U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

4555.1

CIRCULAR

March 12, 1973

- SUBJECT: Rental Housing in Urban Renewal Areas For Project Mortgage Insurance, Section 220
- This Circular Transmits the Following: HUD Handbook 4555.1 "Section 220, Rental Housing in Urban Renewal Areas for Project Mortgage Insurance.
- Purpose: Provides basic information with regard to mortgage insurance under the Section 220 Program.
- Applicability: This Handbook contains rules, regulations and policy matters in effect as of February 28, 1973.
- Cancellations: The following issuances are cancelled:

FHA Manual, Volume VI, Book 2, Part B, Section 31, Appendices C.1, C.2, C.3, and C.6 and Section 33, Appendix C.1

FHA Manual, Volume VII, Book 2 Paragraph 72435.2 (Table 1) Paragraphs 72721 thru 72721.2 Paragraph 72514.4 Paragraph 72630 Paragraphs 72950 thru 72960.3 Paragraphs 73070 thru 73076.3

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

H O U S I N G

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TRANSMITTAL

3/27/80

- This Transmits: Change to Handbook 4555.1, Rental Housing in Urban Renewal Areas for Project Mortgage Insurance, dated 3/73.
- Explanation of Material Transmitted: This change clarifies the interpretation of gross floor area as it

relates to allowable commercial area in projects to be insured under Section 220. Par. 1-18, Rate of Return on Investment, has been deleted, because this paragraph is no longer applicable. Appropriate title and organizational name changes have also been made.

3. Filing Instructions:

Remove: Handbook 4555.1 Table of Contents Page i, dated 3/73 Pages 1-11 and 1-12, dated 3/73 Insert: Handbook 4555.1 CHG 1 Table of Contents Page i, dated 3/80 Page 1-11, dated 3/73 Page 1-12, dated 3/80

> Assistant Secretary for Housing - Federal Housing Commissioner

U.S. Department of Housing and Urban Development

HOUSING

Special Attention of:

Regional Administrators, Directors, Office of Regional Housing, Field Office Managers and Housing Development Division Directors Transmittal Handbook No.: 4555.1 CHG-2

Issued: 8/21/84

- This Transmits Change to Handbook 4555.1, Rental Housing in Urban Renewal Areas for Project Mortgage Insurance dated March 1973.
- 2. Explanation of Change Provides instructions for insuring mortgages under expanded eligibility for Section 220. Eligibility is now extended to areas where concentrated housing, physical development and public services are being or will be provided in a coordinated way through a locally developed strategy for neighborhood improvement, conservation or preservation.
- 3. Filing Instructions Remove: Handbook 4555.1 Foreword dated 3/73 Page i, dated 3/80 Pages 1-1 thru 1-6 dated 3/73 Page 1-11, dated 3/73

Insert: Handbook 4555.1 CHG-2 Foreword dated 8/84 Page i, dated 8/84 Pages 1-1 thru 1-5 dated 8/84 Page 1-6 dated 3/73 Pages 1-11 and 1-12 dated 8/84 Page 1-12, dated 3/80
Pages 1-13 and 1-14
 dated 3/73
Pages 2-1 and 2-2
 dated 3/73
Pages 2-11 and 2-12,
 dated 3/73

Page 1-13 dated 8/84 Page 1-14 dated 3/73 Page 2-1 (and 2-2') dated 8/84 Page 2-11, dated 8/84

Assistant Secretary for Housing - Federal Housing Commissioner

4555.1

RENTAL HOUSING

IN

URBAN RENEWAL AREAS

FOR

PROJECT MORTGAGE INSURANCE

SECTION 220

MARCH 1913

PROGRAM PARTICIPANTS AND HUD STAFF

A HUD HANDBOOK

HOUSING PRODUCTION AND MORTGAGE CREDIT-FEDERAL HOUSING ADMINISTRATION

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, D. C. 20410

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FOREWORD

This Handbook provides basic information to HUD personnel and prospective sponsors interested in mortgage insurance under Section 220, Rental Housing in Urban Renewal, code enforcement, or concentrated development areas. Under this program HUD insures mortgages made by those private lenders it has approved. After HUD informs the sponsor of its feasibility determination, the sponsor secures financing from an approved lender who submits the application for mortgage insurance.

Legal Authority: The Section 220 program is authorized by the National

Housing Act, (Public Law 73-479) as amended, 12 U.S.C. 1715K. References:

| (1) | 4420.1 - Preapplication Handbook for Project Mortgage Insurance |
|-----|---|
| (2) | 4450.1 - Cost Estimation/Cost Data for Project Mortgage Programs |
| (3) | 4445.1 - Underwriting - Technical Direction for Multifamily Housing Insurance |
| (4) | 4465.1 - Valuation Analysis for Project Mortgage Insurance |
| (5) | 4470.1 REV - Mortgage Credit Analysis for Project Mortgage Insurance, Section 207 |
| (6) | 4460.1 REV - Architectural Analysis and Inspections Handbook for Project Mortgage Insurance - Section 207 |
| (7) | 4370.1 REV 1 - Insured Multifamily Projects Annual Financial Reporting and Analysis Handbook |
| (8) | 4455.1 REV - Land Planning Analysis, Principles and Procedures for Project Mortgage Insurance, Section 207 |
| (9) | 4480.1 - Multifamily Underwriting Reports and Forms Catalog |

CHAPTER 1. ELIGIBILITY REQUIREMENTS

- *1-1. PURPOSE. Section 220 is to help eliminate slums and blighted conditions and prevent deterioration of residential property by financing construction or rehabilitation where comprehensive revitalization has been undertaken by local government.
- 1-2. Eligible Areas. Certain areas have been designated by statute and implementing regulations as automatically eligible for Section 220 mortgage insurance. Also, local governments may ask HUD to designate concentrated development areas, case-by-case. The area eligibility criteria for Section 220 are:
 - Existing slum clearance and urban redevelopment projects covered before the effective date of the Housing Act of 1954 by a Federal-Aid contract.
 - b. An approved urban renewal area under Title I of the Housing Act of 1949.
 - c. Disaster urban renewal projects assisted under Section III of the Housing Act of 1949, as amended.
 - d. An area of concentrated code enforcement being carried out under Section 117 of the Housing Act of 1949.
 - e. Concentrated Development Areas. Local governments must submit to HUD Field Offices a coordinated strategy that:
 - Provides physical improvements, necessary public facilities and services, housing programs, private investment and citizen self-help activities appropriate to area needs.
 - 2) Coordinates public and private development.
 - Ensures substantial long-term improvements by a reasonable time considering the severity of the area's problems.
- 1-3. HUD Review of Concentrated Development Areas.
 - a. The local government's request for Section 220 special eligibility must cover:
 - 1) The boundaries and current general conditions of the area proposed for eligibility.

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- 2) The plan for neighborhood improvement, conservation and/or preservation.
- 3) The status of concentrated housing, physical development, and public service programs in the area or a schedule for providing them.
- b. The Director of Housing Development must assign the appropriate technical staff to review requests. The Housing staff should coordinate their review with the Community Planning and Development Division when necessary.
- 1-4. APPLICATION AND INSPECTION FEES. These fees are the same for Section 220 as for HUD's other multifamily mortgage insurance programs (207, 221(d)(3), 221(d)(4) and 231).
- 1-5. MORTGAGEE FEES AND CHARGES. Mortgagees may collect from mortgagors an initial service charge not to exceed 2% of the face amount of the mortgage and a 1 1/2% commitment (or placement) fee. These are the only fees and charges by the mortgagee that may be included in the estimated replacement cost of the project.
- 1-6. ELIGIBILITY REQUIREMENTS FOR MORTGAGORS.
 - a. You may be a private, profit-motivated or public body as set forth in Section 220.505 of the Regulations.
 - b. Form HUD 2530, Previous Participation Certificate. This exhibit is submitted with the request for Feasibility or Site Appraisal and Market Analysis (SAMA), or immediately when you first become associated with the project.
 - c. Equal Opportunity in Housing. Federal law and HUD regulations require that neither you nor your authorized agent decline to sell, rent, or otherwise make available properties or housing in a multifamily project to a prospective purchaser or tenant because of race, color, creed, sex, or national origin. You must further agree to comply with State and local laws prohibiting discrimination.
 - d. Cost Certification. This is required by Section 227 of the National Housing Act and HUD Regulations for all rental housing projects, except those of 11 or fewer units that were processed under a home mortgage program. The Field Office determines the maximum insurable mortgage based on actual cost of the completed project and the amount of any reduction of the initially endorsed mortgage. See Reference (5) of the Foreword for a more complete discussion of cost certification.

- *1-7. ANNUAL FINANCIAL STATEMENTS. Mortgagors must keep their books and accounts according to Handbook 4370.2 Financial Operations and Accounting Procedures for Insured Multifamily Projects. They must also provide annual financial reports meeting the requirements in reference (7) of the Foreword.
- 1-8. REGULATORY AGREEMENT. The Secretary's control over the mortgagor is exercised by a Regulatory Agreement, Form FHA 2466, which is signed at initial closing.
- 1-9. ELIGIBLE PROPOSALS.
 - a. A proposal is not eligible for insurance if the sole or primary purpose is either to refinance an existing project, or acquire a completed project that involves no substantial rehabilitation.
 - b. To be eligible for insurance under the unsubsidized rental housing programs, a proposal must fit one of the following categories:
 - The project consists of not less than two rental dwelling units on one site. It may be: detached; semi-detached; row houses; or a multifamily building. The site may consist of two or more non-contiguous parcels of land if the Field Office Manager determines the parcels:
 - (a) Comprise a readily marketable real estate entity and,
 - (b) Are in a small enough area for convenient, efficient management.

(See Section 220.506 of the HUD regulations.)

2) The project needs substantial rehabilitation. Mortgage proceeds may be used to buy the project and satisfy any previous existing mortgage.

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- The proposal is to complete construction of a project acquired as a result of bankruptcy or foreclosure.
- 1-10. MAXIMUM MORTGAGE AMOUNTS. Mortgage principal must not exceed the lesser of:
 - a. Amount per family dwelling unit Field Offices may

increase the following amounts by up to 75%, based on prevailing costs in the area. Increases beyond this, which may go as high as 140%, require Headquarters approval on a case-by-case basis. (For specific high-cost determinations for Alaska, Guam, and Hawaii, call the appropriate Field Office.)

| | Non-Elevator | Elevator |
|-----------|--------------|----------|
| 0-bedroom | \$19,500 | \$22,500 |
| 1-bedroom | \$21,600 | \$25,200 |
| 2-bedroom | \$25,800 | \$30,900 |
| 3-bedroom | \$31,800 | \$38,700 |
| 4-bedroom | \$36,000 | \$43,758 |

- b. For approved new construction 90% of the estimated replacement cost of the property when the proposed improvements are completed. (This percentage includes a 10% Builder's and Sponsor's Profit and Risk Allowance (BSPRA); see Paragraph 1-13e for an explanation of BSPRA.)
- c. For rehabilitation 90% of: the estimated cost of repair and rehabilitation and the estimated value of the property before repair and rehabilitation.

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- * 1-11. INCREASED MORTGAGE AMOUNT OPERATING LOSS. Pursuant to the provisions of Section 223(d) of the National Housing Act, the mortgagor may request and the Assistant Secretary-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 instruction for Operating Loss Loans - Two Year Operating Losses (See Reference (5) of the Foreword).
 - a. Maximum Term of Loan. The mortgage term cannot exceed the lesser of 40 years or 3/4 of the remaining economic life of the project.
 - b. Maximum Interest Rate. The interest rate is negotiated between the mortgagor and mortgagee.
 - c. Mortgage Covenants. The mortgage will contain covenants which:
 - Prohibit any form of discrimination on the basis of race, color, creed, sex, or national origin in connection with the occupancy of the mortgaged property;

- (2) Prohibit the use of the mortgaged premises for any purpose other than for which it is intended at the date the mortgage was executed;
- (3) Prohibit the creation by the mortgagor of liens against the property superior or inferior to the liens of the mortgage; and
- (4) Bind the mortgagor to keep the property insured by a standard policy or policies against fire and such other hazards as the Field Office Director may stipulate.

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- 1-12. ELIGIBLE MORTGAGEES. To be eligible to apply for and receive a commitment for mortgage insurance under any section of the Act a lender must be a HUD-approved mortgagee. Also, if it is contemplated that the mortgages will be sold to FNMA or GNMA, the lender should also be an approved FNMA/GNMA seller-servicer.
- 1-13. OBLIGATIONS OF GENERAL CONTRACTOR.
 - a. Prevailing Wages and Equal Employment Opportunity - Pre-Construction Conference. In the pre-construction conference, labor standards, prevailing wage procedures, and HUD's Equal Employment Opportunity Policy are outlined to all interested persons. The principal contractor must certify that all laborers and mechanics will be paid not less than the prevailing wages in the area where the project is to be located and that he accepts the responsibility for such payment by all subcontractors.
 - (1) A copy of Form FHA 2554, Supplementary Conditions of the Contract for Construction, is to be given to every contractor and subcontractor at the conference. The contractor will be instructed to insert the form as part of every sub-contract entered into. Each contractor should be given additional copies to pass to absent subcontractors who will work on the project. This publication explains in more detail some affirmative steps he should take to asure an effective, and therefore acceptable, program of Equal Employment Opportunity.
 - (2) Copies of the Equal Opportunity poster which each contractor and subcontractor must agree to post in conspicuous places available to employees and applicants for employment, will be given to the contractors and subcontractors present, and additional copies will be furnished each general contractor to be given to any

subcontractor not present who will work on the project.

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

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- (1-13) c. Builder's Fee. HUD-FHA provides for a builder's fee, which consists of two basic considerations: (1) general overhead, which represents expenses necessary for the continued operation of a construction business and (2) builder's profit, which is the return typically anticipated by builder's performing their services under competitive conditions in its computation of the total cost of construction.
 - d. General Overhead will be computed by applying 2% of the subtotal for construction which includes the cost of land improvements, structures and general requirements. The total builder's fee will be determined from data obtained from builders of multifamily housing projects. The data will reflect the risk and responsibility inherent in the type of construction proposed and also will take into consideration the location in which the project will be built. The percentage remaining after subtracting 2% allowance for general overhead will be the builder's profit. The profit percentage will then be applied to the same subtotal as the overhead percentage. The allocation for general overhead expense will be allowed in all cases regardless of the total construction cost or the size of the project.
 - e. Builder's and Sponsor's Profit and Risk Allowance. Where there is an identify of interest between builder and mortgagor, and provided that no more than 50% of the actual cost of construction (exclusive of builder's fee, general overhead, and architect's fee) is subcontracted with any one contractor or subcontractor; and no more than 75% with three or less contractors or subcontractors, a builder's and sponsor's profit and risk allowance not to exceed 10% of all items entering into the term "actual cost" (except land or amounts paid for the acquisition of a leasehold) shall be included in the replacement cost estimate of the project in lieu of a builder's profit. The division of the profit and risk allowance between mortgagor and contractor is a

matter of no concern to HUD-FHA and any savings clauses or similar arrangements are also a matter of indifference to HUD-FHA, provided that no such arrangement will be allowed to operate to increase the amount allowable to profit and risk beyond 10% of the actual cost, exclusive of land. Where more than 50% of the actual construction cost is subcontracted with any one contractor or subcontractor, or more than 75% with three or less contractors or subcontractors, the profit and risk allowance will be treated as if there were no identity of interest and computed as shown below:

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| (1-13) | (1) Exception to Rule. The "50% -75%" rule shall not be applicable when factory built (including a temporary factory set up on the site) modular units or components are involved in the construction of a project. |
| | (2) Computation Where no Identity of Interest. Where there is no identity of interest between mortgagor and builder a 10% sponsor profit and risk allowance will be computed on the sum of (a) allowable architectural fees (b) allowable carrying charges and financing (c) allowable legal and organization expenses, and (d) allowable off-site costs. |
| f. | Requirements on Job Overhead. Job overhead is an allowance for miscellaneous items encountered in the construction of, and directly pertaining to, a specific project. Items of cos to be considered in the allowance include but are not limited to: supervision, field engineering, Field Office expense (including job clerical employee's wages), temporary heat, water, light and power for construction, equipment rental (if not included in the trade item costs), clean-up and rubbish disposal, building permit, watchmen's wages and/or theft and vandalism insurance (or allowances for such losses), medical and first-aid facilities, temporary roads, sidings and docking facilities. Items will vary due to project type, location and site conditions. |
| a. | Builder's Fee Factory Built Modular Units, "50% - 75% Rule" - (BSPRA). This method of construction is defined as the |

- g. Builder's Fee Factory Built Modular Units, "50% 75% Rule" - (BSPRA). This method of construction is defined as the utilization of panels or components, assemblies or complete subsystems, which are manufactured to use for or provide a space enclosing unit.
 - (1) It is recognized that the builder is fully responsible for the total amount of the contract and acceptable

| | completion of the project. However, until this method of construction has become more widely used and factual information can be obtained, the following will be considered when determining an appropriate builder's fee: |
|---------|--|
| | (a) On site construction time should be substantially reduced. |
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| (1-13). | (b) The number of subcontractors and on-site work relating to the structure is much less. |
| | (c) The risk of construction delays is reduced due to the controlled conditions inherent in manufacturing, and the reduced on-site construction time they create. |
| | (d) Many of the interim responsibilities such as compliance with various local, state and federal codes relating to the use and acceptability of materials and also structural requirements are assumed by the manufacturer. |
| (2) | Bearing the above in mind, the same guidelines will be followed as outlined in subparagraph c., above Builder's Fee, in establishing a reasonable fee. Full consideration must be given to the work the builder actually directs and performs and to the risk and responsibility he retains. In so doing it is expected that a total fee will be developed which is commensurate with this method of construction. The fixed percentage of 2% for general overhead will apply and the difference between it and the total percentage developed for the builder's fee will constitute profit. These percentages will be applied to the total construction costs including general requirements. |
| (3) | The "50% - 75% rule" as set forth in subparagraph e., (1) above will not apply when factory built (including a temporary factory set up on the site) modular units or components are involved in the construction of a project, since and appropriate builder's fee is to be reflected in processing for this method of construction. |
| (4) | For projects involving this method of construction which are entitled to a Builder's and Sponsor's Profit |

and Risk Allowance (BSPRA), the normal 10% will be

allowed. The 2% general overhead also will be allowed.

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1-14. OCCUPANCY REQUIREMENTS AND RENTAL RATE.

- a. Occupancy Requirements. There is no restriction upon occupancy by virtue of the tenant's income. The only requirements are:
 - In selecting tenants the mortgagor may not discriminate against a family because of race, color, creed or national origin or due to the fact that there are children in the family;
 - (2) There may not be any leases executed for a period of less than thirty days, nor can the mortgagor provide occupants with customary hotel services such as room service for food and beverages, maid services, furnishing and laundering of linens, and bellboy services. The intent of Congress is that housing built with the aid of mortgage insurance is to be used principally for residential purposes and not transient or hotel purposes.
- b. Rental Rates. The maximum rental that may charged is determined on a project basis. Project owners may not charge a gross rental in excess of that determined by HUD-FHA as necessary to pay a fee for adequate management and meet all expenses, reserve, mortgage obligations and provide a reasonable profit. With prior HUD-FHA approval the rental income maximum may be increased in response to demonstrated increases in operating expenses.
- 1-15. PROPERTY REQUIREMENTS. To be eligible for insurance of the mortgage the project must be located on real estate held in fee simple, or subject to a lease for not less than ninety-nine years which is renewable, or under a lease having a period of not less than seventy-five years to run from the date the mortgage is executed, or under a lease executed by a governmental agency, an Indian or an Indian tribe for the maximum term consistent with the legal authority for the execution of such a lease, provided that the term of any such lease shall run for a period of not less than fifty years from the date the mortgage is executed. The property must be free and clear of all liens other than that of the insured mortgage.
 - a. Leaseholds. Whenever a proposal for the development of a Section 220 project involves a leasehold which the Field Office has determined to be freely marketable, it shall be

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explained to the sponsor that the maximum mortgage amount will be subject to a reduction in an amount equal to the capitalized value of the ground rent. Further, the annual ground rent may not exceed 6% of HUD's determination of the land value. If ground rent will be paid during construction, it may be included as project cost and paid from mortgage proceeds.

- b. Land Value Determination Urban Renewal Sites.
 - Redevelopment. For HUD mortgage insurance purposes land value usually will have been established by the HUD Agreement on Land Disposition Price for Residential Land In Urban Renewal Projects.
 - 2) Field Office must review and may revise, upon receipt of mortgage application, its appraisal on urban renewal land that:
 - Was sold by law to the highest bidder and
 - that bid was higher than HUD's appraisal or
 The value of the land has increased with area development or passage of time.
- 1-16. PROPERTY DEVELOPMENT. (See Paragraph 1-9)
- 1-17. Commercial Facilities.
 - a. Although Section 220 projects must be designed mainly for residential use, they may include commercial facilities that:
 - Meet needs both of project occupants and other residents of the redevelopment area, and
 - Are consistent with local government's redevelopment plan.
 - b. Percentage of commercial space in the project must be approved by HUD as follows:
 - Up to 20% of total project square footage Field Office Manager approves.
 - More than 20% Director of Insured Multifamily Housing Development, Headquarters approves.

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- * 1-18. RESERVED.
 - 1-19. REHABILITATION. Process Section 220 Project Rehabilitation-Loans for mortgages of \$200,000 or more according to basic Section 207 rehabilitation instructions (Reference (1) of the Foreword), except as modified here.
 - a. Eligible Locations: As listed in Paragraphs 1-2 and 1-3.)
 - b. Escrow for Delayed Replacement Items. In architectural analysis of proposed rehabilitation include:
 - Suitability of characteristics and conditions of existing improvements.
 - 2) Whether proposed repairs, demolition and new work can renew useful economic life.

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- (1-19) (3) To the extent compatible with the intended market, and provided that maintenance and operation should not lead to inordinate expense to the project, existing items of equipment or finish having a remaining useful life may warrant acceptance for "delayed replacement."
 - (4) Delayed replacement is feasible only when it can be accomplished in the future without (a) prolonged disruption of the use of the premises, or (b) serious damage to structure and finish which would greatly increase the cost of replacement and inconvenience to the occupants, or (c) loss of appeal, convenience, service, and modernity required to attract and hold the desired class of occupant. For example, mechanical elements such as wiring, piping or duct work embodied in the concealed space of construction would not qualify for delayed replacement. Existing ranges and refrigerators which would not be objectionable to the market and which are of suitable size or capacity could qualify for delayed replacement.

In the consideration of proposals where the insured mortgage will be more than \$200,000, the replacement of

items deemed to have a relatively short remaining useful life, but whose condition does not warrant immediate repair of replacement, may be provided for by an escrowed amount which, together with scheduled deposits to the reserve for replacement account, will provide for repair or replacement when needed. The amount required to be escrowed for deferred replacement items is to be recognized in determining the cost of rehabilitation.

c. Disposition of Balance in Existing Reserve for Replacement Account. In connection with the establishment of the new insured mortgage of more than \$200,000 on a project where there is an existing insured mortgage, the balance of the existing reserve account is to be applied to (1) the amount required to be escrowed for reserve items scheduled for delayed replacement and (2) the cost of reserve items being replaced incident to rehabilitation. In the event there is any balance remaining in the account, it shall be held as a reserve for contingencies for release to the mortgagor during the rehabilitation. If there is any balance remaining in the account at the time of final endorsement, it will be released to the mortgagor.

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- (1-19) d. Working Capital Requirement. The minimum 2% working capital requirement for proposed construction projects is modified for rehabilitation projects to require only "an amount satisfactory to the Assistant Secretary Commissioner". When determining the necessity for the amount of deposits to be required, consideration should be given to the percentage of occupancy anticipated during the period of rehabilitation and at completion. Also, consideration should be given to cover working capital items.
 - e. Treatment of Net Income Prior to Beginning of Mortgage Amortization. The provisions of HUD Regulation 207.19 (h) are applicable. This Regulation requires that at least a portion of any net income received prior to the beginning of mortgage amortization shall be applied to advance amortization, cost of capital improvements, or to the reserve for replacements account. The following provisions are to be applied:
 - Project being Purchased for Rehabilitation. When proceeds of the insured mortgage are being used by the mortgagor in financing the purchase of a project, all net income will be applied to advance amortization,

cost of capital improvements, or the reserve for replacements account. None of the net income prior to beginning of amortization will be released to the mortgagor.

- (2) Project Already Owned by Mortgagor. When the mortgagor already owns the project, the determination whether and in what amount net income will be released for use of the mortgagor may be based in part upon the net income of the project prior to beginning of rehabilitation. In no case shall the mortgagor be permitted to retain net income prior to the beginning of amortization in excess of the rate it was being earned from the project prior to the beginning of rehabilitation. Also, in no case may the mortgagor retain more than 90% of the net income earned during the period from the beginning of rehabilitation to the beginning of mortgage amortization.
 - (a) In each case, consideration must be given to the effect the release of the income to the mortgagor will have on the probable future financial stability of the project.

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- (1 19)(b) In any case when consideration is to be given to allowing the owner to retain net income, the Field Office Director is to require the mortgagor to request in writing a specific monthly net income allowance. The request must be supported by a budget covering the expected period of rehabilitation and by evidence satisfactory to the Director of the net earnings of the project for at least one full tax year prior to the beginning of rehabilitation. A determination will be made whether any income may be retained. If the decision is negative, the mortgagor will be so advised. If it is determined that some net income may be retained, the determination will be set forth as a special condition of the commitment, which will recite the maximum percentage of the total net income which may be retained and the maximum monthly amount approved for retention.
 - f. Prevailing Wage Requirements. The wage provisions of Section 212 (a) of the National Housing Act, as amended, are not applicable to projects involving less than twelve units.
 - g. Preapplication Analysis. The Purpose of the preapplication analysis of Section 220 rehabilitation proposals is basically

the same as that for Section 207. However, as set forth below, different procedures are applied, and the scope of HUD-FHA participation in the preapplication stage ordinarily is much more comprehensive.

- (1) The HUD-FHA preapplication procedures for Section 220 rehabilitation proposals are designed to expedite HUD-FHA analysis and processing, as well as to eliminate unsound proposals at an early stage and to assist sponsors in the proper development of worthwhile proposals. The major features are:
 - (a) Early advice to the sponsor (after preapplication analysis) concerning the tentative maximum mortgage amount based upon debt service.
 - (b) Contractors are to provide certifications of their costs. The rehabilitation work will be performed under cost-plus contracts.

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| (1-19) | | (c) | es re | the extent mortgage limitations allow, amount crowed for deferred replacement items may be cognized as "cost of rehabilitation" and inclu the mortgage. | |
| | | (d) | bi qu ci | simplified cost estimation procedure which ut ds to be obtained by sponsors from three reput alified contractors. However, under the rcumstances set forth below, the three bid-cos timate requirement need not be followed: | able, |
| | | | 1 | When the sponsor acts as general contractor, | |
| | | | 2 | When the sponsor has a continuing working arrangement with a particular contractor, or | |
| | | | 3 | When the Field Office Director determines the because of the circumstances peculiar to a particular case, the bid procedure is not practicable. | at |
| | | NOTE : | | In most situations the bid-cost estimation procedure should be followed as it is advantageous to both the sponsor and the HUD- | -FHA. |
| (| 2) | | | e applications on which the bid requirement is able, the regular cost estimation procedure | 5 |

will be followed.

(3) The determination of feasibility as well as the tentative maximum mortgage amount will be based upon thorough inspections of the site and structure, an analysis of market, and a study of the information supplied by the sponsor, particularly the supporting data on FHA Form 2013-R pertaining to the proposed rehabilitation work, income and operating expenses. There will be no attempt to estimate the cost of the proposed rehabilitation. The estimates of cost provided by the sponsor on Forms 2013 and 2013-R are for the purpose of aiding the early detection and elimination of an obviously unsound proposal.

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- (1-19) (4) As in new construction proposals, it is expected that the analysis will be supplemented by preapplication conferences with the sponsor. Of particular importance in rehabilitation proposals are conferences on the site with the sponsor and his architect. Site conferences are essential to the resolution of questions pertaining to the quality and extent of the proposed rehabilitation. Major deficiencies or substantial variations between the sponsor's proposal and the HUD-FHA tentative findings should be reviewed with the sponsor at preapplication conferences to the extent that there is a general understanding as to what will be required should the sponsor proceed with the proposal.
 - h. Section 220 Projects Rehabilitation Loans of \$200,000 or less.
 - Introduction. Section 220 project rehabilitation loans (1)of \$200,000 or less (covering refinancing and cost of rehabilitation) are to be processed in accordance with the processing procedures prescribed for Section 207 (both insurance of advances and insurance upon completion), except for deviations set forth herein and in the several special forms designed for use with these loans. The exception to Section 207 (Reference (1) of the Foreword) procedures is occasioned by Section 220.525 of the HUD-FHA Regulations, adopted to simplify the administrative processing and loan closing procedures and to relax controls over mortgagors in connection with these relatively small rehabilitation loans. To achieve the desired simplification, it has been determined that HUD-FHA:

(a) Will accept any form of mortgagor entity without

examination of the documents relating to the organization of the mortgagor.

- (b) Will simplify the regulation or supervision of the mortgagor. Major simplifications in this regard are the elimination of HUD-FHA controls over capital structure, rate of return, and rents and charges and the abolition of the requirement for maintenance of replacement reserves.
- (c) Will not require a survey or surveyor's certificate.

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| (1-19) | | (d) Will permit the use of simplified cost certification procedure. |
| | | (e) Will reduce the number of documents required at loan closing, through elimination of examination of documents pertaining to the organization of the mortgagor, and by requiring that documents relating to cost certification, prevailing wages, etc., be submitted and processed prior to closing. |
| | (2) | Prevailing Wage Requirements. Prevailing wage requirements are mandatory and must be met with respect to applications covering twelve or more units. |
| | (3) | Working Capital. The two percent (2%) minimum working capital normally required in the case of insurance of advances has been modified to require "an amount satisfactory to the Assistant Secretary-FHA Commissioner." In establishing the amount of the required deposit, consideration should be given to the rental income, if any, received during rehabilitation. In some cases, the estimate of income from occupancy during construction could result in complete elimination of the deposit requirement or the stipulation of an amount considerably less than the two percent normally required for new construction loans. |
| | (4) | Advance Amortization. It has been administratively determined that advance amortization will not be required for these small rehabilitation loans. |
| | (| Anchitecturel Euclidita The use of the words "Drewings" |

(5) Architectural Exhibits. The use of the words "Drawings" and "Specifications" in the commitment and other administrative Forms does not mean that drawings and specifications prepared by a qualified architect are an absolute requirement. Although this may be desirable where the rehabilitation of a project includes major structural changes, plans and specifications prepared by other than a professional architect may be accepted if they are adequate to the extent that they completely describe the work to be performed and related conditions. In those instances where rehabilitation is limited to relatively minor modifications, such as: moving partitions; plumbing fixtures; resurfacing floors; patching

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| (1-19) | | sketc the w | ches, vork 1 | lin may 1 | faces; rebuilding stairways; etc. e drawings, and/or narrative out be considered adequate if they pr ication of the work to be perform | lines of covide |
| | | for H exhik | HUD-Fi bits | HA p to t | d "Specifications" described above rocessing, will be considered as he Mortgagor's Certificate, the H t and the contract documents. | adequate |
| | (6) | speci other | al Formation | orms tanc | e Forms To Be Used. Where deemed have been designed and will be u es, the regular project mortgage used with the minor modification | used. In insurance |
| | | (a) | Insu | ranc | 2013, Application for Project Mo e, will be utilized for applications set forth below: | |
| | | | Part | I - | Mortgagor's Application. | |
| | | | Sec. | B: | Items 2 and 3: Require entry of information as planned after rehabilitation. | |
| | | | Sec. | E: | Disregard item entitled, "Replac Reserve." | cement |
| | | | Sec. | F: | Require estimate of taxes after rehabilitation. | |
| | | | Sec. | G: | Require the insertion of the Est Value of the Existing Improvemen immediately after the item entit "Land (Available Market Price)." | nts led, |
| | | | Sec. | н: | For the item entitled, "Land-Pur Price", require entry of purchas | |

of both land and existing improvements, if to be purchased, or balance owed, if already purchased.

Sec. M: Delete item #6, "Request for wage Determination", if less than 12 units are involved. Add item 10, "FHA Form No. 2004-c-2, Agreement to Certify Actual Costs."

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- (b) Insurance of Advance.
 - 1 FHA Form 2217, Commitment for Insurance Advances (Section 220 Project Rehabilitation Loans of \$200,000 or Less), shall be used in Lieu of FHA Form No. 2432.
 - 2 FHA Form 2218, Mortgagor's Certificate (Section 220 Project Rehabilitation Loans of \$200,000 or Less), shall be used in Lieu of FHA Form No. 2433.
 - 3 FHA Form 2219 Mortgagee's Certificate, (Section 220 Project Rehabilitation Loans of \$200,000 or Less), shall be used in Lieu of FHA Form No. 2434.
 - 4 FHA Form 2220, Mortgagor's Oath and Agreement, (Section 220 Project Rehabilitation Loan of \$200,000 or Less).
- (c) Insurance Upon Completion.
 - 1 FHA Form 2221, Commitment to Insure Upon Completion (Section 220 Project Rehabilitation Loans of \$200,000 or Less) shall be used in Lieu of FHA Form No. 2453.
 - 2 FHA Form 2222, Request for Endorsement of Credit Instrument, Certificate of Mortgagee, Mortgagor and Contractor, shall be used in Lieu of FHA Forms Nos. 2455 and 2403-A.
 - 3 FHA Form 2220, Mortgagor's Oath and Agreement, (Section 220 Project Rehabilitation Loans of \$200,000 or Less).

1-20. SECTION 220 (h) - PROCESSED UNDER SECTION 207 REHABILITATION

PROCEDURES.

 a. Section 220 (h) Five or More Units Insured Project Improvement Loans for \$200,000 or Less To Be Processed Under Section 207 (Rehabilitation Procedures). If a proposal is made which

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(1-20) would involve a loan in excess of \$200,000, processing will be deferred and all facts pertaining to the case are to be reported to the Director, Office of Unsubsidized Insured Housing Programs.

> Insured project improvement loans under Section 220(h) Chapter 3 Paragraph 3 (j), infra are limited to properties in urban renewal areas. An application covering five through eleven units may be accepted and processed under either the home mortgage procedures or the multifamily project procedures. A loan in excess of \$40,000, or a loan to cover twelve or more units, must be applied for as a project improvement loan and must be processed under Section 207 (Rehabilitation) procedures except as amended herein.

- b. Prevailing Wage Requirements. Prevailing wage requirements are mandatory and must be met with respect to applications covering twelve or more units. The requirements do not apply to five through eleven units, and any printed provisions or conditions relating to prevailing wage requirements contained in the commitment, mortgagee certification, mortgagor certification and other Forms should be amended. FHA Form 2482-A, General Contractor's and Subcontractor's Statement, will be required in all cases.
- c. Cost Certification. In every case involving the improvement of structure containing five or more dwelling units, cost certification is required.
- d. Types of Commitment. Commitments may be applied for and issued for either insurance of advances, or insurance upon completion if the amount of the loan is in excess of \$40,000. If the amount of the loan is \$40,000 or under, only commitments to insure upon completion may be issued.
- e. Charge for Loan Origination and Closing. The lender may make a charge of an amount not to exceed one and one-half percent (1 1/2) of the original principal amount of the loan for services rendered in the origination and closing of the loan. Although the Regulations state, "Any additional charges shall be subject to prior approval of the Assistant Secretary-FHA Commissioner," it has been determined that

as a matter of policy no additional charges will be allowed.

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- (1-20) f. Eligibility of Title and Title Evidence.
 - (1) When the principal amount of the loan exceeds \$40,000, evidence that the title to the property or the leasehold covering such property is vested in the borrower as of date the security instrument is filed for record must be submitted. A HUD-FHA attorney will close all loans in excess of \$40,000 and will determine the eligibility of title prior to endorsement of the loan for insurance. Title evidence submitted will be in accordance with the applicable Regulations.
 - (2) Title evidence will not be required for loans of \$40,000 or less, and the printed conditions in the commitment and other forms relating to title evidence will be stricken. Reliance will be placed upon the borrower's certification as to outstanding liens submitted with the application.
 - g. HUD-FHA Supervision of Borrower. It has been administratively determined that except for the provisions of the President's Executive Order No. 11063, entitled "Equal Opportunity in Housing," and the FHA Regulations issued pursuant thereto, the right to supervise borrowers will not be exercised with respect to loans of \$200,000 or less. Therefore, the printed provisions relating to corporate charter, regulatory agreement, maintenance of replacement reserves, control of rents, and other such restrictions and controls contained in the commitment and other Forms should be deleted.
 - h. Working Capital. Due to the nature of the loan transaction and the fact that in most instances income is being derived from the project, the working capital, normally provided for in connection with new projects will not be required with respect to project improvement loans. Therefore, the printed conditions regarding working capital on the commitment and other Forms will be stricken.
 - i. Location in Urban Renewal Area. Section 220 (h) improvement loans are eligible only for properties situated in an approved urban renewal area.

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- (1-20) j. Consent by Holders of Prior Liens. Generally, there will be a lien or liens paramount to the HUD-FHA insured lien and such liens may prohibit alterations or modifications to the property or a transaction similar to the improvement loan. Therefore, it is essential that the borrower obtain the consent of holders of any prior liens. A signed copy of the letter(s) from the paramount lien holder(s) stating that there are no objections to the proposed improvement or the loan transaction must accompany the application for the insured loan. This clearance may save the borrower unnecessary expense and later difficulties. The importance of this requirement should be emphasized during the preapplication conference.
 - k. Loan Amortization. Amortization periods may be 5, 10, 15 or 20 years. The methods of amortization will be limited to the level annuity monthly payment plan as reflected in FHA Form 3010 Reference (1) of the Foreword.
 - 1. Architectural Exhibits. The use of the words "Drawings" and Specifications" in the commitment and other administrative Forms does not mean that drawings and specifications prepared by a qualified architect are an absolute requirement. Although this may be desirable where the rehabilitation of a project includes major structural changes, plans and specifications prepared by other than a professional architect may be accepted if they are adequate to the extent that they completely describe the work to be performed and related conditions. In those instances where rehabilitation is limited to relatively minor modifications (such as moving partitions, cutting openings in existing walls, changes in utilities, installation of new plumbing fixtures, resurfacing of floors, patching of plastered surfaces, rebuilding of stairways, etc.), sketches, line drawings and/or narrative outlines of work may be considered adequate if they provide ready identification of the work to be performed. "Drawings" and "Specifications" described above as adequate for HUD-FHA processing, will be considered as adequate exhibits to the Mortgagor's Certificate, the Building Loan Agreement and the contract documents.
 - m. Administrative Forms to be Used. In processing a project improvement loan under Section 220 (h) existing multifamily processing Forms with appropriate modifications, will be used.

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CHAPTER 2. UNDERWRITING

*2-1. RESERVED.

- 2-2. SPECIAL FIELD RESPONSIBILITIES. Because of the federal interest in the success of local redevelopment, HUD Field Offices must:
 - Review all Section 220 project proposals for compatibility with local government urban renewal plans. (See Paragraphs 1-2, 1-3 for eligibility.)
 - b. Not jeopardize an urban renewal project by committing to insure competing housing unless:
 - 1) Such housing would be absorbed by the market before the urban renewal units would be available.
 - 2) The market is strong enough to simultaneously absorb both.
 - c. Work closely with local governments at all stages of planning and construction. See that real estate and construction advice is readily available concerning economic and financial feasibility of: residential development; rehabilitation; mortgage insurance.
 - d. Guide sponsors before they apply for mortgage. They should request an interview with the Field Office before they develop their applications. At the interview:
 - 1) Discuss compatibility of their project with local government plans.
 - 2) Explain pertinent requirements in Chapter 1 of this book.
 - 3) Guide the sponsor to submit either an application for site appraisal and market analysis or a feasibility application for substantial rehabilitation#
 - Process Section 220 proposals using Section 207 basic instructions except as modified in this book. (For 207, see Reference 9 of Foreword.)

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(2-2) f. Proposed Construction Processing. Processing will conform to the basic instructions for Section 207 bearing in mind the flexibility of combining any given processing stage with the subsequent stage. FHA Form 2264 is prepared in the customary manner for the appropriate processing stage (feasibility, conditional commitment, etc.,) except the estimates of value by capitalization and comparison are not completed.

- g. Effect of Urban Renewal Plan. Valuation processing under Section 220 differs basically from Section 207 in that the valuation analysis must give consideration not only to existing influences but to specific improvements and alteration of the neighborhoods to which the governing body of the locality is committed. It is common appraisal practice to give effect to the probability of such change taking place, and of analyzing the effect in terms of value. For purposes of determining mortgage insurance under Section 220 the appraiser is to assume completion in accordance with the Urban Renewal Plan and the commitments made by the community and thus is not required to base his conclusions upon conjecture.
- h. Review of Sponsor's Estimates. In reviewing the sponsor's mortgage insurance application for Redevelopment Housing, the appraiser should analyze carefully the sponsor's estimates in the light of available data and experience. For example, if the tax estimates provided by the sponsor appear similar to those indicated from the data bank, the sponsor's figures will be used. In the event the sponsor's estimate differs from a reasonable figure, derived from data, the appraiser will use the figure indicated by such data.
- i. Data Bank Necessary. It is of paramount importance that the Valuation Section maintain an up-to-date data bank. Processing of the redeveloper's mortgage insurance application (as well as all other applications in the office) will draw heavily on this source of information. For example, the tax data should not only reflect information on taxes applying to comparable properties and projects but also record typical tax increases from year-to-year and the possibility of blanket reassessments or tax abatements.

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(2-2) j. BSPRA. The "estimated replacement cost of property" will include a 10% allowance for Builder's Sponsor's Profit and Risk. This 10% Profit allowance shall be applied to all items (including ground rent or interest on investment except the land. This 10% fee will be calculated according to the appropriate formula set forth in Reference (2) of the Foreword. When BSPRA is used the cost analyst will not include an allowance for Builder's Profit. The Valuator will compute BSPRA and enter the result on Line 69, Section G, FHA Form 2264 after he has computed the items of carrying charge, financing fees, legal and organizational expenses.

- k. Site Sold by LPA. Where sites are sold by the LPA to the developer, the Fair Market Value of Land Fully Improved is lesser of (1) or (2):
 - (1) The amount found by comparison with other sites having the improvements and amenities that the subject site will have upon the completion of the betterments to which the public body is committed in the Urban Renewal Program, or
 - (2) The dollar amount paid by the purchaser as set forth under the terms of the purchase contract with the public body, plus an estimate of allowable incidental cost described in Reference (4) of the Foreword.
- 1. Ground Rents. When the land is leased from a LPA, carrying charges or ground rents paid from the date when the same commence under the Lease Agreement between the mortgagor and the LPA to the date which is 30 days after the date of project completion as estimated by HUD-FHA, shall be included in the FHA Estimate of Replacement Cost of the property. The ground rent included cannot exceed HUD-FHA estimate of market price multiplied by a 6% interest rate.
- m. Rehabilitation.

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(1) Rehabilitation Relates to Present Tenant Needs. The estimate of net income and "as is" value is based on the assumption that the Urban Renewal plan will be executed and the rehabilitation of the outline area will be accomplished. In cases where the properties are not economically feasible in light of the income

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capacity of the present owners or tenants, clearance is not always to be recommended. The LPA may be best advised to purchase, restore and re-sell the properties, perhaps at reduced prices, to meet the housing needs of the present occupants. Rehabilitation policy requires that attention be directed to the housing needs of the present occupants to the fullest extent possible. Therefore the Valuator will consider market prices and rent levels that will be acceptable to and can be supported by present owners and tenants. Analysis of the present market requires analysis of all pertinent data including LPA studies of the area and their surveys of family sizes, income levels, accommodation requirements, etc. In addition, neighborhoods outside the area which will compete with the subject area after rehabilitation may yield highly informative data.

- (2) Extent of Rehabilitation. The extent of rehabilitation often bears directly on the owner's and market's or tenant's ability to pay for and support these costs. It is intended where possible, to rehabilitate within the means of and suitable for, the continued ownership and occupancy of the present owners and tenants of the area. Code enforcement and the objectives of minimum property standards for rehabilitation are the base.
- n. Processing. The "as is" value will be the lesser of Fair Market "as is" value or the "as is" value by the residual approach see Reference (4) of the Foreword.
- o. Existing Construction. In cases involving the purchase of a property which has been rehabilitated by a LPA with Federal assistance, the mortgage amount will be based on the appraised value. In such cases FHA Form 2264, must be completed entirely, including estimates of value by comparison.
- 2-3. MORTGAGE CREDIT ANALYSIS. Mortgage Credit procedures and analysis are to be completed in accordance with basic Section 207 Underwriting instructions (Reference (5) of the Foreword except as modified herein.
 - a. Amount and Amortization Period of Loan. Analysis of the credit risk is premised upon a loan for a definite amount and amortization period. In the feasibility stage, the

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- (2-3) amount of mortgage loan will be the amount determined in processing, and in the conditional and firm commitment stages it will be the amount applied for but not to exceed the maximum amount permitted under the statutory and regulatory limitations under Section 220 of the National Housing Act.
 - (1) The mortgage shall involve a principal obligation in an even multiple of \$100 and a term not in excess of the maximum indicated by the risk characteristics of the individual project.

- (2) The property offered for security must be designed principally for residential use consisting of not less than two living units and the mortgage must not exceed the limits hereinafter set forth.
- b. Amount of Loan.
 - (1) New Construction. Includes all projects not involving (a) rehabilitation or reconstruction of existing structures (b) redevelopment where the site is acquired from an instrumentality of the Federal or local government or (c) existing construction which has been rehabilitated by a local public agency with Federal assistance pursuant to section 110(c)(3) of the Housing Act of 1949.
 - (2) Insurable mortgage amount shall not exceed the lowest of:
 - \$50,000,000 if executed by a Private or Public Mortgagor as defined in the Regulations under Classification of Mortgagors.
 - (b) 90% of the HUD-FHA estimated replacement cost of the property or project, if the property is approved for mortgage insurance prior to the beginning of construction, or 90% of the HUD-FHA estimate of the value of the property or project, if the property is under construction and was not approved for mortgage insurance prior to the beginning of construction.
 - (c) An amount which entails a debt service (including special assessments and ground rents) not in excess of 90% of the HUD-FHA estimate of net income.

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| (2-3) | | (d) An amount attributable to dwelling use not to exceed: (The mortgage amount may exceed these limits by not more than 90% of the cost not attributable to dwelling use, including exterior land improvements). | | | | | |
| | c. | Walk-Up Structures. | | | | | |
| | | \$9,900 per family unit without a bedroom; | | | | | |
| | | \$13,750 per family unit with one bedroom; | | | | | |
| | | \$16,500 (20,625 1/) per family unit with two bedrooms; | | | | | |

\$20,350 (25,425 1/) per family unit with three bedrooms;

\$23,100 (28,875 1/) per family unit with four or more bedrooms;

d. Elevator Structures.

\$11,550 per family unit without a bedroom; \$16,500 per family unit with one bedroom; \$19,800 (\$24,750 1/) per family unit with two bedrooms; \$24,750 (\$30,925 1/) per family unit with three bedrooms; \$28,050 (\$35,050 1/) per family unit with four or more bedrooms;

- 1/ Limit applicable in rehabilitation projects
 involving not more than 5 family units.
- NOTE: The Assistant Secretary-FHA Commissioner may increase any of the foregoing per family unit dollar limitations, except with respect to one family dwellings meeting only the Minimum Standards for Low Cost Housing included under A, by not to exceed 45 per centum in any geographical area where he finds the cost levels so require. The factor for high cost percentage is 1.0. Instructions for calculating the high cost limits are contained in Reference (3) of the Foreword.

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- (3-3) e. Rehabilitation. Includes those projects involving the reconstruction, rehabilitation, conservation or prevention of deterioration of existing construction. Insurable mortgage amount shall not exceed the lowest of:
 - (1) New Construction The amounts set forth under new construction except that the limitation under subparagraph (c) thereof will be based on the sum of (a) the cost of repair and rehabilitation and (b) the value of the property before repair and rehabilitation rather than replacement cost.
 - (2) Property Owned HUD-FHA estimated current cost of rehabilitation plus the lesser of (a) principal amount of existing indebtedness, if any or (b) 90% of the FHA estimate of fair market value of property before

rehabilitation (less value of leased fee, if leasehold, and/or principal amount of special assessment, if any).

- (3) Property to Be Acquired 90% of FHA estimated cost of rehabilitation plus the lesser of (a) 90% of actual purchase price of the property or (b) 90% of FHA estimate of fair market value of property before rehabilitation (less value of leased fee, if leasehold, and/or principal amount of special assessment, if any).
- (4) Redevelopment Includes only those projects involving new construction where the site is acquired from an instrumentality of the Federal or local government. Insurable mortgage amount shall not exceed the lowest of the following:
 - (a) The amounts set forth under new construction.
 - (b) 90% of the estimated cost of the project to the mortgagor and sponsors.
- f. Existing Rehabilitation Project. Includes only purchase transaction involving existing construction which has been rehabilitated by a local public agency with Federal assistance pursuant to Section 110 (c) (8) of the Housing Act of 1949. Insurable mortgage amount shall not exceed the lowest of the following:

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| (2-3) | | (1) | The amounts set forth under new construction under subparagraphs a, b and c. | | |
| | | (2) | 90% of the HUD-FHA estimate of the appraised value of the property as of the date the mortgage is accepted for insurance. | £ | |
| | | (3) | An amount which entails a debt service, not including special assessments and ground rents, if any, not in excess of 90%. | | |
| | | (4) | 90% or the sum of (a) actual purchase price of the property and (b) total carrying charges, financing, and legal and organization expense. | đ | |
| | g. | be a life appr | tization Period of Loan. The term of mortgage may not ppreciably in excess of 75% of the remaining economic of the physical improvements. The initial curtail rate oved terms and monthly payments are contained in the c Multifamily Amortization Plan. | es, | |

- h. Insurance of Advances. Same as basic Section 207 instructions. (See Reference (1) of the Foreword.)
- i. Operating Loss Loans Two Year Operating 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, 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 in accordance with instructions under Section 207 for Operating Loss Loans - Two Year Operating Losses. (See Reference (5) of the Foreword.)
- j. Section 220(h) Project Improvement Loan. Provides for the insurance of a loan the proceeds of which shall be used only in connection with improvement of an existing structure in urban renewal areas. The loan shall be secured by a valid recorded lien on the property to be improved as provided for under HUD-FHA Regulations.

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- (1) The property offered as security must be designed principally for residential use of not less than five dwelling units which have been completed at least ten years prior to filing of the application for commitment. Properties completed less than ten years will be eligible if the proceeds of the improvement loan will be used primarily for major structural improvements, or to correct defects which were not known at the time of the completion of the structure or which were caused by fire, flood, windstorm, or other casualty.
- (2) Mortgage credit procedures and analysis are to be completed in accordance with Underwriting instructions under Paragraph 3-3 except as modified herein.
- k. Maximum Insurable Loan. The loan shall not exceed;
 - (a) \$12,000 per family unit, or
- NOTE: The Assistant Secretary-FHA Commissioner may increase the foregoing per family unit dollar limitation by not to exceed 45% in any geographical area where he finds the cost levels so require.

- (b) The assistant Secretary-FHA Commissioner's estimate of the cost of improvements, including loan closing charges as permitted under HUD-FHA Regulations, or
- (c) An amount which, when added to any outstanding indebtedness related to the property, creates a total indebtedness not in excess of the statutory limits for existing construction under Section 220(d)(3)(B).
- (d) An amount which does not entail a debt service in excess of 90% of the net income available for the improvement loan.
- NOTE: The loan shall involve a principal obligation in multiples of \$50.
- 2-4. ARCHITECTURAL ANALYSIS. Section 220, Housing in urban renewal areas, is processed in accordance with basic Section 207 architectural instructions except as modified herein. (See Reference (6) of the Foreword.)

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- a. Agency coordination. The local government's redevelopment strategy (or Urban Renewal Plan) must be considered in reviewing a project application.
 - b. Commercial area must conform to Paragraph 1-17.
- 2-5. COST ESTIMATION AND PROCESSING. Use basic Section 207 rental housing procedures except as modified herein.

Section 220(d)(3)(b):

- a. Projects of less than 12 living units don't require determination of prevailing wage rates by the Secretary of Labor. Base the estimate on rates currently being paid in the area.
- b. Don't allow for a builder's profit; include only the builder's general overhead. A Builder's and Sponsor's Profit and Risk Allowance (BSPRA) will be calculated by the Valuation Section.
- c. A typical builder's profit will be used in determining the dollar amount for Architect's Fee. The Architect's Fee amount is divided by the total for structures, land improvements, general requirements and general overhead to produce the percentage to be shown on Forms FHA-2326 and HUD-92264.

2-6. LAND PLANNING ANALYSIS. Land planning analysis under Section 220 must conform to the basic Section 207 Instructions (Reference (8) of the Foreword) except as modified here.

Land Planning staff analyzes Section 220 projects when requested. Suit the analysis to the urban improvements involved, which differ from those used in developing raw land. Determine:

- 1) Effect on neighborhood.
- 2) Merits of site, drainage, landscape plans.

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