
CHAPTER 2. PROJECT PROCESSING

- 2-1. PROCESSING STAGES. Field Office may allow the sponsor to combine stages. When stages are combined, instructions will be combined as appropriate.
- A. SAMA (Site Appraisal and Market Analysis). No cost analysis unless the appraiser requests a supplemental estimate.
- B. Conditional Commitment.
- 1) Exhibits.
 - a) Application.
 - b) Preliminary drawings and outline specifications.
 - c) Owner/Architect Agreement.
 - 2) Make Commissioner's estimate of construction cost.
 - a) Estimate cost of structures, land improvements and applicable fees.
 - b) Make supplemental estimates required.
 - c) Estimate starting date and length of construction period.
 - d) Make cost entries on Form HUD-92264, Project income Analysis and Appraisal.
- C. Firm Commitment.
- 1) Exhibits.
 - a) Application.
 - b) Final drawings and specifications.
 - c) Contractor's and/or Mortgagor's Cost Breakdown, Form FHA 2328.
 - 2) Confirm previous estimates and conclusions. (Make Commissioner's estimate of construction cost if conditional skipped.)
 - a) Adjust for any changes.
-

- (2-1) b) Make new estimates if changes are major.
- c) Make cost entries on Form HUD-92264.
- 2-2. CONTRACTOR'S AND/OR MORTGAGOR'S COST BREAKDOWN, FORM FHA 2328.
- A. Mortgagor's Cost Estimate
- 1) Firm commitment exhibit to breakdown amounts shown.
- a) Complete by contractor or mortgagor.
- b) Require separate form for each structure type, accessory building if cost is over 2 percent of total, and master form summarizing.
- 2) Compare with HUD estimate. (Use variance report, Form FHA 2331-B or computer estimation.)
- a) When total for all improvements is approximately the same.
1. Check trade items for acceptable range. (Dollar relationship not percentage.)
- a. Try to reconcile unacceptable differences with contractor or mortgagor. (Reconciliation is not mandatory.)
- b. Use for data only if applicable or reconciled.
2. Accept and use mortgagor's cost estimate.
- b) When total for all improvements varies substantially
1. Review both estimates for cost estimation errors. (Use drawings and specifications.)
2. Try to resolve differences with contractor or mortgagor.
3. If not resolved accept but use HUD cost estimate and record difference in remarks on Form HUD-92264.
- 3) Changes in the mortgagor's cost estimate after issuance of firm commitment require reprocessing.

(2-2) B. Contractor's Schedule of Values.

- 1) Contractor must submit Form FHA 2328 to be used as a trade payment breakdown (schedule of values) before start of construction. Consider the mortgagor's cost estimate as the schedule of values if completed by the contractor.
 - a) Review for "front-end loading." (Gross inflation of the cost of early stage items.)
 - b) If front-end loaded, contractor must reallocate costs to other trade items.
 - c) Accept schedule of values when dollar amounts for trade items are appropriate.
- 2) Revisions to the schedule of values may be accepted any time before construction starts. Always review for front-end loading.

2-3. PROPERTY INSURANCE SCHEDULE, Form HUD-92329, provides a guide for the mortgagee as to insurance coverage.

A. Prepare form.

- 1) Immediately after firm commitment processing (temporary insurance).
- 2) Again after completion of cost certification review (permanent insurance).

B. Estimate 100 percent insurable value for each building.

- 1) Include cost of structure, foundations and basement, underground utilities within the building walls, and a proportionate share of allowances and fees, except for other fees.
- 2) Do not include cost of land improvements, demolition, or offsite work.
- 3) Include cost of major mechanical equipment, such as boilers, which serve the entire project in the cost of the building in which it is located.

2-4. PRIOR APPROVAL OF IDENTITY-OF-INTEREST SUBCONTRACTORS

- A. Meet with mortgagor and contractor before start of construction to explain requirements in regard to identity-of-interest entities.
 - 1) Meeting shall be documented in the Field and Washington dockets.
 - 2) Failure to secure prior approval of identity of interest subcontracts will result in the disallowance of the total general overhead and profit of the subcontractor at cost certification.
- B. Identity-of-Interest is an relationship that exists giving the mortgagor or general contractor apparent control or influence over a subcontractor, equipment lessor, material supplier, or manufacturer of industrialized housing. (See Handbook 4470.2, Cost Certification Guide for Mortgagors and Contractors, for definition of relationships.)
- C. Before start of subcontract work execution of the subcontract, each identity-of-interest interest entity must receive approval of its contract, including a specific dollar amount for general overhead and profit.
- D. Require a separate subcontract, agreement or lease for each trade, which must:
 - 1) Clearly identify scope of work.
 - 2) Be on a cost plus fixed fee basis.
 - a) Guaranteed maximum dollar amount for work.
 - b) Specific dollar amount for general overhead and profit.
- E. Mandatory Conditions for Approval. (Burden of proof upon subcontractor;
 - 1) Firm must operate as subcontractor for specific trade.
 - a) Have experience and capability.
 - b) Control labor, materials and equipment typical for trade.
 - 2) Subcontractor must do significant business In specific trade with others having no identity.

(2-4

NOTE: Disapprove "paper conduit" arrangements where work is to be done by general contractor personnel or other subcontractors.

- 3) The amounts for the work and general overhead and profit shall be no higher than the typical prices for the specific trade.

NOTE: If identity exists, agreement on amounts must be reached.

- F. If total of all identity of interest subcontracts, purchases and leases is less than 1/2 of 1 percent of the mortgage amount, the requirements for each identity-of-interest subcontractor to cost certify may be waived.
- G. Prepare letter of approval or disapproval to the mortgagor or general contractor.
 - 1) Approval will state:
 - a) Scope of subcontract work.
 - b) Maximum dollar amount for subcontract work.
 - c) Dollar amount for a subcontractor overhead and profit.
 - d) Any conditions of approval, including whether or not subcontractor must cost certify.
 - 2) Disapproval will state;
 - a) Reason.
 - b) Cost certification requirements, either
 1. General contractor.
 2. Nonidentity subcontractor.
 - 3) Send to Director of Housing Development for signature.