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### CHAPTER 3. GENERAL UNDERWRITING PROCEDURES

3-1[R] PROCESSING STAGES. Sponsors may elect to proceed through each of the processing stages outlined below or through any combination of stages resulting in an application for firm commitment. Sponsors are strongly encouraged to request a preapplication meeting with the HUD Field Office with jurisdiction for the project location. The preapplication meeting covers:

- general proposal acceptability
- HUD procedures and requirements
- appropriate staging of application processing
- sponsor obligations and responsibilities
- distribution of forms and instructions

A.Site Appraisal and Market Analysis (SAMA) - New Construction. A SAMA letter indicates determination of initial acceptability of the site and recognition of a specific market need. It is not a commitment and does not bind HUD to issue a commitment. It may be submitted by the sponsor without a HUD-approved mortgagee. The SAMA letter covers:

1.Acceptability of the project site, the type of project, the type and number of rental units, the total monthly rents, etc. Details of operations are reviewed, along with location, neighborhood environment, type of structure, number of units by type (efficiency, one bedroom, etc.), services, and amenities.

2.Value of the site fully improved.

3.Market for the proposed project by type of units, size, number of rooms, etc. All SAMA letters must provide that the market approval expires after 1 year and will be reanalyzed by the Field Office unless a firm commitment has been issued.

4.Environmental assessment.

B.Feasibility - Substantial Rehabilitation. The sponsor may submit for feasibility without a HUD-approved mortgagee. A Feasibility Letter is not a commitment and does not bind HUD to issue a commitment. A Feasibility Letter:

1.Provides basic preliminary underwriting analysis except for a credit and financial analysis.

2.Establishes economic feasibility, including type and extent of required rehabilitation, estimated post-rehabilitation replacement cost, and "as is" value of the property, project income, etc. The analysis should be generally comprehensive enough to move directly to the firm commitment stage.

3.Must provide that the market approval expires after 1 year and will be reanalyzed by the Field Office unless a firm commitment has been issued.

C.Conditional Commitment. Must be submitted by HUD-approved mortgagee. Issuance indicates HUD completion of technical processing involving:

1.Analysis of the proposal and its economics including project schematics and outline specifications of the development submitted by the mortgagor and its architect.

2.Examination of the credit and financial capacity of the principals and general contractor.

3.Establishment of the cost of the project, "as is" value of the site, detailed estimates of operating expenses and taxes, the supportable cost, the financial requirements and the mortgage amount.

NOTE: The Conditional Commitment stage is proposed for deletion; deletion of this stage will become effective 30 days after publication of the final rule.

D.Firm Commitment. Must be submitted by a HUD-approved mortgagee. May be either insurance upon completion or insurance of advances. Issuance evidences HUD approval of the application for insurance and sets out the terms and conditions under which the mortgage will be insured.

1.Review of updated information and final contract documents to see if they agree with findings made in earlier processing stages and meet all standards and requirements for a firm commitment.

2.Establishment of maximum mortgage amount.

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9/94

3-2

4560.01 REV-1

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E.All commitments are subject to a condition stating that market findings will be reanalyzed annually if the project has not

reached initial endorsement. This reanalysis may result in a reduction in the number of units or termination of the commitment at its expiration date.

F. Combined Stages. An applicant may elect to apply for a SAMA letter, a conditional commitment or a firm commitment, depending upon the completeness of the drawings, specifications, etc. The application for firm commitment is the only mandatory stage.

NOTE: Commitments are transferable between mortgagees with HUD Field Office approval after notification to the Office.

### 3-2 CHANGES IN PROPOSALS.

HUD Handbook 4445.1 REV covers significant deviations and other provisions relative to changes in proposals.

3-3 DETERMINING LOAN AMOUNT AND AMORTIZATION PERIOD. Analysis of the credit risk is based on a loan for a definite amount and amortization period.

A. Mortgage. Must be a principal obligation stated in multiples of \$100.

B. [R] Amortization Period of the Mortgage. The lesser of 75 percent of the estimated remaining economic life of the physical improvements or 40 years from the date of first payment to principal.

C. Interest Rate.

1. [R] The interest rate in a commitment must be agreed on by the mortgagor and mortgagee when the commitment is issued.

2. It may be increased or decreased only after reprocessing by HUD and issuance of an amended commitment.

3. It may not be increased or decreased after initial endorsement (insurance of advances) or start of construction (insurance upon completion, except that, where a mortgage increase is requested, processed and

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9/94

3-3

4560.01 REV-1

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approved, a higher (or lower) rate may be applied to the amount of the increase only and must be agreed to by the mortgagee and the mortgagor.

D. Requirement for Level Annuity Monthly Payment Plan. The mortgage must be self-amortizing and provide for equal monthly payments of

interest and principal due the first day of each month under an amortization plan agreed to by the mortgagor and lender and acceptable to HUD.

3-4[R] AMOUNT OF LOAN - NEW CONSTRUCTION. Includes construction of all types of projects not involving substantial rehabilitation. The insurable amount is the lowest of:

A.Application amount.

B.Applicable percentage of HUD's estimate of the replacement cost after completion, less the amount of grant/loan funds attributable to replacement cost items.

	Section	Mortgagor	Percent
(1)	221(d) (3)	Limited Distribution	90
(2)	221(d) (3)	Cooperatives	100
(3)	221(d) (3)	All others	100
(4)	221(d) (4)	All Mortgagors	90

C.Debt service that does not exceed the applicable percentage of the project's estimated net income. The mortgage may exceed this limit by capitalizing the savings from any tax abatement.

	Section	Mortgagor	Percent
(1)	221(d) (3)	Limited Distribution	90
(2)	221(d) (3)	All others (including Cooperatives)	95
(3)	221(d) (4)	All Mortgagors	90

D.Construction cost attributable to dwelling use, excluding exterior land improvements, not to exceed:

1.For walk-up structures:

a.Projects involving eligible nonprofit mortgagors to be

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9/94

3-4

4560.01 REV-1

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insured under Section 221(d) (3) of the Act - the per family unit limits in 24 CFR 221.514(a) (1) (i) .

b.Projects involving eligible mortgagors other than nonprofit mortgagors to be insured under Section 221(d) (3) of the Act - the per family unit limits in 24 CFR 221.514(a) (1) (ii) .

c.Projects involving eligible mortgagors to be insured

under Section 221(d) (4) of the Act - per family unit limits in 24 CFR 221.514(a) (1) (iii).

2. For elevator structures:

a. Projects involving eligible nonprofit mortgagors to be insured under Section 221(d) (3) of the Act - the per family unit limits in 24 CFR 221.514(b) (1).

b. Projects involving eligible mortgagors other than nonprofit mortgagors to be insured under Section 221(d) (3) of the Act - the per family unit limits in 24 CFR 221.514(b) (2).

c. Projects involving eligible mortgagors to be insured under Section 221(d) (4) of the Act - the per family unit limits in 24 CFR 221.514(b) (3).

3. Exceptions to insurable amount limitations:

a. The mortgage may exceed these limits by the percentage of the cost not attributable to dwelling use, including exterior land improvements.

	Section	Mortgagor	Percent
(1)	221(d) (3)	General and Limited Distribution	90
(2)	221(d) (3)	Cooperatives	100
(3)	221(d) (3)	All others	100
(4)	221(d) (4)	All Mortgagors	90

b. Per family unit limits may be increased by:

(1) The approved high cost percentage for the jurisdiction in which the project will be located.

(2) A percentage above the approved high cost

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9/94

3-5

4560.01 REV-1

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percentage up to 140 percent maximum with the approval of the Commissioner on a case-by-case basis.

(3) No more than 90 percent if the mortgage has been, or is committed to be, purchased by GNMA in implementing its Special Assistance Functions under Section 305 of the National Housing Act (as Section 305 existed immediately before its repeal on November 30, 1983).

(4) If the Commissioner finds good cause in Alaska, Guam or Hawaii, the maximum, including high cost area increases, if any, may be increased by no more than one-half thereof.

c. The limits for walk-up and elevator structures may be increased up to 20 percent if necessary for purchase and installation of a qualified solar energy system. This is on top of any increase in a high cost area.

3-5[R] AMOUNT OF LOAN - REHABILITATION. (This includes only projects involving substantial rehabilitation or reconstruction.) The loan must be the lower of:

A. Amounts in paragraph 3-4, except for B.

B. Applicable percentage of HUD's cost estimate of rehabilitation and fair market value of the land and existing improvements before rehabilitation, less the amount of grant/loan funds attributable to replacement cost items.

Section	Mortgagor	Percent
(1) 221(d) (3)	General and Limited Distribution	90
(2) 221(d) (3)	Cooperatives	100
(3) 221(d) (3)	All others	100
(4) 221(d) (4)	All Mortgagors	90

3-6 UNDERWRITING CONSIDERATIONS. This section describes, in general terms, certain special features of HUD mortgage underwriting and the Section 221(d) program. Specific instructions regarding these items are found in the applicable technical and underwriting handbooks.

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9/94

3-6

4560.01 REV-1

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A.[S] Builder's and Sponsor's Profit and Risk Allowance (BSPRA). An amount included in replacement cost for profit-motivated and limited distribution mortgagors where an identity-of-interest exists between the mortgagor and general contractor. BSPRA is no more than 10 percent of the total estimated cost of: on-site land improvements, structures, general requirements, general overhead expenses, architect's fees, carrying and financing charges, legal, organizational and audit expense.

B.[R] Sponsor's Profit and Risk Allowance (SPRA). An amount included in replacement cost where no identity-of-interest exists between the general contractor and mortgagor. SPRA is no more than 10 percent of the total estimated cost of: architect's fees, carrying and financing charges, legal, organizational and

audit expenses.

C.[R] Construction Inspection. HUD inspects all projects during construction or rehabilitation to evaluate performance of contractor and architect and see that the project is constructed according to the approved drawings and specifications and construction contract.

D.[S] Cost Certification. Required by Section 227 of the National Housing Act and HUD regulations for all rental housing projects. The following entities must certify actual costs before a project can be finally endorsed.

1.Mortgagors, in all cases.

2.General contractors, when there is a cost-plus construction contract.

3.General contractors having an identity-of-interest with the mortgagor or sponsor.

4.Subcontractors, material suppliers, and equipment lessors having an identity-of-interest with the mortgagor or sponsor.

E.Rate of Return on Investment. Nonprofit and public mortgagors are not entitled to distributions of project funds; the rate of return for other mortgagors varies from project to project.

1.Limited Distribution Mortgagors. Distributions may not

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9/94

3-7

4560.01 REV-1

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exceed the lesser of surplus cash or the distributions, as defined in the Regulatory Agreement, Form HUD-92466, available as of the end of the previous fiscal period. Projects receiving subsidy payments are also subject to the regulations and administrative procedures of the applicable subsidy program.

2.General Mortgagors. All surplus cash generated during the previous fiscal period may be distributed. See Handbook 4350.1, Insured Project Servicing, for details.

F.Tax exempt Financing. If tax exempt financing is used for the project, follow the instructions in Handbook 4470.1, Mortgage Credit Analysis.

G.Low Income Housing Tax Credits and Other Government Assistance. May be used in accordance with HUD administrative guidelines on

limitations on combining other Government assistance with HUD housing assistance May result in mortgage amounts that are lower than the limits described in paragraphs 3-4 and 3-5.

3-7 IDENTITY OF INTEREST.

Covered in HUD Handbook 4430.01 REV-1.