

CHAPTER 1. NATURE AND PURPOSE OF MORTGAGE CREDIT ANALYSIS

- 1-1. GENERAL. These instructions are written for project mortgages insured under Section 207 of the National Housing Act. Instructions for all other insured multifamily housing programs, insofar as they differ from basic Section 207 instructions, are set forth in the individual handbooks devoted to these special programs. However, it is our intention to consolidate the mortgage credit processing instructions in one source and include, as a future change to this Handbook, any deviations for specific programs. This will alleviate the need for multiple handbook revisions when a change in policy occurs.
- 1-2. CREDIT RISK FACTORS. The development of a multifamily rental project is subject to certain risks:
- A. Failure to complete the project satisfactorily,
 - B. Failure to provide competent management,
 - C. The probability that income will not cover:
 - 1. Project expenses
 - 2. Amortization of the mortgage
 - 3. Return on investment.
- The latter is decided largely by valuation analysis except that the mortgage credit analysis uses the income and expense figures to set upper limits in computing the mortgage amount.
- 1-3. MORTGAGE CREDIT PROCESSING in a multifamily project involves:
- A. Performing a credit investigation on principal sponsors, the mortgagor (if formed), the general contractor, and housing consultant, if applicable.
 - B. Determining the acceptability of the character and reputation of the sponsor(s), mortgagor, if formed, general contractor and housing consultant, if applicable.
 - C. Determining the maximum insurable mortgage and amortization period of the loan.

(1-3) D. Determining the estimated cash requirements for completing the project.

E. Determining the mortgagor's financial ability to close the transaction and the general contractor's ability to complete the project.

F. Determining adequacy of assurance of completion.

G. Processing of insurance of advances.

H. Processing of construction change orders.

I. Reviewing the mortgagor's cost certification.

J. Determining the cash escrow required at final endorsement for "to be paid" items.

K. Determining the final maximum insurable mortgage.

1-4. WAIVERS. Provisions of law or regulation may not be waived.

A. Waivers to a handbook provision may be justified in limited cases. Send all requests, with full details and supporting documents, to the Regional Office with jurisdiction for the area in which the project is located. If the Regional Office concurs with the Field Office, it will forward the request to Headquarters for approval.

B. Headquarters will not entertain any requests for waivers or appeals to Field Office conclusions, unless the Regional Office with jurisdiction has first acted upon the waiver request or appeal.