safely assumed. If after review, the Regional Counsel determines that the proposed project meets the special criteria of the legislation, the director will be advised that the project may be processed on a tax exempt basis without guaranty.

(3) Exemptions based on general charitable and eleemosynary statutes: Exemption under a general statute exempting projects for charitable or eleemosynary purposes is a risky assumption, which dictates an entirely different treatment than claims under (2) above. Even though an exemption may be obtained initially, it is not safe to assume that the exemption will continue throughout the life of the mortgage. Therefore, it is necessary that adequate safeguards be adopted. After review of the proposal and the appropriate statute, the determination of the Office of the Regional Counsel will result in either:

(a) Exemption assured: If there is assurance that the tax exemption will be initially granted, the director will be advised that the project may be processed on a tax exempt basis but that the Sponsor will be required to execute a guaranty agreement on form FHA 1708, assuring the payment of taxes In the event the project loses its exemption in the future. The amount of the guarantee to be inserted in Item 1. of the form will be determined by the Director and will be
sufficient to reduce the mortgage to an amount which would permit the mortgage to be carried by the mortgagor on a tax paying basis. Under the agreement, the sponsor will either pay taxes as they become due or make a lump sum prepayment of the mortgage in the above guaranteed amount and have the mortgage recast. In addition to the guarantee requirement, the director must determine that the credit reputation of the guarantor is acceptable and that analysis of a current financial and operating statement indicates clearly its financial ability to perform under the guarantee; and that the sponsor has presented legal assurance satisfactory to the regional attorney that it has the legal capacity to execute the guarantee agreement.

(b) Exemptions not assured: If it is determined that there is no assurance of tax exemption, the director will be so advised and the project will be processed solely on a tax paying basis. Sponsors will not be permitted to obtain tax exempt processing on the basis of offering to execute the guarantee agreement.

f. HUD-FHA does not Require design drawings to determine economic feasibility. Therefore, the sponsor may or may not retain an architect at this point. This is his option. If the sponsor has retained an architect, he should accompany the sponsor to the feasibility conference to discuss the program, procedures, and the target dates upon which economic feasibility is predicated.

2-3. THE FEASIBILITY CONFERENCE AND ISSUANCE OF A FEASIBILITY LETTER.

a. Determination of Feasibility. The final determination of project economic feasibility is made, and agreement between the sponsor and HUD-FHA is reached, at the feasibility conference. If the sponsor's estimated project replacement cost and requested loan amount do not exceed by more than 2%, the maximum cost and mortgage amount which can be supported by the project net income as initially calculated by HUD-FHA the project generally can be considered economically feasible.
b. During Feasibility Conference, the Multifamily Coordinator or Program Manager will discuss the types of additional information and exhibits which will be required from the sponsor. The necessary material is outlined on the application form (FHA 2013 Rev.) for the various stages of processing. Only the material requested for the particular stage (conditional or firm) is necessary, although any exhibits already available should be furnished.

c. Feasibility Letter. Following a feasibility conference where agreement has been reached on all of the matters discussed a feasibility letter will be issued to the sponsor. This letter includes not only the rents, dollar limitations on cost, mortgage and land value and the cash requirements, but also the expected processing time and target date for sponsor submissions. Wherever possible, a HUD-FHA Design Representative will be assigned to the project as well.

2-4. ELIGIBILITY FOR IMMEDIATE FIRM COMMITMENT PROCESSING. HUD-FHA encourages the knowledgeable and responsible sponsor to come in with a complete project submission on which an immediate determination of the acceptability of risk and mortgage amount can be made with assurance that HUD-FHA will make a prompt decision. If the sponsor is experienced in bringing a completed package into a conventional mortgage lender for decision, he can do the same with HUD-FHA and receive equally prompt action. At the same time, HUD-FHA assures all other sponsors, that we stand ready to assist them throughout the total processing and provide held and guidance they need to develop a successful Multifamily housing project.

a. The following criteria will be applied to determine the eligibility of on-hand applications and future applications.

(1) The sponsor is thoroughly knowledgeable and has a record of proven dependability for producing economically sound projects.

(2) The sponsor's architect has established a record of successful design that would justify reliance upon his certification as to compliance of the proposal with HUD-FHA Minimum Property Standards and other applicable requirements and, further, that his design concepts and execution could reasonably be relied upon to produce a readily marketable housing project.
The sponsor's land planner and engineering services are similarly reliable, knowledgeable and responsible.

The site is under the sponsor's control and is appropriately zoned.

The submission is accompanied by adequate market data showing that schools and other community facilities are or will become available to meet the needs of the project and its occupants. This data should establish an effective demand for the number of units at the rents that will be required.

The builder must show that he is bondable.

HUD-FHA must have assurance that the builder has firm commitment of adequate construction and mortgage financing, contingent only upon approval of the project for mortgage insurance.

The sponsor must have complete plans meeting all HUD-FHA requirements accompanying his submission and ready to proceed.

b. It is not intended that feasibility processing and the feasibility determination will be omitted. The sponsor will be informed of the feasibility finding and given a very short period to inform the office of his intention to proceed or to modify the proposal. This interval is required in order to fix the time when the application fee is earned and no longer available for refund.

2-5. IDENTIFICATION OF PRIORITY APPLICATION. Responsibility for identifying applications to be resolved in the future, that are eligible for immediate firm commitment processing is assigned to the Multifamily Coordinator/Assistant Director Technical Services. He shall review the applications and inform the Field Office Director of those applications that are eligible for immediate firm commitment processing. When he has the Director's concurrence, he shall mark the cases for immediate firm commitment processing (IFCP) and direct appropriate processing action.

2-6. TRANSFERS TO IFC PROCESSING. Sponsors of projects that were determined initially to be ineligible for immediate firm commitment processing may have the classification changed at any time in the processing sequence by submitting all required architectural exhibits and evidence that the application and
the sponsor meet the special eligibility criteria set forth above. When eligibility for priority IFC processing is demonstrated, the application shall be reclassified and handled on an immediate action basis for the remainder of the processing cycle.

2-7. COMMITMENT PROCESSING. The decision to move the proposal to conditional or all the way to firm commitment is dependent upon the extent of the sponsor's preparation. Assuming the preparation up to now is at the minimum required for determination of feasibility, the sponsor will move to a conditional commitment and then to the firm commitment. It must be emphasized that the sponsor with a complete package may move from feasibility to firm commitment directly. The description of the complete step-by-step process is for illustrative purposes only. Complete processing flexibility is tailored to the sponsor's preparation and degree of sophistication.

a. The Mortgagee will submit to HUD-FHA a conditional commitment application with fee, accompanied by the drawings and exhibits agreed upon at the feasibility conference, within the time agreed upon at the feasibility conference. HUD-FHA project processing to the conditional commitment will require generally less than 30 days following the case submission. After the processing is completed, HUD-FHA will contact the mortgagee to schedule a conditional commitment conference. The conditional commitment will be issued to the mortgagee and its provisions discussed with the sponsor. This document is non-transferrable by the sponsor, i.e., neither the sponsor nor the mortgagor may be changed without FHA approval. The mortgagee will be invited to submit an application for a firm commitment with the final contract drawings and documents.

b. An Important Short Cut in processing is accomplished by the BUD-FHA design representative discussing proposed plans with the sponsor's architect. Although the HUD-FHA design representative will in no instance approve or sign plans, he will answer any questions about compliance with HUD-FHA policies and consult, where necessary, to assure design of a project on which HUD-FHA can insure a mortgage.

c. The Design Representative will be available for consultation on both preliminary and designing development plans.

2-8. EXHIBITS REQUIRED FOR CONDITIONAL COMMITMENT.
a. HUD-FHA Requires Schematic Drawings and Brief Specifications to be submitted before the conditional commitment is issued. Schematic drawings shall be drawn to scale and include a site plan showing:

- Lot lines and dimensions
- Adjacent buildings (show outline and number of floors)
- Proposed buildings, outline and over-all dimensions
- Parking area and total number of cars that can be parked
- Driveways
- Adjacent streets and utilities and their size
- Patios, recreation and other areas
- Any off-site work
- Unit dimensions

b. Conditional Commitment Conference. If the schematic drawings are acceptable and the project otherwise conforms to that which was agreed upon during the feasibility conference, then a conditional conference will be scheduled.

2-9. EXHIBITS REQUIRED FOR FIRM COMMITMENT.

a. After the Sponsor Receives the Conditional Commitment he must develop the documents. Rapid processing by HUD-FHA depends to a large extent upon the ability of the sponsor's engineer, planner or architect to produce these within a minimum amount of time.

b. The Construction Documents include working drawings and trade specifications and shall contain all necessary information for bidding and constructing the project. The specifications shall include the latest edition of the "General Conditions of the Construction", AIA Document A201; "Supplementary General Conditions of the Contract for Construction", FHA 2554; and any other supplementary conditions.

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2-10. AMENDMENT TO CONSTRUCTION CONTRACT IN CASES INVOLVING THE REHABILITATION OF OCCUPIED DWELLING UNITS.

a. Amendment to Construction Contract. In all cases involving rehabilitation where tenants must vacate the living units prior to rehabilitation either the lump sum FHA Form 2442 or cost plus FHA Form 2442-A form of construction contract may be amended by adding the following rider to Article 2, subparagraph A, of either contract:

"Any claim made by the contractor for the extension of time to complete the work under
the provisions of the AIA General Conditions which is based upon a delay resulting from failure to vacate the building according to a plan for relocation of the occupants shall be deemed to be a delay beyond the contractor's control."

b. Notification of Mortgagor-Owner. In every case where one or more of the living units are occupied by tenants, at the time of initial closing, the mortgagor-owner will be instructed by the Field Office Director that it is the mortgagor's responsibility to take prudent action to have the unit vacated promptly and in a timely manner to avoid delay of the orderly process of completing the rehabilitation.

2-11. FINAL REVIEW AND FIRM COMMITMENT CONFERENCE. The sponsor will submit to HUD-FHA for review three sets of the construction documents together with firm costs tabulated on FHA Form 2328. Each set of specifications and drawings must include a white cover sheet with project identification and spaces for signatures. Certification must be provided showing that the construction documents conform to the schematic drawings, brief specifications, commitment conditions and applicable codes and ordinances.

a. When HUD-FHA Review Results in a Positive Decision, a firm commitment conference will be scheduled at which a firm commitment will be issued.

b. Before Closing, the firm commitment should be reviewed by the sponsor to make certain that there are no discrepancies between its conditions and the construction documents.