CHAPTER 5. UNDERWRITING PROCESSING INSTRUCTIONS

SECTION 1. COST ESTIMATION, LAND PLANNING AND ARCHITECTURAL ANALYSIS

5-1. GENERAL. Projects submitted under Section 236 are to be processed according to basic procedures and instructions, except as modified herein.

5-2. COST ESTIMATION. Please see Chapter 4., paragraph 4-9. of this Handbook for special instructions on the inclusion of BSPRA or SPRA.

a. A typical Builder's Profit will be assumed in determining the dollar amounts for architect's fees. These amounts are divided by the total for structures, land improvements, general requirements and general overhead, in order to secure the percentages to be shown on FHA Forms 2326 and 2264.

b. When processing a builder-seller mortgagor type of cooperative project, two FHA Form 2264-B Section "H" estimates must be made. One estimate will reflect a normal Builder's Profit, and the other will be processed with no Builder's Profit.

5-3. LAND PLANNING ANALYSIS. In cases in which a request has been made for units to be sold individually to eligible purchasers, Land Planning personnel should consider the extent to which utilities, walks and drives, and similar items are community property or individual property before approval is given.

5-4. ARCHITECTURAL ANALYSIS. The Design Representative is to assist the sponsor's architect in designing a project which offers maximum livibility within the established budget. Proper construction materials and design elements must be used to reduce construction costs and keep future operating expenses to an acceptable minimum. Emphasis should be given to encouraging good design as an essential component and to developing housing which will relate to the architectural standards and style of the neighborhood and community in which it is situated.

a. If the sponsor's program contemplates eventual sale of units to individual purchasers, the project design must be conducive to individual ownership.

b. Projects are to be inspected in accordance with basic established inspection procedures.

SECTION 2. MORTGAGE CREDIT ANALYSIS

5-5. MORTGAGE CREDIT. Analysis of the credit risk occurs in the contents of a loan for a definite amount and amortization period. This loan amount may not exceed the maximum amount permitted under Section 236 statutory and regulatory limitations and will be an even multiple of $100.

5-6. AMOUNT OF LOAN - NEW CONSTRUCTION.

* a. A Nonprofit or Cooperative Mortgagor is eligible for a mortgage covering 100% of the HUD-FHA estimate of the replacement cost of the property or project when the proposed improvements are completed.

(1) This limit applies to a builder-seller mortgagor approved under this Section when such mortgagor, prior to insurance of the mortgage, has entered into a written agreement (satisfactory to the Assistant Secretary-FHA Commissioner) with a private nonprofit corporation (eligible for insurance under this Section) to sell the project to such nonprofit corporation at a purchase price not to exceed the project's actual cost as certified pursuant to Section 221.550 of the Regulations.

(2) However, a determination of replacement cost of the project and insurable mortgage amount under a limited distribution type of mortgagor will be made on supplemental FHA Forms 2264 and 2264-A (see limitations below).

(3) The sum by which proceeds of the insured mortgage loan exceed the amount insurable to a LD mortgagor will be held in escrow pending completion of the sale to the private nonprofit mortgagor. *

b. A Limited Distribution Mortgagor is eligible for a mortgage covering 90% of the HUD-FHA estimate of the replacement cost of the property or project when the proposed improvements are completed.

NOTE: In cases involving an investor-sponsor mortgagor, a determination of the mortgage amount based on 90%

of the estimated replacement cost of the project as a cooperative will be made and recorded on the Supplement to the Project Analysis, FHA Form 2264-C, under "Remarks." The sum by which the mortgage amount would be reduced by this limitation must be held in escrow pending sale to purchasing cooperative.

c. The Maximum Insurable Per Unit Mortgage Amounts are as follows:

(1) Walk-up Structures:

$11,240 per family unit without a bedroom;
$15,540 per family unit with one bedroom;
$18,630 per family unit with two bedrooms;
$23,460 per family unit with three bedrooms; and
$26,570 per family unit with four or more bedrooms.

(2) Elevator Type Structures:

$13,120 per family unit without a bedroom;
$18,630 per family unit with one bedroom;
$22,080 per family unit with two bedrooms;
$27,600 per family unit with three bedrooms; and
$32,000 per family unit with four or more bedrooms.

The Assistant Secretary-FHA Commissioner may increase any of the foregoing dollar amount limitations per family unit by an
* amount not be exceed 75% in any geographical area where he *
finds cost levels so require.

5-7. AMOUNT OF LOAN - REHABILITATION. Includes only those projects involving the rehabilitation or reconstruction of existing properties. The maximum insurable mortgage will not exceed the lowest of:

a. The amounts set forth under new construction, except that the replacement cost will be based on the sum of:

(1) The estimated cost of repair and rehabilitation; and

(2) The Assistant Secretary-FHA Commissioner's estimate of the value of the property before repair and rehabilitation rather than replacement cost.

b. Property Owned: HUD-FHA estimated cost of rehabilitation, including new additions, if any, plus the lesser of:

(1) The amount required to refinance the existing indebtedness secured by the property, or

(2) 100% (90% if limited distribution mortgagor) of the HUD-FHA estimate of the value of the property before rehabilitation (less value of leased fee, if leasehold, and/or the principal amount of special assessments, if any).

c. Property to be Acquired: 100% (90% if limited distribution mortgagor) of the HUD-FHA estimated current cost or rehabilitation, including new additions, if any, plus lesser of:

(1) 100% (90% if limited distribution mortgagor) of the actual purchase price of the property, or

(2) 100% (90% if limited distribution mortgagor) of the HUD-FHA estimate of value of property before rehabilitation (less value of leased fee if leasehold and/or the principal amounts of special assessments, (if any).

5-8. AMOUNT OF LOAN - EXISTING OR UNDER CONSTRUCTION (CONVERSIONS OR REFINANCING). Includes only the following types of projects:

a. A Project Initially Endorsed Under Section 221(d)(3) Below Market Interest Rate program which has not been finally endorsed for insurance. In such a case the maximum insurable mortgage amount shall not exceed the amount which would be applicable if the mortgage were to be insured under Section 221(d)(3).

b. An Existing Project Insured Under Section 236 which is owned by a limited distribution mortgagor and which is being purchased by a cooperative or a private nonprofit corporation or association (see Chapter 11).

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5-9. TERM OF MORTGAGE AND AMORTIZATION. The term of mortgage may not exceed the lesser of 75% of the remaining economic life of the physical improvements or 40 years from the beginning of amortization. Amortization is to be accomplished by level annuity monthly payments of principal and interest. Approved terms and monthly payments appear in FHA Form 3010 series of amortization plans.

5-10. ACCEPTABILITY OF COOPERATIVE MEMBERS. Regardless of whether a cooperative originated on a management-type basis or involves a transfer from an investor-sponsor mortgagor, the acceptability of members will be determined as prescribed trader Section 213 instructions (see Reference (4) of the Foreword) with the following exceptions:

a. The Required Investment must not be less than 1% of the total cost to the subscriber, including any working capital deposit.

b. Each Cooperative Member must receive HUD-FHA approval.

c. In Determining the Prospective Member's Ability to Pay, consideration must be given to any eligible assistance payment shown on FHA Form 3131 (Application for Eligibility Under Section 236).

5-11. INSURANCE OF ADVANCES - INITIAL ADVANCE. When the mortgage transaction provides for insurance of advances during the construction period, any of the mortgage proceeds available for advance during the construction period in excess of the amount required for on-site construction, contingency reserve, if any, architect's fee, carrying charges (including AMPO, if any), consultant's fee, where applicable, financing, and legal and organization expense will be allocated to the acquisition cost of land. The amount allocated must not be in excess of HUD-FHA's estimate of fair market value of land (prior to the construction of the improvements built as a part of the project) or the actual purchase price, whichever is the lower, plus the required deposit for off-site construction, if any. The amount allocated may be approved for advance and insurance immediately following the initial endorsement of the credit instrument. The amount allocated to legal and organization expense will equal the HUD-FHA estimate. The actual expense incurred by the mortgagor in connection with legal and organization expense or the amount allocated, whichever is the lower, may likewise be approved for advance and insurance immediately following the initial endorsement of the credit instrument.

a. When the Transaction Involves an Investor-Sponsor or Builder-Seller Mortgagor, if any portion of the mortgage proceeds has been determined not to be available during the construction period, such amount shall be held in reserve and not allocated to the acquisition cost of land (refer to "Mortgage loan proceeds" under Estimated Requirements for

Completion of Project on FHA Form 2264-A or FHA Form 2264-C, whichever is applicable).

b. In the Case of a Management-Type Cooperative, the amount of allocation to land which may be approved for advance immediately following the initial endorsement for insurance shall not exceed: HUD-FHA "as is" value of the land, or the sum of the required working capital deposit plus the acquisition cost of the land, whichever is lower, plus the required deposit for off-site construction, if any.

5-12. INSURANCE OF ADVANCES - FINAL ADVANCES. The amount to be approved for final advance will be in accordance with basic instructions. However, when the transaction involves an investor-sponsor or builder-seller mortgagor, if any portion of the mortgage proceeds must be withheld pending completion of the sale to the cooperative (management-type) mortgagor or the nonprofit mortgagor, as the case may be, the approval of the final advance shall be conditioned upon establishing an escrow fund for the amount of the mortgage proceeds which must be withheld.

5-13. OPERATING LOSS LOANS - (TWO YEAR LOSSES). Pursuant to the provisions of Section 223(d) of the National Housing Act, the mortgagor may request and the Assistant Secretary-FHA Commissioner may insure an operating loss loan to cover the excess of taxes, interest, mortgage insurance premiums, hazard insurance premiums, and the expense of maintenance and operation of the project over project income during the first two years following the date of completion of the project. Mortgage credit processing shall be completed in accordance with basic Section 223 instructions for Operating Loss Loans - Two Year Operating Losses.

SECTION 3. VALUATION PROCESSING

5-14. GENERAL. The processor will be guided by basic instructions (see Reference (15) of the Foreword) with the following modifications. This Section describes a method of performing valuation processing to develop feasible projects under Section 236.

5-15. INITIAL CONFERENCE. See Chapter 4, paragraph 4-2. of this Handbook.

5-16. INCOME LIMITS. The "regular" adjusted income limits for assisted admission to most Section 236 projects during the initial rent-up period (that period until occupancy is 93% to 95% complete) are equal to 135% of the public housing income limits for the area in which the project is located. In addition, the statute provides that up to 20% of the total contract authority approved for the program may be made available for tenants with incomes above the 135% "regular" income limits, provided their incomes are not in excess of 90% of the limits prescribed for projects financed with Section 221(d)(3) Below Market Interest Rate (BMIR) mortgages. The limits which are equal to 90% of BMIR limits are called "exception" income limits. The authority for the use of exception income limits can be used in three ways, as follows:

a. First. To allow a certain number of exception income limit tenants into a project which was processed using regular income limits. With the permission of the Area or Insuring Office Director, up to 10% of the tenants in a project, who will receive the benefit of subsidy, may have incomes up to the applicable exception income limits for the area in which the project is located. Exception income limits are not to be used simply to generate more income for the project by setting higher "basic" rents for exception income limit families. Basic rental charges for all tenants in a Section 236 project must be those established in processing, unless rent increases are necessitated by increases in project costs.

b. Second. To allow for the design of entire projects for exception income limit tenants. In making proper use of the exception limits for purposes of design and feasibility, offices must understand that the income limits have no direct relationship to construction costs. In certain areas where high costs prevail and preclude the construction of Section 236 housing with basic rentals within the regular income limits, projects may be designed so that basic unit rentals

will be in excess of the regular income limits, but within the exception income limits. In designing projects specifically for exception income limit occupants, extra care should be taken to assure that basic annual rentals are well within 25% of the applicable exception income limits.

c. Third. To allow for the design of projects in which one portion is for regular income limit tenants and one portion is for exception income limit tenants. While processing of this type of project is more complicated, it is sometimes the only way in which larger units will be feasible within the cost limitations inherent in the program.

5-17. RECORDS.

a. Field offices must keep complete records and report to the Comptroller the amounts of contract authority which are used in connection with exception income limit units in all of the three foregoing categories in order to make certain that we do not exceed the 20% statutory limit on nation-wide use of contract authority in connection with exception income limits. Each field office should restrict its use of exception income limits to 15% of the contract authority allocated to it. If additional authority for exception income limits is needed, Regional Administrators should be contacted. When a Region's exception income limit authority (15% of total Regional allocation) has been exhausted, the Regional Administrator may request additional exception income limit authority from the Office of Subsidized Housing Programs, Washington, D. C.

b. Subsequent to the initial rent-up period of all Section 236 projects, assisted admission is available to tenants whose incomes are within either of the applicable income limits; however, preference for occupancy must be given to displacees and families whose incomes are within the lowest practicable limits for obtaining rental accommodations in projects assisted under this program.

5-18. MARKET RENT. Section 236 regulatious require that a maximum rental charge be determined on the basis of the cost of operating a specific project plus the payment of principal, interest, and mortgage insurance premium which the mortgagor is obligated to pay under the mortgage on the project. A rent formula is applied to calculate the minimum rent necessary to fulfill the operational

and debt service requirements of a market rate mortgage. In some instances, because of marginal locations, inappropriate design or other factors, Section 236 rent formula rents have been higher than rents for which comparable unsubsidized units were available. The total dependency of such projects on the subsidized market precludes tenants who might provide significant economic integration.

a. Valuation Processing Procedures are designed to ensure that the market rents developed from the Section 236 rent formula are not in excess of those that a non-subsidized tenant would pay for equivalent services.

b. The Effect of Requiring a "Market Rent" which does not exceed comparable market rents is to locate Section 236 projects so that they can be expected to attract tenants able to pay market rent as well as tenants who will be subsidized. (See paragraph 5-25. of this Handbook.

5-19. BASIC RENT. Basic rent is the rent rate necessary to cover a vacancy factor, collection loss, and pay operating expenses and principal and interest on a hypothetical level annuity mortgage with interest at 1%.

5-20. COMMERCIAL RENTS. Commercial space is not subsidized. Rent estimates for commercial space must be realistic and competitive.

a. Factors. With regard to commercial rents, two factors must be considered:

(1) What rents can be obtained, and

(2) Whether such rents will support a pro rata share (based, in part, on area and any special costs) of total expenses and debt service on the market rate mortgage.

b. Pro Rata Share. If the proposed commercial portion of a project cannot carry its pro rata share, it, except for space which provides essential services for the benefit of project occupants (such as laundry and required parking facilities) must be reduced until it can carry its share. Except in urban renewal areas, rentable commercial space shall not exceed 10% of all net rentable floor area (total of residential and commercial). While there is no percentage limitation applicable to commercial space in urban renewal

areas, each project must be predominantly residential and the commercial areas must produce sufficient income to meet the same test required for commercial areas in non-urban renewal areas. Caution must be used when planning a large proportion of commercial space for a project intended for residential use since failure of commercial facilities could cause the failure of an otherwise sound project.

c. Exceptions to the limitation on commercial space may occasionally be warranted when considering the retention of existing commercial facilities in rehabilitation projects located in non-urban renewal areas. These proposals must be referred, through the Regional Administrator, to the Director for Subsidized Housing Programs for his determination. Only those proposals recommended by the Field Office Director and meeting the following criteria will be considered for approval as exceptions:

(1) The excess commercial space must be either (a)

unsuitable for conversion, or (b) prohibitively expensive to convert to residential use.

(2) The excess commercial space must not require excessive expenditure for rehabilitation to become suitable for commercial use.

(3) It must be ascertained that there will be a continuing demand for the excess commercial space at not less than the rental rates assigned to this space in processing.

5-21. FEASIBILITY PROCESSING PROCEDURE. When the application for feasibility determination is received, the MFC or Program Manager will review the sponsor's total estimated replacement cost to determine whether it conforms to the guidelines established at the initial conference. If it does not conform to these guidelines, or the application is incomplete, it is returned to the sponsor without further processing. If it conforms to the guidelines and the submission is complete, the application and exhibits are to be forwarded to the Technical Services Branch (area offices) or underwriting processors (insuring offices) for processing. Appendices 11, 13, 14, and 15 furnish an example of valuation processing accomplished in the following steps:

(5-21) a. Review Sponsor's Application and fill in Sections A, B, C and D of FHA Form 2264 (omitting rents at this time). Write "BASIC RENT" beside "C, ESTIMATE OF INCOME." (Please see Appendix 11.)

b. Review Section 236 Market Analysis to determine the overall market need for the number of units and composition proposed.

c. From the Data Bank, select tentative comparable properties, preferably those which include in the tenants' rent the same utilities and services as would be included in the proposed project. (Please see Reference (15) of the Foreword.)

d. Visit the Proposed Site and Competing Sites which have been sold recently to estimate the market price of the land. Also visit comparable properties which may be used to supply data for sales and operating expense estimates.

e. Complete Page 3 of FHA Form 2264 and estimate land value. (See Reference (16) of the Foreword.)

f. Estimate the annual expense of the proposed project on the Expenses Worksheet (FHA Form 2274). Adjustments must be made for utilities furnished and other significant differences between the comparable and proposed project data on FHA Form 2274. Entries should be made in common units of comparison (such as P.U.P.A., P.U.P.M., Per S.F.) to facilitate comparison and adjustment. An adjustment is to be made for "Trend" to account for changes expected to occur between the date of the data being used and the time the project is scheduled for completion. (Please see Reference (16) of the Foreword.)

g. Use the Cost provided by the Cost Analyst on Line G-50 of FHA Form 2264 and complete the Total Estimated Replacement Cost of project (following FHA Form 2264 instructions). AMPO is included for nonprofit mortgagors only. Include 1-1/2% FNMA Fee for all mortgagors. Consultant Fee may be included for nonprofit mortgagors only.

h. Interest During Construction is to be computed at the market interest rate for the estimated construction period. The loan ratio will be 100% for nonprofit and cooperative mortgagors and 90% for limited distribution mortgagors.

i. BSPRA is to be included for limited distribution mortgagors in lieu of builder's profit, except as provided in Chapter 4, paragraph 4-9. of this Handbook.

(1) When re-processing is required as indicated in paragraph 4-9.a., the Project Appraiser shall complete a new FHA Form 2264 in which SPRA will be included in lieu of BSPRA in Item G-68 of that form, and the words "Builder and" in the Item are to be deleted. Reference 16 of the Foreword provide formats to be used, as appropriate, in arriving at the estimated replacement cost of projects involving SPRA.

(2) The rent formula must be recomputed on all re-processed cases. Also, it shall be recomputed in all cases in which SPRA is substituted for BSPRA at the time of cost certification. The mortgage credit processor shall inform the Project Appraiser when this substitution has been accomplished.

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5-22. RENT FORMULA PROCESSING. A revised Rent Formula for all cases not receiving tax abatement is shown in Appendix 14 revised 5/75. This Rent Formula in the revised Appendix 14 is to be used in Conditional Commitment and Firm Commitment processing for all cases not receiving tax abatement, upon receipt of this revision, in order to reflect the fact that the subsidy will be received based on the total mortgage amount. The new rent formula is no more restrictive than the immediately preceding outstanding instructions, and therefore it is anticipated that application of the new rent formula in accord with the instructions below will not reduce the mortgage amount obtainable as stated in a Feasibility Letter, SAMA Letter or Conditional Commitment issued to a sponsor in the last previous processing. (For projects with tax abatement, see paragraph 5-31.) For projects with no tax abatement, complete the Section 236 Rent Formula, Appendix 14, revised 5/75, as follows:

Line 1a. Enter Total Replacement Cost of Project from Form 2264 or, for cooperatives, from Form 2264B. *

* Line 1b. Maximum Cost Supportable by Market Comparison Rents. Enter the amount from Appendix 3 revised 5/75, using income from all sources. Line 1b is not applicable to projects which received a Feasibility Letter on or before April 11, 1972.

Line 1c. Cost Supportable by Maximum Basic Rents Less PBE. Enter amount from Appendix 30.

Line 1d. Least of Lines 1a, 1b and 1c.

Line 2. Total Mortgage Amount. Multiply Line 1d by the loan to cost ratio (90% for LD or 100% for NP or Cooperative). If a mortgage is limited to a lesser amount by Form 2264A, enter the total project mortgage permitted. (Special instructions for cases which have received Feasibility Letter, SAMA Letter or Conditional Commitment containing a mortgage amount based on processing under previous

Appendix 14, before receipt of appendix 14 revised 5/75:

(1) Lines 1a through 1d are completed in accord with instructions for revised Appendix 14.

(2) If resulting mortgage amount in Line 2 would be less than mortgage amount stated by the previous Feasibility Letter, SAMA Letter or Conditional Commitment, the mortgage amount in the last previous letter or commitment would be entered in Line 2, together

with a reference on the dotted line for Line 2 giving date and kind of letter or commitment, such as, "Conditional Commitment 2/17/75 $850,000." Any increase in commitment amount, in subsequent processing stages through Firm Commitment, however, would require Line 2, Total Mortgage Amount, to be consistent with the entries in Lines 1a, 1b, 1c and 1d.) *

* Line 3. Equity Investment. Enter Line 2 divided by 9.

Line 4. Mortgagor's Annual Contribution. Enter the annual debt service requirement for level annuity principal and interest payments at 1% interest, multiplied by the total mortgage amount on Line 2.

Line 5. Self-explanatory.

Line 6. Enter annual payments to ground lease, if any. (Where the mortgage is on a leasehold estate, the replacement cost of project in Line 1a shall be the replacement cost of the leasehold estate; this is equal to the replacement cost in fee simple less the value of the leased fee, from Line K-6 of Form 2264. Also the maximum supportable cost in Line 1b shall be the maximum supportable cost of the leasehold estate rather than the maximum supportable cost in fee simple. This is accomplished by completing Appendix 3 revised 5/75,

with the Annual Ground Rent included in Line 5 of Appendix 3."

Line 7. Total Expense, Taxes and Reserves. Enter the amount from Form 2264 or Form 2264B. For cooperative projects this entry does not include the operating reserve (3%) or vacancy and collection loss reserve (2%). Provision for these reserves, totaling 5%, is made in the entry for Line 9.

Line 8. Effective Gross Basic Rent. Self-explanatory.

Line 9. Gross Basic Rent. Self-explanatory.

Line 10. Annual Commercial Income, Parking and Laundry Income. Enter monthly total of commercial, parking and laundry income from Form 2264 or Form 2264B. The commercial income must be sufficient to pay the commercial area's share of expenses and debt service on the commercial share of cost, at market interest rates. *

* Line 11. Residential Annual Basic Rent. Annual Basic Rent to living units remains after the subtraction of income from commercial and parking and laundry income.

Line 12. Residential Monthly Basic Rent. Line 11 is divided by 12 months. The result is entered in Line H-1 of Form 2264 and allocated to the living units as shown in Appendix 15. Results may be rounded to the nearest dollar and entered in Line H-5 of Form 2264.

Line 13. Annual Subsidy. Multiply the total mortgage amount (from Line 2) by the subsidy rate from the Section 236 tables (Appendix 4) which corresponds to the mortgage term and market interest rate applicable to the subject mortgage transaction.

Line 14. Residential Annual Market Rent. The subsidy is added to the basic rent from living units. (Line 11 plus Line 13)

Line 15. Total Annual Market Rent. For rental projects, enter Line 14 plus Line 10. For cooperative projects, enter Line 14 plus annual commercial, parking and laundry income at 100% occupancy.

Line 16. Residential Monthly Market Rent. This is the monthly market rent from living units only. Enter Line 14 divided by 12 months. This amount is allocated to the living units by using Appendix 31, and the resulting Unit Market Rents by Formula are entered in Line H-6 of Form 2264. *

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5-22A. RENT FORMULA AFTER COST CERTIFICATION. After construction and cost certification have been completed, and the final mortgage amount has been determined, a final rent formula and rent allocation are completed by the appraiser, to derive basic rents and market rents by formula for each unit. This rent formula will reflect current mortgage amount, subsidy on the total mortgage amount, and up-to-date estimates of total operating expense, including taxes. This rent formula is applicable to all projects for which the final total mortgage amount has been determined after cost certification but may not be used until that time. Since it will be used only after the final mortgage amount has been determined, all lines whose purpose was to assist in finding mortgage limitations, have been eliminated.

This rent formula in Appendix 32 is self-explanatory, containing instructions within it. It is to be applicable both to projects without tax abatement and also to projects receiving tax abatement. After cost certification and completion of the final rent formula and allocation of rents by Multifamily Valuation, Form 3126 shall be reviewed to assure that Item D of Form 3126 contains the correct final total mortgage amount to be insured. Since the subsidy will be applied to the entire mortgage amount, item 12A, "Amount of Insured Mortgage to be applied for," in Form 3126, and the quantity shown in item D of that form, "Amount of insured mortgage to be applied for," must be equal. If Item D does not contain the correct final total mortgage amount, an amended Form 3126 shall be prepared.

5-23. ALLOCATION OF BASIC RENT. Allocate the residential monthly basic rent, Line 12, to the project's rentable residential units. This can be accomplished in various ways but the total, multiplied by 12 (months) and rounded to the nearest dollar, must equal the entry in Line 11 of the rent formula, residential annual basic rent. None of the basic unit rents should exceed 1/48 of the applicable income limit for the unit. The allocation should follow the general pattern of the maximum permissible rents based on the appropriate income limits. The method of allocation described below (and illustrated in Appendix 14) is one practical means of obtaining unit rent allocations which meet the stated criteria: *

* a. Divide the Applicable Income Limit for each unit type by 48 and subtract Personal Benefit Expense (PBE), if any. Use one person family income limits for efficiency apartments; for other apartment types, assume two occupants per bedroom. (Thus, 0 BR - 1 person, 1 BR - 2 persons, 2 BR - 4 persons, 3 BR - 6 persons, and 4 BR - 8 persons); enter these rent limits in Section H, No. 4 of FHA Form 2264.

b. Calculate the Total Amount of Basic Unit Rents which could be obtained if the basic unit rentals were the maximum allowed by the applicable income limits less PBE.

c. Divide the Residential Basic Monthly Rent, Line 12, by the total from Step (b). The resulting percentage or ratio should be carried out to a minimum of 6 digits and must be less than 100% or 1.0 or the project would not be feasible.

d. Using the Percentage or Ratio from Step (c) as a conversion factor, calculate the basic rent for units. This is accomplished by multiplying the maximum allowable rent for each unit type from Section H, No. 4 of FHA Form 2264 by the conversion factor. The basic unit rents will need to be calculated to the nearest cent. If the total does not exactly equal the required rents for all family units as shown in Section H, No. 4 of FHA Form 2264 and Line 12 of the rent formula, the unit allocations should be adjusted so that the total exceeds the targeted total in Section H, No. 4 of FHA Form 2264 as little as possible.

5-24. COMPLETE FHA FORM 2264.

a. Enter the Basic Unit Rents in C-27 and the monthly total in C-28. Enter, in C-29, the rent for parking or garage space not intended for use by project tenants. Except in inner city areas where parking ratios are less than one to one, no separate charge for tenant parking is allowed. Line C-29 income should be treated as commercial income.

b. Enter all Other Commercial Income in C-30. Care must be taken not to overestimate commercial rents. Since commercial space is not subsidized and failure to obtain estimated commercial rents may cause the failure of an otherwise sound project, no large proportion of commercial space should be included in a project. In other than urban renewal areas, commercial space shall not exceed 10% of all net rentable floor area (residential and commercial). *

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(5-24) c. Multiply Total Project Income (C-31) by 12 (months) and enter the result rounded to the nearest dollar, in Lines C-32 and F-30. The result must exceed Line 9, Gross Basic Rent from the rent formula by no more than $1. Section F entries will be the same as the corresponding entries from the rent formula.

d. The Acceptability of Commercial Space in Section 236 projects depends on whether the rents obtainable in the market will support the cost of the commercial space at the market debt service rate. The testing of commercial space for acceptability is accomplished in three steps (see Appendix 17).

(1) The first step is a determination of net income potentially obtainable from the commercial space. This is accomplished by adjusting the market commercial rent for vacancy and collection losses and then subtracting expenses attributable to the commercial space from the effective gross commercial income.

(2) The second step is an allocation of a pro rata share of project cost to the commercial space. This is accomplished by finding the ratio of commercial structures cost, Line M-12 of (FHA Form 2264), to total structures cost, Line G-41 (FHA Form 2264), and then multiplying the total cost of project, Line G-73 (FHA Form 2264), by this ratio. The cost of all income producing commercial space, including garage and parking facilities not for the benefit of project tenants, is to be included in the entry for Line M-12 of FHA Form 2264.

(3) The third step is the determination of the net income needed to support the cost attributable to the commercial space. This is accomplished by multiplying the cost of the commercial space by the market debt service rate, including MIP, which is the sum of the P & I at 1% and the subsidy rate. The net income needed to support the cost attributable to the commercial space may in some cases exceed the net income obtainable from the market commercial rent. In this event, the commercial portion of the project, except for space which provides essential services for the benefit of project occupants (such as laundry and required parking facilities) should be eliminated until obtainable rents will support a pro rata share of project cost. *

* e. Since the Desired Relationship Between Net Income and Total Replacement Cost has been Established by the Rent Formula, mortgage credit processing on FHA Form 2264-A must not include a mortgage limitation by debt service.

f. The Market Rent Formula is Determined by completing the Section 236 Supplement to FHA Forms 2264 and 2264-B, Appendix 15. Enter the Personal Benefit Expense, if any, for each unit type in Column (g). PBE is not included in either the Basic Unit Charges, Column (c) or the Market Unit Charges, Column (e).

5-25. PROCEDURES FOR MARKET RENT COMPARISON. The formula rents that are recorded in Column (e) of FHA Form 2264 and titled Market Unit Charges Per Month may not exceed those rental charges that can be supported by market comparison with similar units not receiving a subsidy.

a. A Minimum of Three Comparison Properties must be used to support each estimate of market rent by comparison. Adjustments are to be made for observable differences between each comparable and the subject proposal. Estimates will be projected to reflect the anticipated rental during the first year that the subject would be available (keeping in mind that, allowing for planning and construction, initial occupancy may be at least 1-1/2 years away). Adjustments will be made to the comparable conventional rents to reflect differences in utilities and services that will be provided in the Section 236 proposal. An upward adjustment of 2% to 3% may be warranted to reflect additional management services such as increased tenant screening, counselling, income certification and recertification. The file must include documentation concerning comparables used in the estimate of the market rent and the rent adjustments considered in this analysis.

b. Average Formula Rents. It will be found in some cases that the formula market rents produced in Column (2) of the Section 236 Market Rent Supplement to FHA Forms 2264 and 2264-B (see Appendix 17) for one or more unit types may exceed the rents supportable by market comparison, while the remaining unit types in the same project may have formula market rents lower than those which could be supported by market comparison. If the average of the formula rents is within the average of the rents by comparison, the project will be considered acceptable. *

5-26. LOCATIONAL FACTORS AFFECTING MARKET RENTS. Where market rent by comparison is less than formula market rent, the locational factors affecting market rent by comparison will be identified in the comparison process. The Appraiser will notify the MHR and the Director, Operations Division, or the Chief Underwriter as to the reasons why the project location will not support market rents.

5-27. COST SUPPORTABLE BY RESIDENTIAL MARKET RENTS. When the test described in paragraph 5-25. indicates that the formula market interest rate rents would exceed those rents which would be supported by market rent data from comparable conventional projects, the proposal is not feasible as submitted. The proposal will be re-examined to determine if change in design can eliminate the disparity. Processing for feasibility will incorporate the improvements and the maximum cost that can be supported by market rents by comparison will be developed on this basis. Appendix 18 can be used to develop a maximum residential cost supportable by the total residential market comparison rents. In Line 1 of this worksheet, enter the total monthly market rents found by comparison for all units. The resulting supportable cost estimate in Line 6 indicates the maximum Total Replacement Cost that could be developed in Section G of FHA Form 2264 and entered in Line 1 of the existing rent formula (assuming no commercial facilities are included). The cost of economically feasible commercial facilities may be added to this cost with no effect on the Residential Market Rent test. Appendix 19 can be used to develop cost supportable by commercial rents.

5-28. EXCEPTION. An exception to the requirement that all Section 236 proposals meet the comparable rent test may be granted by the Field Office Director when it is clearly demonstrated that the proposed project is needed in a deteriorating residential area and that the housing will contribute to the stabilization or improvement of the neighborhood.

a. Use of This Exception is to be limited to instances in which the entire market rent deficiency can be attributed to the overall physical and economic condition of the neighborhood rather than to site or project design features.

b. To Qualify for the Exception, it must be demonstrated that the subject site and project would meet the market rent test if the project were not in the subject neighborhood.

c. When an Exception is Granted, the file must contain a directive from the Field Office Director authorizing the exception.

5-29. MASTER METERING OR DIRECT BILLING BY UTILITY COMPANIES. When it is possible to purchase utilities through master meter arrangements at substantial savings over direct retail service, the master meter arrangement should be utilized. However, a marginally lower master meter utility rate may be negated by excessive use of utilities by tenants if controls are not used beyond the master meter. An equitable and effective way to control tenant utility consumption is to install a checkmeter for each dwelling unit and surcharge tenants for excessive consumption.

a. Evaluation. In deciding whether to receive a utility service through a master meter, the cost of installation, maintenance and management of checkmeters should be evaluated in light of the following:

(1) Since elderly persons seldom use excessive amounts of gas or, electricity (except when extensive space heating and air conditioning is necessary), gas or electric checkmeters would usually be inappropriate in projects exclusively for elderly tenants (except when project supplied energy is used for space heating or air conditioning in individual dwelling unit equipment and tenants have control over thermostats).

(2) If gas is supplied to individual units only for cooking checkmeters would usually be inappropriate.

(3) Some utility companies may not permit a surcharge to be collected by a customer receiving a reduced rate through master metering.

(4) The combined cost of buying the utility service at a wholesale rate plus the cost of installing and operating checkmeters must be clearly more advantageous to tenants than installing individual meters and billing the tenants directly.

b. If Utility Charges are to be Billed Directly to a tenant in a Section 236 project, the basic rent charge assigned to each unit type must reflect the fact that the tenant must pay both the unit rental charge and the separate utility charges. The assisted tenant must pay at least 25% of his adjusted income for the combined total of these two charges. If tenants will be billed directly for heating fuel, the field office should encourage the utility company to make a year-round payment plan available to these tenants.

c. Utility Bills Paid Separately by Tenants. The following instructions apply when utility bills are to be paid separately by tenants rather than as part of the basic rental charge:

(1) The Section 236 Rent Formula (Appendix 14) will be completed in accordance with the instructions in paragraph 5-22. However, Personal Benefit Expense will not be included in the calculated formula rent.

(2) Basic unit charges will be calculated by completing the Section 236 Supplement to FHA Forms 2264 and 2264-B, Allocation of Monthly Unit Charges, Appendix 15. This format follows the system described in narrative form in paragraph 5-22. The monthly unit charges from Column (j) are to be entered in C-27 of FHA Forms 2264 or 2264-B. Enter the monthly Personal Benefit Expense for each unit type in the unused portion of the "Total Annual" column.

(3) The Section 236 Market Rent Supplement to FHA Forms 2264 and 2264-B, Appendix 17, will be completed to obtain unit market rents by formula, excluding PBE for each unit type. Personal Benefit Expense for each unit type is entered in Column (g) of the supplement.

(4) A Personal Benefit Expense for rental projects must not include maintenance, decorating, or replacement costs. These services must be included in the basic rental charge.

5-30. LEASEHOLD PROJECTS. When a Section 236 project involves a ground lease, the mortgage amount is determined by multiplying the difference between the total replacement cost and the value of the leased fee by the loan to cost ratio (see Appendix 16). This reduction in mortgage amount reduces the amount of subsidy and correspondingly increases the basic rents. Since the results of using a ground lease under Section 236 may not be understood or intended by a sponsor, the effect of the ground lease on the project mortgage and on the basic rents should be explained to the sponsor as soon as it is known that a ground lease is under consideration.

a. A Ground Lease need not be executed prior to feasibility analysis. However, all blanks must be completed showing the amount of the proposed ground rent and other particulars. The provisions of the lease cannot be allowed to restrict successful operation of the project. The provisions of FHA Form 2070, Section 207 Lease Addendum, must be included in any proposed lease and added to any existing lease. For cooperative projects "Model Form of Lease, FHA Form 3258" must be used.

b. The Valuator will appraise the site and review the lease before proceeding to a determination of feasibility. The annual lease payment shall not exceed the Commissioner's Estimated Value of Land As - Is (Item 14(7), Section J of FHA Form 2264) multiplied by 6%.

c. FHA Form 2264 will be completed in accordance with outstanding instructions, with the following exceptions:

(1) The Value of the Leased Fee is calculated by entering the annual ground rent in Line K-6 of FHA Form 2264 and dividing that rent by a capitalization rate which may not exceed 6%.

(2) Replacement Cost is calculated with certain variations since a lease is involved. An estimate for ground rent during construction will be included in the replacement cost estimate. The mortgage amount used to determine the replacement cost and fees will be arrived at by using the applicable replacement cost formula from Appendix 16.

d. Complete the Section 236 Rent Formula, Appendix 14, by following the instructions in paragraph 5-22. Please note that for rental projects, the ground rent must not be included in the project expense estimate since the mortgagor will be required to pay ground rent from net income just as mortgage payments are paid from net income. For cooperative projects, enter the ground rent in Section F of FHA Form 2264-B by amending Line 31 to read "Annual Ground Rent."

*

5-31. TAX ABATEMENT. If in any case the sponsor claims that the project will receive abatement or exemption from real estate taxes, the concurrence of the Office of the Regional Counsel in the validity of the claim must be obtained before the claim may be accepted in determining the mortgage amount for the proposed project. The Field Office Director, therefore must receive such concurrence before issuing a Conditional Commitment or Firm Commitment containing a mortgage amount. (Reference paragraph 2-2e, HUD Handbook 4420.1.) Assuming (for the purpose of describing valuation processing) that the file contains advice from the Regional Counsel that a certain tax abatement is assured, the appraiser determines the amounts of the tax abatements and the term (in length of time) of each abatement. It is also necessary to find out what the full real estate tax would be for subject project with no tax abatement. When the duration of the tax abatement is so long that the tax abatement is equal to or greater than the project mortgage term, no variation in the project processing described in paragraph 5-22 is required except that the expense estimate will not include that portion of the tax to be abated. However, in other cases where the tax abatement term is less than the mortgage term the expense estimate shown in Form 2264, Section E, must include the full tax. Where the tax abatement term is less than the total mortgage term a revised rent formula is used, as shown in Appendix 20, revised 5/75. This rent formula for projects with tax abatement in the revised Appendix 20 is to be used in Conditional and/or Firm Commitment processing for all such cases, upon receipt of this revision, in order to reflect the fact that the subsidy will be received based on the total mortgage amount. The new rent formula is not considered to be more restrictive than the immediately preceding outstanding instruction, and therefore it is anticipated that application of the new rent formula in accord with the instructions below will not reduce the mortgage amount obtainable as stated in the last Feasibility Letter, SAMA Letter, or Conditional Commitment issued to a sponsor in the last previous processing. Complete Appendix 20, Section 236 Formula For Projects With Tax Abatement Term Less Than Mortgage Term, in accord with the instructions below. (Instructions are included within Appendix 20 for many lines of this rent formula. Instructions for these self explanatory lines are not repeated below.): *

* (5-31)

Line 1. Total Cost Supportable by Market Comparison Rents With Full Tax Expense. (This line is not applicable to projects which received a Feasibility Letter on or before April 11, 1972). Enter the total cost supportable from Appendix 3, revised 5/75, using income from all sources. (Appendix 18 is no longer used).

Line 2. Cost Supportable by Maximum Basic Rents. Enter the cost supportable by the Administrative Rent Limits Less Personal Benefit Expenses, as computed by Appendix 30.

Line 3a. Total Cost Supportable by Market Comparison Rents or by Maximum Basic Rents (With Full Tax Expense). Enter the lesser of Line 1 or Line 2.

Line 3b. Mortgage Based on Cost Supportable with Full Tax Expense. (Line 3a x loan-to-cost ratio)

Line 4. Mortgage Amounts Attributable to Tax Abatement. ninety percent of the tax savings provided by the tax abatement (for all types of mortgagors) will be used by the mortgagor to pay an accelerated mortgage amortization during the abatement period. (The remaining 10% is needed to insure that basic rents will be less when abatement is received, than if abatement were not received - under all circumstances). That is, a dollar amount equal to 90% of the tax abatement will be expected to be applied to that portion of the project mortgage which it would completely amortize during the abatement term with level annuity payments at 1% interest rate. This is the portion of the project mortgage attributable to the tax abatement. *

* (5-31)

Line 4a. First Tax Abatement Period. Enter the term of the first tax abatement; the annual amount of tax abated; 90% of the annual amount of tax abated divided by the debt service rate for a LAMP mortgage at 1% interest for that term to result in the mortgage amount attributable to that abatement over that term.

Line 4b. Second Tax Abatement Period. When there is more than one abatement amount and period, and the amounts decline, the abatement amount for the first abatement period may be found by subtracting the amount of tax to be abated for the second period from the total abatement amount. For example, if the amount of tax abated is scheduled to be $25,000 the first 5 years; then $10,000 for the second 5 years; then, $5,000 for the third 5 years; these abatement amounts and terms may be analyzed as follows: (1) $25,000 minus $10,000 = $15,000 abatement amount for a term of 5 years (from beginning to 5 years) (2) $15,000 - $10,000 = $5,000 for a term of 10 years (from same beginning to 10 years) (3) $5,000 - $0 = $5,000 for a term of 15 years (from same beginning for 15 years) *

* (5-31)

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$25,000

 20,000        -------------$15,000 for 5 years

 15,000

 10,000                --------$5,000 for 10 years

  5,000                      ---$5,000 for 15 years

         0      5      10     15 years
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Line 4c. Total Mortgage Amounts Attributable to Tax Abatements. Enter the sum of the amounts for all abatement periods. If there are more than two periods, the format may be expanded by entering in Line 4b SEE REVERSE, and on reverse entering Line 4b(1), Line 4b(2), Line 4b (3), et cetera, with the total returned to Line 4c, in any case.

Line 5a. Mortgage Based on Cost Supportable by Market Comparison Rents After Considering Tax Abatement. Enter the sum of Lines 3b and 4c.

Line 5b. Replacement Cost of Project (from Line G-73, Form 2264)

Line 5c. Value of Leased Fee (if any). If mortgage is secured by a leasehold estate, enter the value of the leased fee from Line K-6 of Form 2264.

Line 5d. Replacement Cost of Project Less Value of Leased Fee. Enter Line 5b minus Line 5c.

Line 5e. Mortgage Amount Based on Replacement Cost. Enter the product of Line 5d x 90% for LD, or 100% for NP or cooperative.

Line 5f. Total Mortgage Amount. This amount is selected by entering the least of the amounts from Line 5a, 5e and Form 2264A. *

* (5-31)

(Special instructions for cases which have received Feasibility Letter, SAMA Letter, or Conditional Commitment containing a mortgage amount based on processing under previous Appendix 20, before receipt of Appendix 20 revised 5/75:

(1) Lines 1 through 5e are completed in accord with instructions for revised Appendix 20.

(2) If resulting Total Mortgage Amount in Line 5f would be less than the mortgage amount stated by the last previous Feasibility Letter, SAMA Letter, or Conditional Commitment, the mortgage amount in the last previous letter or commitment would be entered in Line 5f, with justifying remarks written above Line 5f, such as "Conditional Commitment 2/17/75 $1,200,000." Any increase in commitment amount, in subsequent processing stages through Firm Commitment, however, would require the amount in Line 5f to be consistent with entries in preceding lines.)

Line 6a. Mortgage Amount Attributable to Tax Abatement. Enter amount from Line 4c.

Line 6b. Mortgage Amount Not Attributable to Tax Abatement. Enter Line 5f minus Line 6a.

Line 7. Mortgagor's Contribution to Debt Service.

The following amounts will include payments on a LAMP mortgage at 1% both for those portions of the mortgage attributable to tax abatement (for the term of the abatement) and on those portions of the mortgage not attributable to tax abatement for the full term of the project mortgage.) *

* (5-31)

Line 7a. Mortgagor's contribution to debt service on portions of mortgage attributable to tax abatement is determined by multiplying the initial total annual amount of tax abatement by 90% (for all mortgagors).

Line 7b. Mortgagor's contribution to debt service on the portion of mortgage not attributable to tax abatement is computed by multiplying Line 6b times the debt service rate for P & I at 1% for the term of the project mortgage.

Line 7c. Mortgagor's Total Contribution to Debt Service. Line 7a plus Line 7b.

Lines 8 through 16. Self-explanatory.

Line 17a. Subsidy Amounts Attributable to Tax Abatement. Mortgage amount in Line 4a is multiplied by the subsidy factor for Section 236 for the market interest rate of the project mortgage, but for the term of that tax abatement.

Line 17b. In a similar manner, the mortgage amount in Line 4b is multiplied by the subsidy factor for the market interest rate of the project mortgage but for the term of that tax abatement period.

The Section 236 subsidy factors for appropriate terms and the particular

interest rate for a particular mortgage
may be obtained from:

Chief, Multifamily Mortgage Branch
Mortgage Insurance Accounting
Department of Housing and Urban Development
Washington, D. C. 20410
Telephone (202) 755-3832 *

* (5-31)

Line 17c. Total Subsidy Attributable to Tax Abatement. Enter the Sum of Lines 17a and 17b.

Line 18. Subsidy Amount Not Attributable to Tax Abatement. Enter the product resulting from the mortgage amount in Line 6b multiplied by the subsidy factor for the market interest rate of the insured mortgage for the full mortgage term.

Line 19 Total Annual Subsidy Amount. Enter the sum of Line 17c and Line 18.

Lines 20 through 23. Self-explanatory.

Line 24. Monthly Market Rents by Formula For Living Units. Enter Line 21 divided by 12 months. This amount is allocated to the living units in the pattern of Market Rents by Comparison, using Appendix 31, and the resulting Unit Market Rents by Rent Formula are entered in Line H-6 of Form 2264.

A special amortization schedule is required for tax abatement cases. Notify the Chief of the Multifamily Mortgage Branch (at the address shown below) of the details of the tax abatement and the estimate of the amount of taxes being abated. The Multifamily Mortgage Branch will use this information to prepare a schedule of mortgage payments which applies 90% of the tax abatement amounts to higher-than-normal amortization payments (principal and interest) during the period of abatement, and a reduction in those payments (in the amount of 90% of the taxes being abated) when the abatement ceases. These payment amounts will be inserted in the commitment in lieu of using one of the printed paragraphs regarding amortization.

Chief, Multifamily Mortgage Branch
Mortgage Insurance Accounting
Department of Housing and Urban Development
Washington, D. C. 20410
Telephone (202) 755-3832 *

SECTION 4. PROCESSING SECTION 236 PROJECTS FOR CONDOMINIUM UNIT MORTGAGES UNDER SECTIONS 234(c) and 235

5-32. PURPOSE. The following processing methods are to be used when it is proposed to build a Section 236 rental project and to convert the project to an HUD-FHA approved plan of individual unit ownership (condominium) with mortgages on the individual condominium units under Section 234(c) and Section 235.

5-33. GENERAL INFORMATION. Projects shall consist of five or more units and shall comply with the eligibility requirements for Section 236 and with the requirements for conversion to condominium status in Sections 234.26 and 235.20 of the FHA Regulations. The project mortgage may be insured under Sections 236(j) and the condominium unit mortgages may be insured under Sections 234(c) and 235 of the Housing Act.

5-34. RENTAL PROJECT PROCESSING. Underwriting processing as a rental project is to be accomplished in accordance with this Handbook. In addition to the project mortgage limits otherwise prescribed, the project mortgage shall not exceed the sum of unit mortgage amounts as determined on FHA Form 180. The valuation worksheet of FHA Form 2264-A, and also the mortgage credit processing of this form will include criteria 1, 2, 3 (Project Replacement Cost from FHA Form 2264), 4, 5 and 6.

5-35. PROCESSING AS A CONDOMINIUM. Valuation processing as a condominium is to be accomplished in accordance with instructions for Section 234, instructions for FHA Form 2019, and for FHA Forms 2264-B and 180 for Section 234, with the following exceptions:

a. Section of the Act in headings of FHA Forms 2264-B and 180 is "234(c)."

b. Lines H-43 thru H-80 of FHA Form 2264-B are to be left blank. In the blank space below line H-80 enter the following:

"82.	Total Estimated Replacement Cost of Rental Project (from line G-71, FHA Form 2264)	$ ________________
83.	Marketing Expense	$ ________________
84.	Total Estimated Replacement Cost, All Condominium Units (H-82 plus H-83)"	$ ________________

c. The Figure in Line H-84 (Total Estimated Replacement Cost, All Condominium Units) is to be entered in the total line of column 7, FHA Form 180, without modification. An additional percentage and dollar amount for overhead and profit is not to be entered in Section N by the cost analyst, and an additional dollar amount is not to be added by the appraiser.

d. Processing as a Rental Project under Section 236 eliminates the need to require presale of units prior to endorsement of the project mortgage. However, before conversion to condominium ownership, HUD-FHA must approve purchasers for at least 80% of the total value of all units.

e. After Conditional Commitment Unit Mortgage Amounts have been determined by the appraiser, purchaser applications for firm commitment under Section 235 are processed in the mortgage credit section, according to outstanding mortgage credit instructions for Section 235 processing. The purchaser of a condominium unit under Section 235 may not pay a price (including closing costs) greater than the HUD-FHA estimate of the value of the unit. The obligation of contract authority under Section 235 will be made at the time of issuance of the conditional commitment under Section 234(c) which will be marked "convertible to Section 235."

5-36. BASIS OF UNIT ESTIMATES OF MARKET PRICE AND RENTAL VALUE. Estimates are made from sales data unconnected with any subsidy. This is done for the same reason that homes which may be insured under Section 235 must be appraised under Sections 203(b), 221(d)(2), or 234(c)--all unsubsidized programs. The intent is to avoid any escalation of the estimate of market price caused by consideration of subsidy. An inflated appraisal can nullify the benefits of the subsidy to the owner-occupant. In the same manner, estimates of the rental value of the condominium unit are intended to reflect the supply of and demand for similar, but unsubsidized, units in the market. This market rent for the condominium unit is related to the project market rents shown for that unit in Section 236 rental project processing. Rent multipliers will be selected from those applicable to unsubsidized condominium units.

5-37. RELEASE CLAUSE FOR PROJECT MORTGAGE. FHA Form 3117 (Mortgage Rider Release Clause Under Section 236) is to be attached to and form a part of the mortgage, and is to be completed as follows: Column 2 of Schedule A of FHA Form 3117 (Ratio of Original Release Price to Original Project Mortgage Amount - see Appendix 21) is completed by entering, for each unit, the base number shown as "Ratio of Unit Value to Total Value" in column 13 of FHA Form 180.

5-38. ESTABLISHING THE RELEASE PRICES FOR UNITS IN A SECTION 236 PROJECT. The original and adjusted release prices for the individual properties are to be established as follows:

a. Divide the Value of each dwelling unit by the total value of all units in the project. Extend the quotient to five decimal places. This quotient represents the relative proportion of unit value to total value.

b. The Original Release Price of the individual unit must bear the same proportion to the original project mortgage amount as the individual unit value bears to the total value of all units. Therefore, the relative proportion of unit value to total value is entered on Schedule "A" in the column headed "Ratio of Original Release Price to Original Project Mortgage Amount."

c. After Listing the Legal Description of each unit in the first column on Schedule "A" and the relative proportion factor applicable to each unit in the second column, the original release price (for entry in the third column) is obtained by multiplying the original project mortgage amount by the applicable relative proportion factor.

d. After Amortization Has Commenced on the project mortgage, the adjusted release price tor a unit may be obtained by multiplying the outstanding mortgage balance shown on the original amortization schedule for the project mortgage (without taking into account prepayments made for the release of units) by the applicable relative proportion factor for the unit being released.

5-39. DISTRIBUTION OF FORMS. Three copies each of FHA Forms 3117 are to be furnished to the mortgagee upon HUD-FHA approval of the sale of the individual dwelling units in a Section 236 project.

5-40. INSURED ADVANCES. The provision for a release clause is not intended to provide a vehicle for enabling sponsors to receive insured advances for the development of single family homes (please see Reference (18) of the Foreword).

5-40. SUFFIX DESIGNATION. Please see Reference (9) of the Foreword for more information on condominium processing.
