FOREWORD

Chapters 1 and 2 of this Handbook describe the procedures to be followed by the Underwriting Staff in the Area Office or Insuring Office in processing multifamily projects submitted for mortgage insurance. Chapter 3 sets forth the procedure for determining maximum mortgage limits based on local costs levels as permitted by statute. Chapter 4 deals with underwriting procedures in connection with the disposition of acquired multifamily properties. Chapter 5 describes underwriting functions and responsibilities as they relate to urban renewal projects promulgated by Local Public Agencies.

To eliminate unnecessary repetition because of differences in job titles between Area and Insuring Offices, all technical personnel and technical disciplines are referred to in this Handbook by generally recognized working titles, that is, Chief Architect, Chief Appraiser, etc., and Architectural staff, Valuation staff, Cost staff, etc.

References:

(1) 4465.1 - Valuation Analysis for Project Mortgage Insurance

(2) 4510.1 - Rental and Cooperative Housing for Lower Income Families, Section 236 Basic Instructions

(3) 4800.1 - Land Development - Administrative Handbook

(4) 4615.1 - Mortgage Insurance for Hospitals (Section 242)

(5) 4630.1 - Group Practice Facilities
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(6) HM 4318.2 - Management Requirements in Processing Insured Circular Multifamily Housing Projects (See Par. 4)

(7) 4410.1 REV - Project Fiscal Procedures

(8) 4420.1 - Pre-Application for Project Mortgage Insurance

(9) 4010.1 - Definitions, Policy Statements and General Rulings
    (See Chapter 8)

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References: (Continued)

(10) 4245.1 - Section 220(d)(3)(a) and (h), Urban Renewal

(11) 4940.4 - Minimum Design Standards for Rehabilitation for Residential Properties

(12) 4265.1 - Rome Mortgage Insurance, Condominium Units, Section 234(c)

(13) 4470.1 - Mortgage Credit Analysis for Project Mortgage Insurance, Chapter 4

(14) 4460.1 REV - Architectural Analysis and Inspection for Project Mortgage Insurance (Section 207)

(15) 4110.1 REV - Fiscal and ADP Handbook

(16) 4045.1 - Fiscal Administration Handbook

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CHAPTER 1. CHIEF UNDERWRITER (CU)

1-1. RESPONSIBILITY. The CU is directly responsible to the Field Office Director for multifamily processing. He bears responsibility for the expeditious processing of project proposals and for the maintenance of quality processing to evaluate underwriting risk. The CU may delegate his authority but he cannot delegate his responsibilities.

1-2. PROCESSING STAGES. The multifamily processing system consists of three processing stages -- Site Appraisal and Market Analysis (SAMA) Letter, Conditional Commitment, and Firm Commitment. During the SAMA Stage the market need for the project is determined and rents obtainable are established, as well as the Value of the Site Fully Improved and the Land Use Intensity Rating. During the Conditional Commitment Stage, the project schematics and outline specifications are developed by the sponsor and his architect. The Affirmative Marketing Plan and the Management Plan are submitted by the sponsor with or prior to the Conditional Commitment Application. At this stage, HUD analyzes the proposal and establishes the project economics. During the Firm Commitment Stage, the contract documents and exhibits are reviewed by HUD-FHA for conformance to earlier determinations made at prior stages of processing.

1-3. PROCESSING VARIATIONS. A sponsor may submit complete exhibits and an application for firm commitment. If exhibits are satisfactorily complete, the processing can be limited to a single stage. Similarly, a sponsor with sketch drawings and specifications may apply for a conditional commitment at first application. A sponsor may elect to omit the conditional commitment after the SAMA Stage and proceed directly to Firm Commitment. Compliance with environmental assessment requirements, contained in Reference (9) of the Foreword, is always necessary regardless of other procedural variations.

1-4. APPLICABILITY OF PROCESSING INSTRUCTIONS. Procedures described herein are applicable to all multifamily project mortgage processing except as follows: Rehabilitation; Processing instructions for rehabilitation are contained in References (1) and (2) of the Foreword. Title X Land Development; Title X processing procedures are contained in Reference (3) of the Foreword. Section 234(c); only for applications involving insurance upon completion and meeting the requirements of the simplified procedures described in Paragraph 7-1 in Reference (12) of the Foreword. Section 242 Hospitals; Procedures for Section 242 are contained in Reference (4) of the Foreword. In Group Practice Facilities the procedures described herein will be followed with the exception that a preliminary analysis of the Group is made in accordance with Reference (5) of the Foreword, prior to receipt of the SAMA Stage application.
CHAPTER 2. COORDINATION OF MULTIFAMILY TECHNICAL PROCESSING

SECTION 1. RESPONSIBILITY AND AUTHORITY

2-1. GENERAL. The responsibility for coordinating technical processing activities and for making final underwriting recommendations to the Director of Operations/Field Office Director is vested in the Assistant Director, Technical Services Branch/Chief Underwriter (ADTS/CU). The ADTS/CU himself may act as coordinator, or, because of his workload requirements, may designate a member of his staff to serve in that capacity. In offices handling a large volume of multifamily business, it may be necessary to have two, or more, coordinators working independently on various projects. Staff members functioning as coordinators must have extensive underwriting experience in the analysis of multifamily transactions and must have the ability to work with a minimum of supervision. The ADTS/CU is authorized to delegate his authority to these individuals to the extent he deems appropriate consistent with workload requirements and the knowledge and experience of the persons selected.

2-2. DELEGATION OF AUTHORITY. Authority to issue SAMA Letters and commitments and to insure mortgages pursuant to such commitments on multifamily housing cases is delegated to the HUD Office Director and under his supervision to the Deputy Director, and to the Director of Operations and to his Deputy, and to the Assistant Director, Technical Services Branch. In Insuring Offices the authority is extended to the Director, and under his supervision to the Deputy Director and to the Chief Underwriter.

2-3. AUTHORITY TO MODIFY CONCLUSIONS. The following authority is given to the ADTS/CU:

To modify the conclusions of underwriting processors and recommendations of section chiefs, including, but not limited to, the number, size and composition of units, rent estimates, occupancy estimates, expense estimates, capitalization rates and values, land values, cost estimates, maximum mortgage amounts, cash requirements, etc. Modification of conclusions under this authority must be justified by factual data or by program objectives and be so documented in the files.

2-4. Reserved.

SECTION 2. PROCESSING

2-5. ROLE OF SPECIALISTS IN PROCESSING. Land planning personnel and specialized engineers on field staffs will be used in the analysis of specific proposals only when the need arises as determined by the Assistant Director, Technical Services Branch/Chief Underwriter (ADTS/CU). Their services are not expected to be needed for all projects nor necessarily needed at all stages of any one project. The activities of these specialists are to be concentrated on the training of the underwriting staff. Specialists may assist the ADTS/CU, the
Design Representative, and other key staff members in recognizing when their services are necessary.

2-6. USE OF CURRENT DATA IN PROJECT PROCESSING. It is essential that adequate banks of cost, valuation, market, planning, and mortgage credit data be available in every field office if projects are to be processed within the assigned target dates. Attention must be given to the continuous updating of data in order to maintain current data banks.

a. A prerequisite to the effective screening of sponsor proposals at the Initial Interview is the prior accumulation of a reservoir of adequate market and racial data. Data accumulated through market studies and outside contracts with buyers, sellers, real estate brokers, property managers, mortgage lenders, and other sources, as well as contractors, builders, suppliers, etc., are vital to the screening process. The data will identify the types of units, and the rentals, services and amenities most readily absorbed in the prospective market.

b. It is imperative that all available data from the Housing Management Division be available and utilized in screening sponsor proposals. Underwriting staff must actively solicit from HM staff all available information on operating expenses, taxes, occupancy, rent-up times and any other information of relevance in the determination of project feasibility. Such data must play a prominent role in influencing the decisions of underwriting since it is most directly related to the HUD programs and the market these programs serve.

2-7. PROCESSING PROCEDURES. If all steps are taken, the complete processing through firm commitment is as follows:

a. The Initial Interview with the sponsor.

b. Sponsor's submission of the SAMA Application with fee.

c. Site Appraisal and Market Analysis Stage Processing.

d. Issuance of the Site Appraisal and Market Analysis Letter to the sponsor.

e. The Findings Conference (may be omitted at discretion of the field office).

f. Preparation of exhibits including Affirmative Marketing and Management Plans, and schematic drawings and outline specifications by the sponsor and his architect.

g. Submission of Affirmative Marketing and Management Plans.

h. Submission of Application for Conditional Commitment with fee by the mortgagee.

i. HUD processing and issuance of a conditional commitment.
j. Sponsor-Architect preparation of complete final working drawings and specifications.

k. Mortgagee's Application for Firm Commitment with fee and appropriate drawings, documents and exhibits.

l. HUD review of contract drawings and exhibits, and issuance of the firm commitment.

2-8. ESTABLISHMENT OF TARGET DATES.

a. SAMA Letter or rejection shall be issued within 30 days of receipt of the SAMA Application, except in the following two instances:
   
   (1) When a full Environmental Impact Statement is required.

   (2) When no A-95 comments have been received and 34 days have elapsed from the postmarked date on which a copy of the application is mailed by the HUD field office to the appropriate clearinghouses. (A note should be made to the office file reciting this date.) If comments have not been received within the above time frame, the office shall proceed with processing without further delay.

b. Conditional and/or Firm Commitment or rejection shall be issued within 30 days of receipt of commitment application.

c. Sponsor target dates from the date of issuance of the Site Appraisal and Market Analysis Letter to receipt of Conditional Commitment Application shall not exceed 60 days or for more complex proposals, 90 days. Target date from issuance of the Conditional Commitment to Firm Commitment Application shall not exceed 120 days.

d. Target dates must promote speedy actions by HUD-FHA and the sponsor. Once established, the dates are considered firm and not subject to revision unless subsequent unforeseen events make them impractical. Extensions are not to be automatically issued.

SECTION 3. SITE APPRAISAL AND MARKET ANALYSIS STAGE

2-9. THE INITIAL INTERVIEW. The Multifamily Housing Representative in an Area Office, and the Chief Underwriter or his designee in an Insuring Office have the primary responsibility for conducting the Initial Interview.

a. The basic objectives of this interview are:

   (1) To explore with the sponsor his objectives and determine the best program for his proposal.
(2) To inform the sponsor of his obligations and responsibilities under the applicable Section of the Act.

(3) To inform the sponsor of HUD-FHA procedures and processing requirements.

(4) To screen the proposal and reject it if it is obviously ineligible or not feasible, as determined by the ADTS/CU or his designee.

(5) To inform the sponsor of the Optional Architectural Certification Plan.

b. The sponsor should have a clear idea of the demand for the type of housing proposed, the extent of completion with which he will be confronted, the vacancy rates in similar housing units, and the market absorption of units at prevailing rent levels in the neighborhood. He should be aware of parking accommodations, as well as services and equipment included in the rentals for competitive projects. He should know whether his location is acceptable to the tenants he wishes to attract and whether the site zoning is permissive for its intended use.

c. At the conclusion of this interview, the MHR/CU should advise the sponsor of the exhibits necessary for processing the proposal. The sponsor should be furnished with a kit containing all necessary written instructions and required forms. The basic kit contains the following items:


(2) Ground Rules for the Sponsor's Architect, and information on the Optional Architectural Certification.

(3) FHA Application Form (2013), with instructions for its completion submitted at each processing stage.

(4) FHA Form 2530 – Previous Participation Certificate. 1/

(5) FHA Form 3433 – Request for Preliminary Determination of Eligibility as Nonprofit Sponsor (if applicable). 1/

(6) FHA Form 2417 – Financial and Credit Statement on Sponsor and General Contractor. 2/

(7) FHA Form 2010 – Equal Employment Opportunity Certification. 1/

* (8) Forms for Submission of Affirmative Marketing Program. 2/

(9) Management Exhibits. (See Reference (6) of the Foreword) 2/
(10) Project Selection Criteria - FHA Form 3167. (Where applicable)

(11) Requirement for evidence of Site Control. 1/

(12) Requirement for Permissive Zoning. 2/

1/ To be submitted with SAMA Stage Application.

2/ To be submitted with or prior to Application for Conditional Commitment.

2-10. FISCAL INSTRUCTIONS FOR SAMA STAGE APPLICATIONS.

a. Effective with respect to an application for SAMA Letter under any applicable (See exclusions in Para. 1-4 above). Title and section received from project sponsors., a fee of $1.00 per $1,000.00 of the amount of the-mortgage applied for will be required. The sponsor's remittance must be in the form of a certified check, cashier's or other bank check, post office or bank money order, or other domestic money order sold by any organization chartered under or authorized under the banking laws. The fee will be considered earned when the application has been accepted by the ADTS/CU for technical processing. This fee will be credited to the application-commitment fee of $3.00 per $1,000.00 of the mortgage amount due upon submission of the total application for firm commitment. (An additional fee of $1.00 per $1,000.00 is collected with the Application for Conditional Commitment, which is also credited toward the full $3.00 per thousand fee.)

b. Outstanding fiscal instructions, as set forth in Reference (7) of the Foreword, for assigning FHA project numbers, preparation of official receipts and deposit schedules of collections will be followed. Accounting code "7" will be shown in the official receipt issued to the project sponsor.

c. Refund of the $1.00 per $1,000.00 fee will be made when the application is not accepted for technical processing which shall occur under the circumstances recited in paragraph 2-12 b. below.

d. Normal fiscal refund provisions, as set forth in Reference (7) of the Foreword will apply to cases that have been assigned to the ADTS/CU for processing.

e. For reporting purposes on FHA Form 2038P, a SAMA Stage Application will be treated as an application for a "Letter of Feasibility." When the Application is accepted by the ADTS/CU for processing, the fee is earned and is to be reported on FHA Form 2038P, Block D, Panel "Assigned to Processing." Issuance of the SAMA Letter is to be reported on FHA Form 2038P, Block D III.

f. Any questions of a fiscal nature regarding this matter should be directed to the Director for Mortgage Insurance Accounting.
2-11. RECEIPT OF SAMA APPLICATION. The MHR/CU reviews the sponsor's submission and related exhibits to determine whether they are complete and acceptable for SAMA Stage processing. The sponsor must submit the application (FHA Form 2013), together with an initial application fee of $1.00 per $1,000.00 of mortgage requested. An FHA project number will be assigned and an official receipt issued in accordance with instructions in Reference (7) of the Foreword. The application must be completed as follows:

a. Page 1, in its entirety.

b. Page 2, Only Section G, Line 72 (or its equivalent), "Land (Estimated Market Price of Site)."

c. Page 3, Section J to the extent known.

d. Page 3, Section K.

In addition to the application, the required exhibits identified in Section I "Attachments" of the application not marked with a solid triangle must also be provided except for Items 7, 8, and 10. In event the case submission is incomplete, it will be returned to the sponsor and the fee will be refunded. Under no circumstances are submissions to be accepted for processing in an incomplete state. Particular attention must be given to the proper completion of the Site Information portion of Section A and all of Section B relating to land acquisition. All required information must be entered on the FHA Form 2013 itself and not by reference to other sources, documents, or exhibits except as specified in Section I. The architect (if selected and eligible) should also advise the office whether or not he intends to utilize the Architectural Certification Option if it is available to him.

2-12. ACTIONS PRIOR TO TECHNICAL PROCESSING.

a. The following functions will be performed by the MHR/CU or his designee prior to, or in conjunction with assignment of the application for technical processing:

(1) Determination of interprogram impact of the application. (The relationship of this proposal to other HUD projects, proposals, policies or objectives.)

(2) Application of the project selection criteria for Section 236 and Rent Supplement. Evaluation of Criterion #8 will be on the basis of a statement of intent on the part of the sponsor to fulfill the requirements of either an adequate or a superior rating for this criterion. When the Management Plan is subsequently submitted, it will be evaluated and the rating adjusted as necessary.

* (3) Form 2530 shall be forwarded to the Office of Mortgagee
Activities and Participant Compliance, Central Office, immediately upon receiving the application and numbering the case in accordance with Reference (8) of the Foreword.

(4) Routing of copy of Application for EMAD review.

(5) Tentative reservation of contract authority for projects selected for funding (subject to cancellation in the event of rejection as infeasible).

(6) Submission of a copy of the Form 2013 to the appropriate clearinghouse for A-95 review.

(7) Determining the eligibility of the non-profit sponsor entity, if applicable, by the Mortgage Credit Section in accordance with Reference (13) of the Foreword.

b. Applications shall be returned as unacceptable (and fees refunded) for the following reasons:

(1) The project fails to meet the minimum rating requirement of the project selection criteria or, for nonsubsidized proposals, the project concept or location is not acceptable on its face.

(2) The project is proposed for subsidy and there is no probability of subsidy funding for the project.

(3) The submission is incomplete or the submission, on its face, does not meet statutory requirements.

(4) The market in which the project is located has been predetermined to be soft and project proposals in the area are not being accepted for that reason.

(5) The nonprofit sponsor is determined not to be eligible.

2-13. SAMA STAGE PROCESSING.

a. See Reference (7) of the Foreword for instructions on earned fees. Technical processing will be limited to analysis of the proposal to determine only the following:

(1) Environmental Impact. Environmental assessment will be conducted in accordance with the Procedure for Environmental Clearance of HUD Insured Projects, Subdivisions and Low Rent Housing Projects contained in Reference (9) of the Foreword.

(2) Value of the site fully improved (with offsites installed).

(3) Acceptability of the site and the existence of a market for a multifamily housing project of the type and of the number, size and composition of units proposed, or for a specific lesser number and/or revised composition and size of units,
at the rents proposed by the sponsor or at other specified rents, with specific amenities as applicable.

(4) The applicable land use intensity number.

(5) The unit rents set forth in the SAMA Letter, for all programs, are the market rents estimated by comparison. For Section 236 proposals, the Formula Market Rent and the Basic Rent will be determined at the Conditional Commitment Stage of processing.

b. Technical processing will be documented on FHA Form 2264, pages 1, 3, and Part 0, page 4. The "Remarks" and "Conclusions" Sections of the Form will be utilized to describe salient factors which should be brought to the attention of HUD staff and/or the Sponsor. The Sponsor will not be furnished a copy of the Form 2264 in the SAMA Stage.

c. While technical decisions will be limited to those mentioned above, the appraiser will exercise good judgment in determining the need for any additional technical assistance from engineering disciplines as he finds necessary.

2-14. DETERMINATION OF PROJECT FINDINGS. When the described technical analysis has been completed, the CU shall make a final determination as to findings.

2-15. THE FINDINGS CONFERENCE.

a. The CU is responsible for the approval of the underwriting determinations as to the market need for the proposal and the technical acceptability of the location and site. He shall, therefore, amend, modify, approve, or reject the Form 2264 submitted by the Valuation Staff, after which, if the project is acceptable, the SAMA Letter shall be issued and the findings conference scheduled, if necessary.

b. If there are significant differences between the sponsor's application and HUD decisions, a findings conference shall be scheduled for discussion of the differences prior to issuance of the SAMA Letter.

c. When HUD findings result in a counterproposal by HUD (in accordance with paragraph 2-19b below) which is acceptable to the sponsor, the SAMA Letter shall be issued even though its provisions deviate from the sponsor's SAMA application. A new SAMA application is unnecessary and shall not be required. It shall be sufficient only that the sponsor's application for the next stage of processing conforms to the SAMA Letter. If the sponsor does not accept the counterproposal, a rejection letter shall be issued.

d. If a nonprofit sponsor is involved and is determined to be eligible, the sponsor must be so advised. It must also be advised
that the determination of eligibility is a preliminary one, involves only a basic credit investigation, and does not involve credit investigation and the analysis of the sponsor's financial capacity. The complete credit investigation and the analysis of the sponsor's financial capability will be done at the conditional or firm commitment stage, whichever comes first.

2-16. THE SITE APPRAISAL AND MARKET ANALYSIS LETTER. This Letter is normally written in accordance with the format appearing in Figure 1. It must contain all parts of the format applicable to the proposal at hand. Additions shall be kept to a minimum and be made only to cover unusual situations. When the land value is based on certain assumptions as to the existence or absence of unusual site conditions, a paragraph shall be included to qualify the land value subject to confirmation of the assumed conditions. Also, when the assumed offsite

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(2-16) conditions are not obvious, they may be identified in the letter. Legally, the SAMA Letter binds HUD with respect to the land use intensity number, the site appraisal, the number, and the proposed composition of the units and the unit rents. The legal significance of the SAMA Letter is that HUD is bound to accept, from the SAMA Letter recipient, a conditional or firm commitment application and to proceed to commitment stage processing, provided the recipient does not change any of the aforementioned determinations.

a. Normally, the SAMA letter shall be issued for a 60-day period or for more complex proposals 1/ a 90 day period may be authorized. A SAMA letter typically may not be valid for more than 60 days, unless the sponsor is going directly to firm commitment in which case the SAMA letter will be valid for 120 days or in the case where a maximum 30-day extension of the SAMA letter is authorized. If a SAMA letter expires and the sponsor desires to reapply for a new SAMA letter, a new application with fee must be presented. On the basis of the new application and fee, the HUD Field Office shall reexamine and analyze the proposal in accordance with instructions contained in this Handbook.

1/ A project may be considered as a "complex proposal" when the CU determines it to be atypical because of its size, design, unusual site features environmental influences, etc.

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CHAPTER 2, SECTION 3, FIGURE 1

SITE APPRAISAL AND MARKET ANALYSIS
LETTER FORMAT

Mr. x
x x

Dear Mr.
This is to inform you that our staff has reviewed the subject proposal and finds it to be worthy of further study and consideration should you decide to submit an application for a conditional or firm commitment for mortgage insurance.

We have inspected the proposed site and have reviewed the rents. The Land Use Intensity Number is __________. The Land Value Fully Improved (with offsite improvements installed) is $_________. Excess costs resulting from unusual onsite conditions which will be provided for in the construction cost estimate will be deducted from this value.

In the event that you desire to continue with this project and submit an application for conditional or firm commitment, it is understood that the project will have the following characteristics:

<table>
<thead>
<tr>
<th>TYPE OF UNIT</th>
<th>SQ. FT.</th>
<th>NUMBER</th>
<th>MONTHLY MARKET RENTAL</th>
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<tbody>
<tr>
<td>Efficiency</td>
<td>____</td>
<td>_______</td>
<td>______________________</td>
</tr>
<tr>
<td>One Bedroom</td>
<td>____</td>
<td>_______</td>
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</tr>
<tr>
<td>Two Bedroom</td>
<td>____</td>
<td>_______</td>
<td>______________________</td>
</tr>
<tr>
<td>Three Bedroom</td>
<td>____</td>
<td>_______</td>
<td>______________________</td>
</tr>
<tr>
<td>Four Bedroom</td>
<td>____</td>
<td>_______</td>
<td>______________________</td>
</tr>
</tbody>
</table>

Total

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CHAPTER 2, SECTION 3, FIGURE 1

Equipment and Services included in rent are:

Number of Parking Spaces: Enclosed ___________ Open _________
Estimated Monthly Parking Rental $ ________________
Residential Accessory Income $ _________________
Commercial Area ______ sq. ft. Estimated Monthly Rental $ ____________

To provide you and your architect with assistance in the development of a proposal which meets HUD Minimum Property Standards, please contact Mr./Ms. , our design representative, to discuss the design of the proposal. In addition, he/she is to be consulted regularly during the development of the plans and specifications of the project so that as few problems occur as possible at subsequent stages of processing.

A fee of $1.00 per $1,000.00 of requested mortgage must accompany your application for conditional commitment. In addition, schematic drawings and outline specifications must be included as part of the case submission. The Affirmative Marketing Plan and Management Plan must be submitted with, or prior to, the application for conditional commitment in those instances where an application for firm commitment will immediately follow the issuance of the SAM&E letter, the Management Plan and accompanying exhibits must be received prior to the application for firm commitment. The exhibits will include:
1. Written reply to "Questionnaire for Sponsor."
2. Written reply to "Questionnaire for Managing Agent."
3. Certification of Managing Agent.
4. Management Plan and Management Agreement.

Criterion #8 of the Project Selection Criteria, if applicable, will be re-evaluated by HUD upon receipt of the Management Plan.

In the event you desire to go directly to firm commitment processing, a fee of $2.00 per $1,000.00 of requested mortgage must accompany your application for firm commitment. In addition, contract drawings, detailed specifications and firm cost estimates shown on FHA Form 2328, as well as the Affirmative Marketing Plan must be included as part of the case submission. The Firm commitment will not be issued until the Management Plan has been approved.

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It is important to understand that this letter is not to be construed as a commitment on the part of HUD to insure a mortgage for your proposal. It is intended only to establish a land use intensity number, the value of site fully improved, the type of project, the number, the size, and the proposed composition of the units, and the unit rents. Your application for a conditional or firm commitment will be accepted by HUD if your submission does not vary with respect to the items established herein.

It should be understood that this letter places upon you the responsibility to develop a viable project. The conclusions recited above do not reflect any cost estimate, operating expense estimate, credit or financial analysis. These determinations will be made at the next stage.

Your application for conditional commitment with the required fee must be submitted within ______ days following the date of this letter, otherwise this SAMA Letter will expire. In the event you elect to go directly to the firm commitment stage the application for firm must be submitted within 120 days from issuance of this letter. The term of this letter may be extended for on 30 day period if more time is required and good cause can be shown. However, under no circumstances will this letter be extended more than 30 days beyond its original expiration date.

Sincerely,

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SECTION 4. COMMITMENT

2-17. CONDITIONAL COMMITMENT STAGE.

a. There are two parts to the Conditional Commitment Stage; Project Design and Processing the application.

   (1) Project Design and Architectural Liaison: The Design Representative designated at the SAMA Stage must work closely with the sponsor's architect to ensure compliance with HUD requirements. However, the Design Representative and other architectural and engineering staff must remember
that it is the sponsor's architect who assumes full and complete responsibility for the design. This responsibility shall not be abridged, particularly in matters of aesthetics. However, the Design Representative must be concerned with any design characteristics that could affect project economics. Many architects will request and welcome assistance in architectural matters affecting marketability and cost control. Such advice and guidance shall be rendered to the fullest extent possible.

(2) Processing the Application: The Conditional Commitment Application must be accompanied by the required exhibits indicated on Form FHA-2013. In addition, the sponsor's Affirmative Marketing Plan and his Management Plan must accompany the application or be received prior to the application.

b. MHR Functions.

(1) The following functions will be performed by the HRR upon receipt of the conditional commitment application:

(a) Determine completeness of the submission and compliance with SAMA Stage Findings.

(b) Upon receipt, (which may be prior to Conditional Commitment Application) route the Management Exhibits (See Reference (6) of the Foreword) to Housing Management Division/Mortgages and Properties Division for review and rating of criterion #8 of the Project Selection Criteria.

(c) Upon receipt, (which may be prior to Conditional Commitment Application) route the Affirmative Marketing Plan to Equal Opportunity for review.

(d) Forward the file for processing if complete.

(2) Applications will be returned and conditional commitment fee refunded for the following reasons:

(a) The submission is incomplete or on its face does not meet statutory or HUD requirements.

(b) The project concept deviates significantly from the concept previously agreed upon, requiring new marketing and/or site analysis.

c. Receipt of Conditional Commitment Application. When sketch drawings and brief specifications are completed, the mortgagee's Application for Conditional Commitment with required exhibits, with the Conditional Commitment fee ($1.00 per $1,000.00 of mortgage requested) is submitted for processing and issuance of the conditional commitment. The fee payment is detached for
2-18. FIRM COMMITMENT PROCESSING. When final contract drawings and specifications are completed to the satisfaction of the Deputy Director of Housing/Service Office Supervisor, the mortgagee's Application for Firm Commitment, Form FHA-2013, with the balance of the commitment fee may be submitted. The amount of application commitment fees collected at this stage of processing shall equal $3 per $1,000 of the mortgage amount. See Reference (7) of the Foreword on when the fee is earned.

a. In order to minimize construction change orders, the final specifications must include at least two, and preferably three, equal alternates for the project equipment items, specified where applicable.

b. After the Deputy Director of Housing/Service Office Supervisor has reviewed the mortgagee's case submission for completeness and acceptability, it is scheduled for firm commitment processing. In most cases, HUD processing at the Firm Commitment Stage will result merely in a review of the case submission to insure that the proposal conforms to previous processing conclusions outlined in the Conditional Commitment Letter. HUD conclusions determined during earlier stages of processing will not be the subject of reanalysis, except to the extent made necessary by sponsor actions.

c. After review of the case submission by the processors and after a
favorable finding, the Deputy Director of Housing/Service Office Supervisor completes the Underwriting Summary Report (Form FHA-2438). Information contained in this report is used for the preparation of the HUD firm commitment which is then signed and issued.

CHAPTER 2, SECTION 4, FIGURE 2

CONDITIONAL COMMITMENT FORMAT

Date:
Conditional Commitment on:
Name of Project:
Mortgagee:                                        Project Number:
Street Address:                                             Location:
City:                                             Section of the Act:
Mortgagor:

Your application for Firm Commitment for project mortgage insurance on the captioned project will be accepted at any time during the life of this commitment. Your application must conform in content to previous submissions in connection with the proposal and must be accompanied by the commitment fee of $___________. (Firm Commitment applications must be accompanied also by contract drawings and detailed specifications, as well as firm cost estimates shown on FHA Form 2328).

The project will have the following characteristics:

Total Units, _____, Type Building __________;            with
unit compositions of:

<table>
<thead>
<tr>
<th>Type of Unit</th>
<th>Sq. Ft.</th>
<th>Number</th>
<th>Monthly Market Rental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency</td>
<td>_____</td>
<td>_____</td>
<td>_____________________</td>
</tr>
<tr>
<td>One Bedroom</td>
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<tr>
<td>Four Bedroom</td>
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<td>_____</td>
<td>_____________________</td>
</tr>
<tr>
<td>Total</td>
<td>_____</td>
<td>_____</td>
<td>_____________________</td>
</tr>
</tbody>
</table>

Equipment and Services included in rent are:

Number of Parking Spaces:    Enclosed_______ Open__________
Estimated Monthly Parking Rental $____________
Residential Accessory Income $____________
Commercial Area _____ sq. ft. Estimated Monthly Rental $____________

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CHAPTER 2, SECTION 4, FIGURE 2
The estimated project replacement cost of this proposal is $________ which includes $________ as HUD's estimate of the value of the land with off-site improvements installed, (NOTE: Excess costs resulting from unusual on-site conditions which will be provided for in the construction cost estimate will be deducted from this value and will also affect the "as is" land value for cost certification purposes, or the "as is" value of the property in rehabilitation projects.) Included in the replacement cost estimates are the following items:

- Cost of structures and land improvements, carrying charges and financing, legal and organizational expense, consultant's fee (if applicable), design and supervisory architect's fee, bond premium, other fees, supplemental management fund (if applicable), contingency reserve (if rehabilitation), builder's and sponsor's profit and risk allowance (if applicable) or builder's profit.

The maximum insurable mortgage supportable by the economics of the proposal is $_______. This represents a mortgage loan to replacement cost ratio of ___%. The cash you will be expected to furnish at closing is estimated to be $_______ (which includes equity investment, working capital, and operating deficit, if applicable). Please contact ________ who will advise you on the correct preparation of Form FHA-2328, Contractor's and/or Mortgagor's Cost Breakdown.

You are advised that restrictive covenants purporting to prohibit the use of this property to house anyone receiving the benefits of any subsidy and/or rent guarantee program, or any other restrictions that may be construed by the Department of HUD to be contrary to the intent and spirit of the Federal housing statutes, will render this proposal unacceptable for mortgage insurance purposes.

The above basic elements of the proposal upon which our estimates are computed cannot be altered without affecting the conclusions contained herein. The completed project must meet applicable code requirements and the HUD Minimum Property Standards.

Final development of the proposal must be coordinated with the HUD Design Representative assigned to this project. He will be available to assist the sponsor and the architect with the development of the final design and off-site requirements.

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CHAPTER 2, SECTION 4, FIGURE 2

(Section 236 Contract Authority in the amount of $_______), (Rent Supplement Funds in the amount of $_______), have been allocated to this project and will be available for the life of this Conditional Commitment and of any Firm Commitment hereafter issued.

Your application with the required fee must be submitted within 120 days following the date of this letter, otherwise this Conditional Commitment will expire. Any renewal or extension of this commitment may be based either upon this commitment or upon re-examination of the proposal, at the option of this office.

If none of the aforementioned project characteristics and figures established
herein are changed in the application for firm commitment and if the final
drawings and specifications submitted with the application and the firm cost
estimates are acceptable to HUD, HUD will issue a firm commitment for mortgage
insurance for a maximum mortgage in the amount shown above.

Sincerely,

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SECTION 5. SIGNIFICANT DEVIATION
2-19. INTERPRETATION OF SIGNIFICANT DEVIATION IN MULTIFAMILY HOUSING.

a. The guiding principle in evaluating the significance of deviations
under any multifamily section of the Act for any project Program,
and at any stage of processing through firm commitment is the
determination of the extent to which the deviation alters the
original concept upon which the determination of economic and
programmatic feasibility was based. Significant deviation is not
in evidence if the project as modified meets the same programmatic
and inter-program objectives, is economically feasible as
modified, involves no change of sponsorship, market to be served,
type of project or location (except in rehabilitation see 2-19.b.(6),
below).

b. In processing the sponsor's application, the question arises as to
how far can the field office processing deviate from the sponsor's
application in arriving at a counterproposal which is economically
and programmatically feasible.

A counterproposal may contain any or all of the following
deviations from the sponsor's application (provided, of course,
that during the conference with the sponsor the sponsor agrees
that he can proceed successfully and evidences the financial
capacity to proceed with the field office's counterproposal):

(1) Rents.
(2) Unit Number.
(3) Unit Mix.
(4) Unit Size.
(5) Number of floors and number of buildings with the same
building type. (Part A of FHA Form 2013/2264.)
(6) In rehabilitation where several buildings are involved, the
deletion or substitution of one or more buildings if
determined to be necessary to project feasibility.
(7) Parking requirements.
(8) Extent of Commercial Space.
(9) Gross Residential and Commercial areas.

(10) Equipment and Services Included in Rent.

(11) Expenses.

(12) Taxes.

(13) Replacement Cost.

(14) Market Price of Site.

(15) Cash Requirements.

c. A sponsor's application is inappropriate if it proposes:

(1) Change of location.

(2) Change of building type (from low to high rise or vice versa, or from detached to row house, from walkup to townhouse, etc.)

(3) Change of sponsorship.

(4) Change of market to be served.

(5) Change in the rents or number of units is of such a magnitude that it indicates a change in the market potential and requires a new analysis of market need.

(6) Change in Section of the Housing Act to an entirely different program (from a Section 236 to a Section 221(d)(4)).

In processing an application subsequent to issuance of a SAMA letter or conditional commitment, the question to be answered in the context of this subject is how far can the sponsor's application deviate from the project concept agreed upon at the previous stage of processing and not constitute a significant deviation which should cause rejection of the application. The guiding principle as described in paragraph 2-19.a. above applies, but the parameters of acceptability are narrower. The first question is whether the sponsor's application represents the mutually, agreed upon concept in the previous stage of processing. Secondly, are the changes in the application due in any way to requirements or suggestions imposed by the Design Representative or other authorized HUD personnel? HUD personnel are not authorized to require or recommend changes which deviate from the concept agreed to in the previous stage of processing but may require changes to assure conformance with the agreed concept. Affirmative answers render the application acceptable for processing to determine
feasibility of the proposal as modified. However, if the changes result in a different concept, the case submission no longer represents the originally agreed upon project and will be rejected.

d. All of the items under paragraph 2-19.b. above are examples of deviations in the sponsor's application which on their face do not constitute grounds for rejection but should be processed to determine economic and programmatic feasibility.

e. Deviation in the sponsor's application involving any of the items in paragraph 2-19.c. above are cause for rejection of the application.

SECTION 6. ARCHITECTURAL SERVICES

2-20. IN RESERVE.

2-21. ARCHITECTURAL SERVICES AND THE OWNER-ARCHITECT AGREEMENT.

a. The architectural services for which funds are provided in the mortgage amount of multifamily housing mortgage insurance commitments shall be those determined to be appropriate to the nature of the particular project and shall include at a minimum, in addition to design of the project, contract administration during construction. Where there is an identity of interest between the design architect and the mortgagor or contractor, services during the construction stage will have to be performed by a nonidentity of interest architect.

b. Application for conditional commitment shall be accompanied in all cases by the signed contract between the sponsor and the architect, supplemented as necessary by a clear statement of the architectural services to be performed. The services specified and the fee specified in the contract shall be reviewed by the office and unless determined to be unreasonable shall be accepted for the purpose of conditional and firm commitment processing and determination of mortgage amount.

SECTION 7. FEE INSPECTORS

2-22. FEE INSPECTORS. Fee inspection services may be utilized on multifamily insured mortgage projects to augment the regular staff when one or more of the following conditions exist:

a. The number of living units under construction exceeds approximately 800 units or 8 projects per staff Construction Analyst or Construction Representative assigned to multifamily inspections.

(1) This work measurement figure is to be used only as a guide.
(2) The number of living units or projects which can be monitored by a staff employee depends on factors such as, the number of units in a project, whether elevator or nonelevator construction, travel distances involved, the performance of supervising architects and contractors during construction, and duties other than project monitoring which may be assigned to the staff employee.

b. The cost to HUD for fee personnel is less than the cost would be for mileage and per them of staff members, and the staff can be profitably used elsewhere.

c. Projects are located in areas not normally visited by staff members at least twice a month.

2-23. SCOPE OF SERVICES. The inspection services to be performed will be all of those that are ordinarily performed by Multifamily Construction Analysts or Construction Representatives. These duties and responsibilities are described in Chapter 4 of Reference (14) of the Foreword. It must be emphasized that the use of fee inspectors does not relieve the owner's supervising architect of the responsibility for administration of the Construct on Contract in accordance with the provisions of the Owner-Architect Agreement, Form FHA-2719A or FHA-2719C.

2-24. QUALIFICATION OF INSPECTORS. Fee Multifamily Inspectors shall meet or exceed the Civil Service Qualification Standards for Architect GS 808-11, or Construction Analyst 828-11.

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* a. Specialized Experience in the inspection of construction of elevator buildings, either residential or commercial, will be required of fee personnel assigned to this type of buildings.

b. Application will be made in duplicate on Form FHA-2563, Application for Designation as Fee Personnel.

2-25. FREQUENCY AND DURATION OF VISITS TO SITE. The fee arrangement shall specify a frequency of visits to the site of not less than once a week and more frequently in the case of larger projects. The duration of visits should provide for a minimum of two hours per week for smaller projects with greater amounts of time for larger projects.

a. Prior to assigning a fee inspector to a project, the Chief Architect will, for each project, recommend to the Director Housing Development Division/Chief Underwriter, a frequency and duration time-frame schedule.

b. This schedule will be based on the size and location of the project, the type of construction, and the past and anticipated performance of the General Contractor and architect responsible for administration of the contract.

c. The schedule can be revised during construction as field review by the Chief Architect dictates.
2-26. **FEE.** Payment by HUD for fee inspectors will be at the rate of $20.00 per hour. This fee will cover all expenses including travel to and from the site.

2-27. **ESTABLISHMENT OF FEE PANEL.**

a. The Director Housing Development Division/Chief Underwriter and Chief Architect will determine the approximate size of the panel needed.

   (1) A feature unique to the use of Multifamily Fee Inspectors is the construction period. The typical construction period for multifamily projects is 12 - 18 months.

   (2) In establishing the panel, the Field Office should advise prospective fee personnel that even though the work may not be full time, with respect to hours per week, the assignment may run 12 - 18 months and the inspector must be available during the entire construction period.

b. The following must be taken into consideration in establishing the number of persons on the panel:

   (1) Present and prospective workload.

   (2) The fact that all fee personnel selected may not be able to accept assignments when needed.

   (3) Geographical location of panelists and construction activity so that qualified persons can be assigned projects reasonably near their residences.

   (4) Types of construction typical in Field Office, since some inspectors may be qualified for walkup construction but not elevator construction.

c. Fee personnel will be recruited by personal contact with local professional societies (such as American Institute of Architects), contractors, mortgagees, etc.

d. The Chief Architect will send prospective fee personnel an "application package". The package will include 3 copies of Form FHA-2563, Application for Designation as Fee Personnel (two copies are returned). Qualification requirements, compensation allowed and method of assignment will also be included in the package.

e. The Director Housing Development Division/Chief Underwriter and Chief Architect will review responses, interview, check references and prior employers, and select the best qualified in terms of training, experience and availability and make their recommendations to the Field Office Director. The Field Office Director will notify each applicant of their selection or non-selection within 45 days of the date of initial contact. Those
found eligible will be informed that satisfactory completion of a training course is a prerequisite to formal designation as a fee inspector.

2-28. TRAINING AND ORIENTATION PRIOR TO INITIAL ASSIGNMENT. A training session must be held for any inspector selected for the panel before any assignment. The training will cover all administrative and technical duties and responsibilities of an inspector as set forth in Reference (14) of the Foreword.

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a. One full day will normally be adequate for the training. Panelists are not reimbursed for any expenses incurred in connection with attendance at required training.

b. The selected candidates who satisfactorily complete the training course may be formally designated by the Field Office Director. The attached format, Figure 4 of this chapter, should be used for this purpose.

2-29. TERM OF DESIGNATION.

a. Designation may be made for periods not exceeding two years and may be renewed upon recommendation by the Director Housing Development Division/Chief Underwriter when the individual has:

(1) Satisfactorily completed refresher or additional training courses prescribed by the office.

(2) Shown a satisfactory level of technical competence and performance of assignments.

(3) Accepted assignments when offered and completed them without undue delay.

b. Unsatisfactory performance will justify removal from the fee roster at any time.

c. Allocations for Fee Assignments are made on request of Field Offices through the Regional Administrator. Assignments may be made until the allocations are exhausted, withdrawn or terminated (as at the end of a fiscal year). Under no circumstances may fee assignments be made without an allocation nor may assignments be made in excess of outstanding allocations.

2-30. ASSIGNMENT. Fee assignments may be made when allocations are given to the Field Office by the Region.

a. A Fee Inspector selected from the established panel by the Chief Architect will be assigned as inspector prior to the date set for the beginning of project construction. The Chief Architect selects the fee inspector on the basis of competency with due regard to the scope of the project, the type of construction involved, and the location of the pro-
(2-30) Project. Several projects being constructed concurrently may be handled by one inspector. There shall be no identity of interest between the fee inspector and the owner, contractor or architect administering the construction contract. An Identity of Interest will be construed to exist:

(1) When the fee inspector has any financial interest in the project other than the fee from HUD for services,

(2) When the owner, contractor or architect has any financial interest in the fee inspector,

(3) When the fee inspector has any stock or financial interest in the architect, owner or contractor,

(4) When there is a family relationship between the fee inspector and any of the following:
   (a) The General Contractor or any officer, director, stockholder or partner of the contracting firm,
   (b) The mortgagee or any officer, director, stockholder or partner of the contracting firm,
   (c) Any HUD employee who has the responsibility for making the selection or a ranking position that may directly influence the selection.

(5) When there exists or come into being any side deals, agreements, contracts or undertakings entered into or contemplated, thereby altering, amending, or canceling any of the required closing documents, except as approved by the Secretary.

b. Upon Assignment, the Chief Architect issues to the inspector the following:

(1) Set No. 3 of the contract drawings and specifications. This set becomes the HUD as-built set.

(2) A Copy of the Construction Contract, Forms FHA-2442 or 2442A when insured advances are involved.

(3) The Owner-Architect Agreement, Form FHA-2719A or 2719C, when required.

(4) The Contractor's and/or Mortgagor's Cost Breakdown Schedule of Values, Form FHA-2328, when insured advances are involved.

(5) The drawings and Specifications pertaining to off-site
improvements.

(6) The Agreements or Contracts providing for off-site construction.

2-31. REVIEW. The Chief Architect is responsible for the proper performance of all functions relating to inspection, as well as the instruction and supervision of all Architectural staff personnel involved. Although immediate supervision and other activities may be delegated to a deputy, the Chief Architect shall make sufficient inspections to remain familiar with the problems involved and to keep informed of the general progress of the work. All actions of, and material submitted by, the inspector are subject to the review of the Chief Architect or deputy. Conditions indicated in the HUD Representative Trip Report, Form HUD-5379, necessitating further action must be observed promptly. The Chief Architect should advise the inspector of any unsatisfactory action or detail in the material prepared, so that similar mistakes will be avoided in the future. Fee inspectors may be required to attend additional training if considered necessary by the Chief Architect.

2-32. FISCAL REQUIREMENTS.

a. Form HUD-3650 shall be used to make fee inspection assignments for each site visit. Form HUD-3650 will be modified as follows:

(1) Insert the word "Multifamily" in any available space in the heading of the form.

(2) Include the Project Number in the "FHA Case No." block and include the Section of the Act.

(3) Insert the number of hours the inspector will be expected to be at the site, multiply by $20.00 per hour and enter the product in the "inspection fee" space.

b. A Special Form is being designed to accommodate the summary report for multifamily inspections. Until the new form is made available, it will be necessary for the field offices to submit Form HUD-3650A, with certain modifications, to report inspection assignments relative to multifamily projects. All items in Parts A and B of Form HUD-3650A shall be completed for multifamily as they are listed for single family. The following special notations shall be made when using the Form HUD-3650A, "Summary Report of Fee Mortgage Credit Examination, Appraisal, and Inspection Operations," for multifamily inspections:

(1) Insert the word "MUTIFAMILY" in any available space in the heading of the form.

(2) Prepare a separate Form HUD-3650A for multifamily inspections; do not commingle with report prepared for single family fee inspections.

(3) Use only those spaces set aside for inspections in both
2-33. PAYMENT OF INSPECTION FEES. Details concerning the payment of fees to the inspector are in References (15) and (16) of the Foreword. The fee inspector shall accumulate the certified Forms HUD-3650 and prepare a covering voucher on SF 1034 (original) and 1034a (copy), Public Voucher for Purchases and Services Other than Personal, and forward them to the Area or Insuring Office for certification of the SF-1034. The Area or Insuring Office shall then forward the SF-1034 to the Diversified Payments Division on a monthly basis.

2-34. HEADQUARTERS FEE INSPECTORS. Fee inspection services may be utilized by Headquarters on multifamily insured mortgage projects instead of regular staff when the cost to HUD for fee personnel is less than the cost would be for salary, travel and per diem of staff members.

a. The Director, Office of Multifamily Housing Development will determine the size of the panel needed. In general, the foregoing instructions shall apply as to qualifications, establishment of fee panel, training and orientation and term of designation.

b. Work orders will be made on Form HUD-3650 for each inspection of a specific project. The HUD Representative's Trip Report, Form HUD-5379, will be used to report the inspection.

c. Contract payments by HUD for Headquarters fee inspections will be at the rate of $20.00 per hour but not to exceed $240 per calendar day. This fee will cover all expenses including travel by auto to and from the site. Where air travel is required, the actual cost of air coach transportation will be paid.

d. Upon completion of the contract task, the Headquarters fee inspector will prepare a covering voucher an SF-1034 (original) and 1034 a (copy), Public Voucher for Purchases and Services Other than Personal. The FHA project case number must be shown for each inspection. The voucher (SF-1034), work order (HUD-3650) and inspection report (HUD-5379) shall be sent to the Director, Office of Multifamily Housing Development. After review and certification, the SF-1034 shall be forwarded to the Diversified Payments Division, Office of Finance and Accounting.
This is to certify that

Name: ________________________________________________
Address: _____________________________________________

has demonstrated to the satisfaction of the Department of Housing and Urban Development that he/she is qualified as a Multifamily Inspector and is familiar with HUD requirements, procedures and standards and is hereby authorized to make inspections of multifamily properties and to complete required reports, in order that properties may be accepted as security for mortgage loan insurance under the National Housing Act.

This authorization may be withdrawn upon written notice from the Director of the HUD Field Office and will expire on ____________________________.

Signed ________________________
Director

__________________________
Field Office

Date __________________________

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CHAPTER 3. STATUTORY MORTGAGE LIMITS - HIGH COST AREAS

3-1. Basic Statutory Limits. Title 24 CFR Part 200 lists the statutory limits by section of the Act for each insured multifamily program. Maximum mortgage limits established for a Field Office must not be less or 110 percent higher than the Basic Statutory Limits.


a. Section 810. The Secretary is authorized to increase Basic Statutory Mortgage Limits not to exceed 45 percent.

b. Section 220(h). Reference 10 of the foreword tells how to establish mortgage limits for this program.

c. Solar Energy Systems. The sections listed above authorize the Secretary to recognize added cost for qualifying systems and increase Maximum Statutory Limits not to exceed an additional 20 percent.

d. High Cost Area Waivers. The sections listed above authorize the Secretary to increase Basic Statutory Limits, when necessary, to recognize higher than typical costs, for an individual project, not to exceed 140 percent.

NOTE: Authorization is limited to not more than 90 percent for any project to be financed with tandem funds and purchased by GNMA.

3-3. Delegated Authority. The Secretary's authority to increase Basic Statutory Mortgage Limits is delegated through the Assistant Secretary for Housing-Federal Housing Commissioner to each Field Office Manager, subject to these instructions.

3-4. Terminology.

a. Locality. A designated geographical area that generally includes several counties or parishes sharing similar construction costs.

(1) Base Locality. The area with the most construction activity and generally the location of the Field Office.

(2) Key Locality. Other areas in the Field Office Jurisdiction, generally identified by the municipality with the most construction activity.

b. High Cost Area. A Base or Key Locality where multifamily housing replacement cost exceeds Basic Statutory Mortgage Limits.

c. High Cost Percentage (HCP). Reflects relationship between the level of multifamily housing replacement cost and the Basic
Statutory Mortgage Limits.

3-5. Applicability. The authorized HCP applies to elevator and nonelevator structures.

3-6. Base Locality HCP Revision. Headquarters will review annually and modify as necessary. Each Field Office will be notified of changes to its HCP.

3-7. Key Locality HCP Revision. When you receive the Base Locality HCP authorization, revise the HCP for each Key Locality. This makes up for construction cost differences among localities.

Steps:
- Select the local multipliers for the Base and Key Localities from commercial indices.
- Divide the local multiplier for each Key Locality by the local multiplier for the Base Locality; the result is the cost differential ratio between the two areas.
- Multiply the Base Locality HCP by the Key Locality ratio; the result rounded down is the HCP for the Key Locality.
- The following example uses local multipliers found in the Marshall Swift Valuation Service to show how to develop the HCP for a Key Locality.

<table>
<thead>
<tr>
<th>Base Locality HCP</th>
<th>Indices Local Multipliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>167 percent (Detroit)</td>
<td>Base Locality = 1.09</td>
</tr>
<tr>
<td>Key Locality = 1.03</td>
<td></td>
</tr>
</tbody>
</table>

Factor Key Locality = 1.03 = .94 cost differential ratio
Factor Base Locality = 1.09

Base Locality HCP -1.68 x .94 = 1.5792 rounded down - 1.57
1.57 or 157 percent = HCP for Key Locality

3-8. Mortgage Limit Schedule Revision. On formats in Figures 1 and 2 (reproduce locally):

a. Enter the Field Office, Base City/Locality, RCP and any Key Locality that has the same HCP. A separate schedule for each locality is acceptable.

b. Group on one line, sections of the Act that have the same statutory limits. List by number of bedrooms, the applicable per unit limit.

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(3-8.) c. "Min." is the basic maximum statutory limits from the CFR. "Max." is the result of multiplying the "min." by 210 percent rounded down. (These amounts do not change unless the CFR changes.)
d. Determine the maximum limits for locality by multiplying the "min." by the applicable HCP. (Limits never less than "min." or more than "max.")

e. Sign and date.

3-9. Mortgage Limit Schedule Distribution. Send copies to the Director, Office of Housing, Regional Office and distribute to appropriate Field Office staff.

3-10. Documentation. Keep on file in the Field Office copies of all Documentation used to develop the HCP for Key Localities and the mortgage limits.

3-11. Waiver Requests - HCP.

a. Procedures: Field Office prepares the package described below and submits it for Headquarters' approval. Address it to the Director, Office of Insured Multifamily Housing Development.

b. Policy: The revised HCP will pertain only to the project for which it is requested; and waivers will be considered only on a project-by-project basis.

Waivers are subject to the limitations detailed in paragraph 3-2 of this book.

c. Requirements for Approval.

(1) The package submitted to Headquarters must prove that:

- The housing is necessary.

- There is clear justification for the excessive cost. (For example - confined inner-city sites, remote location, scattered sites, or historic preservation are some conditions that make costs higher than for similar construction in the area.)

- Technical processing of the proposal was acceptable. (No waiver will be granted without all the exhibits that are required below.)

(2) The HCP requested must reflect, to the decimal (two places are sufficient - e.g., 178.52), the exact percentage needed to calculate a maximum mortgage supporting the underwriting conclusions.

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d. Required Contents of Package for Headquarters.

(1) Exhibits. (Send copies of the HUD/FHA forms or counterpart automated printouts and supplemental estimate worksheets.)
(a) 92013 Application for Multifamily Housing Project
(b) 2328 - Contractor's and/or Mortgagor's Cost Breakdown (firm stage only).
(c) 2325 - Report of Cost Processing.
(d) 2326A - Project Cost Estimate Worksheet.
(e) 2326- Project Cost Estimate (Selected Comparable).
(f) 2326 - Project Cost Estimate (Commissioner's estimate).
(g) 23264 - Rental Housing Project Income Analysis and Appraisal.
(h) 23264A - Supplement to Project Analysis (Criterion 4, must show the maximum mortgage calculated by using the HCP requested.)
(i) Worksheets: Include all documentation not shown on the processing forms used to develop the replacement cost estimate and all supplemental estimates. The worksheets must show units of measure and benchmark costs used to prepare the estimates.

Note: Rehabilitation proposal exhibits will include the combined work write-up resulting in the HUD estimate, instead of Exhibits (c), (d) and (e) above.

e. Narrative Justification. The Office Manager's cover memorandum must: describe the need for the housing; state why the cost of the proposal is higher than similar construction in the area; and specify the HCP requested.

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Figure 1

MAXIMUM MORTGAGE LIMITS - NON-ELEVATOR CONSTRUCTION

PDF FILE HERE.

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Figure 2

MAXIMUM MORTGAGE LIMITS - ELEVATOR CONSTRUCTION

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4-1. RECOMMENDATIONS. Recommendations to the Field Office Director with respect to sales prices and disposition of HUD-FHA acquired multifamily properties must be sufficiently comprehensive to advise him of the highest and best and most likely use of the property, the proper repair program, the estimate of value and the best method of disposal.

4-2. THE NATURE AND SCOPE. The recommendations that can be made by underwriting personnel are unlimited, provided the best interests of HUD-FHA are served. Therefore, the analysis must be comprehensive and deliberate with consideration being given to all probable uses to which the property may be put. Determining highest and best use will, in most instances, also determine the most logical program to pursue and result in the greatest recovery by HUD-FHA in a reasonable length of time.

4-3. THE APPRAISAL FORMS AND EXHIBITS. These are prepared by the Housing Management Division and are to be reviewed in detail. The file will be submitted to the DO/CU. If, after staff review, the DO/CU concurs in the findings of the Management Division, he will signify by signing the appraisal report. If the DO/CU concurs in all respects, he will so indicate and forward the file to the Director. If he is not in full agreement, complete separate findings shall be prepared by his underwriting staff.

4-4. UNDERWRITING REPORTS AND FORMS. These shall be prepared only by qualified senior underwriting personnel. Underwriting recommendations shall be supported by adequate data. Unsupported opinions shall not form the basis of any recommendations.

4-5. DETAILED VALUATION INSTRUCTIONS. These instructions include the statement that "there is no limit to the nature and scope of recommendations provided the best interests of HUD-FHA are served." The freedom of action this statement envisions precludes the use of any "instructed" capitalization rates, estimates of economic life, occupancy percentages or any other limitations upon the appraisal process. The recommendation made by the DO/CU to the Director, therefore, must be that which is his own best professional judgment.

4-6. PROCEDURE OUTLINED. The procedures discussed in detail in architectural and valuation handbooks are presented here in outline form. Analysis and further calculations or estimates will always stop when the best use, value, and disposition have become clearly evident. The technical analysis will be under the direction of the DO/CU. He will determine the
Joint inspection and tentative determinations:

The DO/CU will call in:

- Sanitary Engineer, Site Planner, Site Engineer, Market Analyst, and other specialized aides, as necessary.
- Chief Appraiser and/or selected staff members.
- Chief Architect and/or selected staff members.

(1) Highest and Best Use Determination (an analytical determination based upon economics, without regard to current use, or limited uses for which mortgage insurance may be written).

(a) Present use (presumably continued as multifamily rental housing project).
   1 As is, except for cleaning, etc.
   2 With repair expenditures ("as repaired").
      a Deferred maintenance only.
      b Major repairs, alterations, rehabilitation.

(b) Conversion to other use, such as:
   1 Furnished apartments.
   2 Apartment hotel.
   3 Commercial hotel or motel.
   4 Office or professional building.
   5 Cooperative, condominium or subdivided parcel.
      a Sale to consumers.
      b Sale to an entrepreneur, for subsequent resale to consumers.

(c) Conversion of land to other use.
   1 Separate sale of land, and buildings for removal.
      a Subdivision of land, as into commercial or industrial parcels.
   2 Sale "as is," with or without requirement for removal of buildings by purchaser.

(d) Other, including any combination of above.
(2) Determination of Procedure in HUD-FHA's best interest. (The decision as to the method that obtains the best and speediest recovery.)

b. Architectural Considerations (may precede, be concurrent with or follow paragraph 4-6.c., below).

Consideration of FHA Form 2475 (Property Management) Property Report - Rental Project Consideration of FHA Form 2060a (Property Management) Report of Physical Condition and Repair Recommendation Consideration or Preparation of FHA Form 477 (Property Management) Repair Specifications (or review if prepared by Valuator)

(1) Prepare repair (rehabilitation, alteration) recommendations.

(2) Property Insurance Schedule prepared as required by the Office of Property Disposition, Washington, D.C.

c. Cost Considerations. Cost Analyst prepares such estimates as requested by the DO/CU.

d. Valuation Considerations. (May in part precede paragraph 4-6.a., and in part or in toto precede, be concurrent with or follow paragraph 4-6.b. above.)

Prepare Appraisal(s).

(1) Prepare FHA Form 2264.

(a) As is.

(b) As repaired (altered, rehabilitated).

(2) Prepare FHA Form 477, Repair Specifications (or review if prepared by Architect).

(a) Or refer to Architect for preparation.

(3) Prepare Summary Report and Recommendations for handling and disposition.

e. DO/CU. Review file and recommendations of staff. Make final recommendations to Director.

(1) Value as is, as repaired and cost of repair.

(2) Recommended price and method of disposal.

4-7. INITIAL ANALYSIS. The outline provides for handling the most complex situations to be encountered. Therefore, all the considerations discussed are not likely to be encountered in any single submission. Nor need the analysis be carried beyond the point of clear determination of the facts required. The DO/CU, Chief Valuator, and Chief Architect shall
thoroughly review the available information and then make an initial inspection of the property for the purpose of arriving at tentative conclusions with respect to the highest and best use of the property.

4-8. PRESENT USE.

a. If it is concluded that the present use is the highest and best use, the next tentative conclusion to be made is whether or not conversion, such as increasing or decreasing the number of efficiency suites, or otherwise altering the composition of the units, would be advantageous to HUD-FHA, as indicated by the estimated cost of making such changes in relation to the added value increment resulting from the adoption of such a program.

b. If present use is the best use, and the conversion would not increase marketability and value equal to, or in excess of, the cost of the alterations, a tentative determination would then be made as to whether or not HUD-FHA's interests would be best served by offering the property on an "as is" or "as repaired" basis. This would, of course, call for rough estimates as to the nature and extent and cost of proposed repairs, as well as rough estimates with respect to the net revenues to be anticipated.

4-9. COMPLETION OF INITIAL ANALYSIS. It should be clearly apparent from the scope of the determinations required of the DO/CU on, and subsequent to, the initial visit to the property, that this phase of the analysis must be performed in a thorough and objective manner. The soundness of the conclusions developed will be a direct reflection of the competence, diligence and vision of the underwriting staff participating in the analysis.

a. The DO/CU shall utilize the services of the Sanitary Engineer, Site Planners and Site Engineer or specialists in the initial analysis stage and subsequently when such services are essential in arriving at sound solutions.

b. Either of two alternate programs may appear to be feasible. In such instances final determination as to which program is to be recommended could only be made through more detailed analysis subsequent to the assignment of the case for appraisal.

c. Upon completion of the initial analysis, the DO/CU shall prepare a memorandum setting forth in narrative form the staff conclusions indicating the recommended program and briefly setting forth the reasons. Brief reasons for elimination of alternate programs should also be recorded.

d. The purpose of this memorandum is to acquaint the Architectural and Valuation processors with the tentative conclusions reached and the reasoning back of them, and to answer questions which should normally arise in the minds of processors as to possible alternate
treatments. This memorandum is not to be considered a directive to the processors which would preclude their exercising independent judgment as to the highest and best use of the property, the proper repair program, the determination of value, or the method of disposal of the property.

4-10. FINAL REVIEW AND DO/CU RECOMMENDATIONS. The DO/CU shall review the conclusions of the staff and supporting data, and set forth his recommendations with respect to:

a. Most profitable or Highest and Best Use of property.

b. Fair Market Value of Property "as is."

c. Fair Market Value "as repaired" or rehabilitated, if necessary, to achieve Highest and Best Use.

d. Recommended plan of disposal. (If recommended disposal plan calls for repair or rehabilitation - a brief description of the scope of the work and the estimated cost shall be set forth.)

e. Recommended price and terms of sale.

4-11. DETERMINATION OF DO/CU. The DO/CU recommendation to the Director should be set forth as follows:

(4-11) CERTIFICATION

I certify that I have carefully analyzed the project known as _________________________________ located at ______________________________________ and I have no personal interest, present or prospective, in the property, applicant or proceeds of the mortgage.

[ ] I recommend the disposal as set forth in the Report, attached hereto.

[ ] I recommend the following disposal plan.

Date _____________________

______________________________
Chief Underwriter/
Director of Operations
CHAPTER 5. COMMUNITY DEVELOPMENT

5-1. SCOPE OF INSTRUCTIONS. These instructions define underwriting functions and responsibilities in connection with the planning and execution of urban renewal projects promulgated by Local Public Agencies where the use of mortgage insurance is contemplated.

5-2. ELIGIBILITY FOR MORTGAGE INSURANCE. Section 220 is specifically designed for use in urban renewal areas and Section 117 concentrated code enforcement areas. However, financing under other applicable Sections of the Act is also available and may be more suitable for attaining the objectives of the Urban Renewal Plan. The Field Office will base its conclusions as to eligibility, values, and other underwriting considerations on the assumption that the Urban Renewal Plan will be successfully executed and its objectives will be attained.

5-3. STATUS OF URBAN RENEWAL PROJECTS. Mortgage insurance under Section 220 is designed for use in urban renewal areas that may involve either Assisted or Non-Assisted type projects. Federally-assisted urban renewal projects entail a Federal capital grant and may involve condemnation of properties, demolition of slum structures, redevelopment of land with new construction, rehabilitation of existing structures, or any combination thereof. Non-Assisted urban renewal projects are those in which no Federal grants are requested. Public improvements to be made are financed entirely with local funds. These projects generally will depend on preservation and stabilization of the neighborhood through rehabilitation and conservation of existing structures, supported, as in Assisted projects, by effective programs of zoning, code enforcement, and neighborhood improvement. In either type project, the DO/CU must develop the underwriting program and requirements needed to stabilize value and make possible the use of mortgage insurance, if such use appears feasible.

5-4. COLLABORATION WITH COMMUNITY DEVELOPMENT AND LPA. The problems inherent in urban renewal are so complex and far-reaching in their significance that only close collaboration by the Field Office, the LPA, and Area/Regional Office Community Development Representatives can assure successful operation. The DO/CU must participate as early as possible in identifying these problems and establishing the basis for mortgage insurance. The essential underwriting determinations should be worked out so there will be no misinterpreta-
best judgment but bearing in mind the objectives of the urban renewal program and Department policy.

5-5. WORKABLE PROGRAM FOR COMMUNITY IMPROVEMENT. Contracts for Federal assistance for new projects cannot be entered into nor the special insurance aids under Section 220 be made available for urban renewal areas unless the locality has secured certification of a Workable Program by the Secretary. This program provides for appropriate private and public resources to eliminate and prevent the development or spread of slums and urban blight, to encourage needed urban rehabilitation, and to provide redevelopment of blighted, deteriorated, or slum areas.

The Area Office has primary responsibility for processing workable program applications. The Insuring Office will participate in this processing only when requested to furnish assistance.

5-6. THE URBAN RENEWAL PLAN. Before mortgage insurance benefits under Section 220 can be made available in an urban renewal area, the governing body of the locality must approve an Urban Renewal Plan for a specific area. This plan is submitted by the locality to the Area Office Director for approval. If approved, the Director will advise that applications for mortgage insurance under Section 220 may be accepted for processing. There are many important differences between an Urban Renewal Plan and a Workable Program, including the fact that the former pertains to a specific delineated neighborhood, whereas a Workable Program applies to the entire community. "Urban Renewal Plan" means a plan for an urban renewal project; which plan:

a. Conforms to the general plan for the locality as a whole and to the Workable Program and is consistent with definite local objectives respecting appropriate land uses, improved traffic, public transportation, public utilities, recreational and community facilities, and other public improvements; and

b. Is sufficiently complete to indicate such land acquisition, demolition and removal of structures, redevelopment, improvements, and rehabilitation as may be proposed to be carried out in the urban renewal area, zoning and planning changes, if any, land uses, maximum densities, and building requirements.

5-7. URBAN RENEWAL PROJECT. "Urban Renewal Project" may include undertakings and activities of a LPA in an urban renewal area to eliminate slums and blight or prevent their development or spread, and may involve slum clearance and redevelopment, rehabilitation or conservation, or any combination thereof, in accordance with the urban renewal plan. Such undertakings and activities may include:
a. Acquisition of a slum area, a deteriorated or deteriorating area, or land which is predominantly open and which, because of obsolete platting, diversity of ownership, deterioration of structures or site improvements, substantially impairs or arrests the sound growth of the community, or open land necessary for sound community growth which is to be developed for predominantly residential uses; provided, that the requirement that the area be a slum or a blighted, deteriorated, or deteriorating area, shall not be applicable in the case of an open land project.

b. Demolition and removal of buildings and improvements.

c. Installation, construction, or reconstruction of streets, utilities, parks, playgrounds and other improvements necessary for carrying out in the urban renewal area the objectives of Title I of the Housing Act of 1949 in accordance with the Urban Renewal Plan.

d. Disposition of any property acquired in the urban renewal area (including sale, leasing or retention by the LPA itself) at its fair value for uses in accordance with the Urban Renewal Plan, or for low rent public housing or housing for moderate income families.

e. Carrying out plans for a program of voluntary repair and rehabilitation of buildings or other improvements in accordance with the Urban Renewal Plan.

f. Acquisition of any other real property in the urban renewal area where necessary to eliminate unhealthful, unsanitary, or unsafe conditions, lessen density, eliminate obsolescence or uses detrimental to the public welfare, or otherwise to remove blight or prevent the spread of blight or deterioration, or to provide land for needed public facilities.

g. Acquisition, and repair or rehabilitation for demonstration purposes and resale by the LPA, of a limited number of structures which are located in the urban renewal area and which, under the Urban Renewal Plan, are to be repaired or rehabilitated for dwelling use or related facilities.

5-8. OBJECTIVES IN URBAN RENEWAL PLANNING. Where mortgage insurance is contemplated, the Field Office is vitally interested in the specific Urban Renewal Plan because of the important effect such plan may have upon underwriting judgments. For this reason, the DO/CU and such technical staff as he may designate are expected to participate in discussions with the LPA. However, it will be the community's responsibility to initiate urban renewal
proposals, and to establish the general character and extent of the proposed renewal operation. It is the responsibility of the Area Office to initiate consultations with the Insuring Office when and if necessary.

a. The objective of the consultation during the preparation of an Urban Renewal Plan is the creation of a neighborhood containing decent, safe, and sanitary dwellings with stability of values which can be expected to endure through the life of the proposed insured mortgages. The processing of individual applications will be carried out within the perspective of this objective. Accomplishment of this objective will be dependent on the elimination of the present blighting influences, the ultimate existence of suitable community facilities and services properly adapted to the character of the neighborhood, adequate protection of the neighborhood from adverse influences, and elimination of specific nonconforming uses which may have a deleterious effect on individual property values.

b. The Field Office's advice during all stages of development and execution of the Urban Renewal Plan should be confined to factors directly relating to the economic and financial feasibility of residential redevelopment and to mortgage insurance. In giving its advice, the Field Office should be aware of the primary responsibility of the city for establishing its redevelopment objectives and of the dignity and importance attached to an Urban Renewal Plan as an official expression of local will. Once adopted, an Urban Renewal Plan has the full force of law.

c. In one way, the analysis of urban renewal plans and projects by the Field Office may be compared to the analysis of new subdivision proposals. In both instances, the staff must project its thinking into the future and must visualize areas as they will appear at this future time when certain mandatory requirements have been fulfilled. To accomplish substantial upgrading of a neighborhood, the Urban Renewal Plan must go deep enough to affect the attitudes of the people toward their neighborhood and to give them greatly increased pride in their homes or other type living units.

5-9. UNDERWRITING CONSIDERATIONS IN URBAN RENEWAL AREAS. Poorly maintained structures lacking adequate sanitary facilities ordinarily characterize blighted areas; the degree of blight being in direct proportion to the number of dwellings exhibiting these conditions. Over-occupancy of structures in relation to the sanitary and cooking facilities available creates a situation which releases a chain of related
reactions that combine to condemn the neighborhood to a pattern which will inevitably result in a slum area. Related conditions ordinarily found characterizing blighted neighborhoods are the mixed uses of structures and land; that is, mixed residential and non-residential uses; inadequate city services, such as garbage and trash removal facilities; deficiencies in recreational and community facilities; and congested, unsafe, unlighted, or otherwise deficient streets and alleys. Many of the above blighting, value-destroying influences are, by their nature, deficiencies which can only be eliminated or corrected through public action. Their elimination is essential to the recreation of a neighborhood if values are to be sustained or restored.

a. It is a responsibility of the Field Office to give constructive advice to which the locality should give consideration. Merely cataloguing the deficiencies is not enough, and positive suggestions to remedy the situation should be made.

b. It is evident that blighted areas cannot be restored unless the causes of blight are identified and offset or eliminated through the provisions of an Urban Renewal Plan. The problems in blighted areas are much more extensive and acute than in neighborhoods eligible under a regular program such as Section 203(b). In the latter, deficiencies in individual properties submitted as security for insured loans can generally be corrected through requirements normally placed on individual commitments; and, thus, this aspect of the problem is largely within HUD's control. However, in urban renewal areas, it should be evident that simply taking care of the physical needs of the individual properties would be a superficial approach and a wasted effort if not preceded by the steps previously outlined to remove, or reduce to an acceptable degree, the underlying causes of blight which affect all the properties in the area.

c. Those elements which create and sustain real estate values must outnumber and outweigh those elements which destroy values. In other words, it is the recognition of the presence and extent of these opposing elements which must be analyzed in making a determination as to the degree of mortgage risk. The ability to isolate and identify the value-destroying influences in a given neighborhood, and to present them clearly to the LPA, should bring about a mutual understanding of problems common to the local agency and the Field Office.

d. The improvement of housing standards and conditions is
an objective of the National Housing Act. Improvement of housing standards and conditions is a relative matter. The degree to which it can be accomplished in the case of existing properties and neighborhoods varies widely, depending upon the level of quality of existing housing supply in different localities. Bringing an unacceptable neighborhood to an acceptable status, through elimination of causes creating the unacceptable conditions, definitely improves housing standards and conditions in that neighborhood. The status to which it is brought may be barely acceptable, but it represents positive improvement over former conditions and thus meets the above-mentioned objective of the Act. Fair neighborhoods can be brought to the status of good neighborhood, again resulting in improved housing standards and conditions.

5-10. REHABILITATION STANDARDS. Reference 11 of the Foreword serves as a guide for the development of specific standards for the Urban Renewal Plan. When the Urban Renewal Plan has been adopted, the standards therein become HUD-FHA standards for rehabilitation within the urban renewal area.

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a. Improvement in housing standards and conditions is measured by relating the condition that will exist after causes of blight and deterioration have been removed to currently existing conditions in the neighborhood. Improvement is not measured by comparison of the rehabilitated neighborhood with superior neighborhoods. Broadly speaking, when HUD is successful in achieving conditions which reduce the mortgage risk in a given area to a degree which makes it acceptable for mortgage insurance, HUD has, for practical purposes, met the purpose and intent of Reference 11 of the Foreword.

b. The needs and desires of the market must be given full consideration in determining whether or not the objectives of the rehabilitation standards have been achieved. It is of the utmost importance that-this approach and interpretation be fully understood and adopted in all offices, and that the public be made aware of HUD's attitude in this regard.

5-11. DEVELOPMENT OF URBAN RENEWAL PLANS. The DO/CU is responsible for carrying out the requirements for coordination with the LPA. Authority to coordinate the conclusions of the underwriting staff and to make decisions should be delegated when possible to one person. This person may be any available member of the staff capable of dealing with the problems peculiar to urban renewal.

5-12. CONCURRENCE IN LAND PRICE. Instructions require that agreement be reached between the Field Office and the LPA
concerning the minimum price of land to be sold in urban renewal areas for private residential development. Every effort should be made to reconcile any differences at the local level before the LPA requests concurrence by the HUD Area Office in the proposed price. In order to provide a degree of flexibility and to expedite agreement, the DO/CU is authorized to increase by up to 5% the estimated land value as determined by the Valuation Section. The increase must be appropriate based on review of market data, and it must be given to assist the LPA in arriving at an acceptable land disposition price for recommendation to HUD.

5-13. FEASIBILITY OF REHABILITATION. If the Urban Renewal Plan includes rehabilitation of residential properties, the Field Office will be requested at the completion of the planning stage to furnish its conclusions as to the feasibility of rehabilitation. Also, opinions as to the market demand for rehabilitated residential properties and the adequacy of the Rehabilitation Standards established by the LPA should be determined.

5-14. PROCESSING OF TYPICAL PROPERTIES. Typical properties intended for rehabilitation under the Urban Renewal Plan will be selected to test the feasibility of rehabilitation. The properties selected must be mutually agreed on by HUD-FHA and the LPA. Since they will serve as prototypes for the area, proper selection and analysis will have a predominant bearing on the tests for feasibility. They should represent the main structural classes and use and occupancy patterns. The condition of the properties should represent typical deterioration rather than extremes.

a. Selection of the most suitable financing program is a key element in the feasibility determination. Where the objective of urban renewal is to provide housing for the present occupants of the area or other low and moderate income families, one of the HUD-FHA financing programs involving interest or rent subsidies should be chosen for the feasibility test.

b. The "ability to pay" is the key element of feasibility. In single units to be rehabilitated, the test is the ability of occupant mortgagors to pay the housing expense under the available financing programs. In rental properties, the test is the ability of the property to generate net income sufficient to support the maximum HUD-FHA mortgage based on total cost. Feasibility will be determined on each selected property or group of properties in the same manner as if a sponsor had submitted the proposal to rehabilitate up to the Rehabilitation Standards established by the LPA. The cost of rehabilitation must be estimated by the Field Office.
c. If the typical properties contain a small number of units, it will probably be necessary to group the individual properties in order to create economically feasible projects for the feasibility tests.

d. The economics of rehabilitation will be compared to the alternative of demolition and redevelopment if it is evident that the cost of rehabilitation per unit is approaching that of new construction. Rehabilitation will not be considered infeasible solely on the basis of comparison of costs with new construction unless the Urban Renewal Plan can provide suitable relocation housing for the present tenants. Borderline situations involving the economics of redevelopment vs. rehabilitation should be referred to the Regional Administrator.

e. When it is concluded that rehabilitation is feasible only with financing involving interest or rent subsidies, this fact should be noted and the availability of financing conditioned on the availability of funds for such purpose.