
CHAPTER 9. VALUATION PROCESSING

9-1. VALUATION ANALYSIS

- A. Purpose. To evaluate the property as security for a long-term coinsured mortgage.
- B. Special Characteristics
 - 1. Acceptable Risk
 - a. The analysis must show a reasonable expectation that project income will, for the duration of the mortgage term, be adequate to:
 - properly maintain the property
 - pay all required project expenses
 - meet debt service requirements and provide a reasonable return to the owners' equity investment.
 - 2. Value/Replacement Cost. The appraiser:
 - a. Uses the estimate of project replacement cost as the determination of value, and
 - b. Does not determine estimates of value by capitalization and market comparison methods.
- C. Market Criteria. The analysis must show sufficient market demand for the number of units at the location, at rents able to support the project.
- D. Rental Rates/Carrying Charges. Must be competitive with comparable unsubsidized rental projects.

There are no HUD tenant income eligibility requirements.

9-2. PRINCIPAL ELEMENTS OF VALUATION PROCESSING. Appraiser's duties:

- A. Environmental Assessment Information. You may be required to gather and organize information related to environmental concerns so that HUD may make a determination. (See paragraph 6-8)

- B. Land Appraisal. Estimate the value of the site fully improved.
- C. The Site and Market Acceptability. Decide whether site is acceptable for the project and whether a market exists for the units at estimated rents.
- D. Market Rent by Comparison. Prepare estimates.
- E. Annual Expense. Estimate project expenses based on comparison with actual operating expense data from other projects.
- F. Income Computations. Estimate occupancy and effective gross income, then subtract annual expense to arrive at estimated net income before mortgage payments.
- G. Tentative Mortgage Amount. Figure the tentative mortgage amount based on a mortgage credit determination of maximum mortgage.
- H. Replacement Cost. Estimate the replacement cost of the project when mortgage amount has been determined. (Many charges during construction depend on the mortgage amount.)
- I. Maximum Allowable Rents. Estimate maximum allowable rents for the first operating year by using a rent formula. The rents would cover payment of operating expenses, taxes and reserves, debt service and a reasonable return to the equity investment for profit-motivated sponsors based on the replacement cost of the project.
- J. Operating Deficit. Estimate the operating deficit, if any, expected during initial rent-up.
- K. Cost Not Attributable to Dwelling Use. Estimate cost not attributable to residential use to comply with statutory per unit mortgage limits.
- L. Narrative Summary. Briefly summarize important conclusions.

9-3. Forms and References

NOTE: You may ignore instructions in the references dividing the various underwriting actions into separate processing stages; the coinsurance program does not prescribe particular processing stages. (See paragraph 4-1)

- A. HUD Handbooks

1. Handbook 4465.1, Valuation Analysis for Project Mortgage Insurance: (Chapters 2, 3, 4, 5, 6, and 10 concerning Market Value of Land, Ground Leases, Appraisal of Air Rights, Estimated Rental Income, Operating Expense Estimates, and Rehabilitation Processing).
2. Handbook 4480.1, Multifamily Underwriting Reports and Forms Catalog: (Form HUD-92264, Project Income Analysis and Appraisal; Form HUD-92264-A, Supplement to Project Analysis; Form HUD-92273, Estimates of Market Rents by Comparison; Form HUD-92274, Operating Expense Analysis Worksheet).

B. Information Sources

1. Form HUD-92013, Application for Mortgage Insurance
2. Owners and operators of rental properties, management companies, mortgage lending institutions and real estate appraisers specializing in this field
3. Housing market reports/publications

C. Basic Form required for coinsurance valuation processing is Form HUD-92264, available from the local HUD Office.

D. Exhibits. Attach to Form HUD-92264:

1. Expense comparable analysis (Form HUD-92274)
2. Rent comparable analysis (Form HUD-92273)
3. Replacement cost formula
4. Valuation Trial copy Form HUD-92264-A
5. Rent formula
6. Market absorption data
7. Land sales data

9-4. New Construction Processing

A. General Considerations

1. Project Eligibility. (See Chapter 3.)
2. General Underwriting. (See Chapter 4.)

B. Step-by-Step Processing of Form HUD-92264

1. Show project name from the mortgagor's application. Obtain project number from the HUD Field Office (See 6-9 F.)
2. Section A. Location and Description of Property
 - a. Items A-1 through A-15. Show information from the application and exhibits, confirmed by inspection and modified as needed. (Item 4a, Census Tract Number, and Item 4b, Placement Code, leave blank.)
 - b. Item A-16. Enter year built. (Only applies to rehabilitation.)
 - c. Item A-16a. Indicate type of construction by checking appropriate box.
 - d. Item A-17. Describe Structural System as follows:
 - Steel frame; wood frame; solid masonry; reinforced concrete; etc.
 - e. Item A-17a. Describe Floor System (structural) This does not refer to finished floors, but to steel frame, reinforced concrete, etc.
 - f. Item A-17b. Describe Exterior Finish as follows:
 - Brick; masonry; stucco and siding; prefab panels, etc.
 - g. Item A-18. Describe Heating/Air Conditioning System by appropriate letter. Letters preceding the diagonal mark describe the type of project heating system, if any; those after indicate the type of project air conditioning system, if any. Use the following letters for both heating and air conditioning systems:

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I - Individual; C - Central; N - None;

E - Electric; G - Gas; and O - Oil.

For example, enter "IG/IE" for a project with

individual gas furnaces and individual electric air conditioners.

3) Section B. Information Concerning Land or Property

- a) Items B-19 through B-25. Take from the mortgagor's application, Form HUD-92013, verified as necessary.
- b) Item B-26. Verify by site inspection. (If there are unusual conditions, you may request help from the lender's architect, cost analyst, or an engineer's report.)

4) Section C. Estimate of Income

- a) Items C-27, C-28. Estimate unit rents per month based on and supported by current market rates for similar units in comparable projects furnishing comparable services in competing areas.
 - 1. You must not use rental data on subsidized projects.
 - 2. Make adjustments on a rent comparable analysis sheet (Form HUD-92273).
 - 3. Trend the estimates to 2 months beyond the projected construction completion.
- b) Item C-27. You must complete all items.
 - 1. "Rentable Living Area" is the area of a living unit measured from the inside faces of corridor and exterior walls and from the inside faces of partitions separating the living unit from other living or commercial areas.

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2. "Composition of Units" can be filled in by abbreviations for the various rooms, preceded by the number of each:

L - living room	BR - bedroom
D - dining room	B - bath
K - kitchen	BALC - balcony

3. Compare elevator units with elevator-unit comparables and nonelevator units with nonelevator comparables. When both are in a project, separately Identify and list them.

- c) Item C-29, Parking. Enter the number of parking spaces whether attended or self-park, and the number of open and covered parking spaces. Enter the monthly charge per space. Where the parking charge is included in the basic rent, enter N/A and attach supporting documentation to the appraisal report.
- d) Item C-30, Commercial
 - 1. Estimate rental income from commercial space on the basis of existing leases and other market data. (See paragraph 9-6 A for more details on commercial space.)
 - 2. Additional income anticipated from submetering utilities, valet service, nonlaundry coin-operated equipment, cigar stands, vending machines, pay telephones, apartment furniture, T.V. satellite disk, etc., must not be included in project income estimates. Income anticipated from renting space for concession facilities or the rental value of such space may be included on the same basis as income from commercial areas.
 - 3. Attach documentation supporting commercial income estimates.
- e) Items C-33, C-34 and C-35. Enter gross floor, net rentable residential, and net rentable commercial areas. These figures are based on the mortgagor's plans or other appropriate sources. The definitions for the various areas are:
 - 1. Net Rentable Residential Area: Sum of all rentable living areas within the exterior walls (including nonrevenue-producing residential areas).

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 - 2. Net Rentable Commercial Area: Sum of all commercial areas within the exterior walls, measured from the interior faces of exterior walls, corridor walls and partitions separating the area from other commercial and/or living areas.
 - 3. Net Rentable Area: Sum of net rentable residential area and net rentable commercial area.

4. Gross Floor Area: Sum of all floor areas of headroom height within the exterior walls, measured to the exterior faces of the walls or to the center line of walls separating attached buildings.

Note: Include built-in garages, commercial area, basement and all other areas within the exterior walls. Exclude recessed, extended or continuous balconies, attached or detached carports, accessory buildings, patios, porches or terraces and all other areas outside the exterior walls.

f) Item C-36 - Nonrevenue Producing Space

1. If nonrevenue-producing apartment units are provided to project employees, show type and location of units.
2. No income is attributed to nonrevenue-producing units in Item C-27; however, the unit is listed separately in the column "No. of each family-type unit."
3. The loss of income is not considered an expense in Section E and will lower payroll estimates in Section E.
4. Compare with Section A, Item 11, for accuracy.

5) Section D. Equipment and Services Included in Rent and Special Assessments

a) Items D-37 (Equipment), D-38 (Services)

1. Check the appropriate items for the equipment and services included in the rent.

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Compare with the mortgagor's application to see if anything typically expected in the market place was left out and could, therefore, affect the rent.

Variations must be reflected in the appraiser's estimate, and brought to the attention of the lender.

2. For services reported in Item D-38, check type of fuel (gas or electricity) and by the service

included.

- b) Item D-39 (Special Assessments). Enter the balance of special assessments, if any, the annual payment amount and the remaining term of the special assessment. Indicate prepayable or nonprepayable.

6) Section E. Estimate of Annual Expense

a) Items E-1 through E-22

1. Estimate project expenses based on actual operating experience of comparable projects on an expense comparable analysis worksheet (Form HUD-92274).

--Use a suitable unit of comparison such as per-unit-per-annum, or per-square-foot of rentable area per annum.

--Use data prudently, keeping in mind the similarities and differences between the comparables and the subject property. Inaccuracies or improperly supported estimates have a leverage effect in the estimate of value many times their own.

- a. You must base estimates on the typical expenses of comparables. Mortgagors' plans for significantly lower expenses (i.e. - by providing their own management), usually prove unrealistic.
- b. If a proposal has significantly more commercial space than the comparables:
- (1) Make a separate expense estimate for the commercial space, using commercial comparables, and attach it to the form.

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- (2) Add the commercial and residential expense estimates to get the total operating expense estimate.
- (3) Attach documentation supporting commercial expense estimate.

NOTE: This procedure doesn't apply to such normal residential operations as

tenant parking and laundry, which are reflected in most per-unit expense data.

- c. Reanalyze estimates when there is any revision of the equipment and services.

- 2. Transfer estimated totals for Line E-21, E-22, E-28 and E-29, trended to the time of endorsement, to Form HUD-92264, using the proper multiplier to obtain dollars-per-project-use.

- a. Item E-21. Replacement Reserve. Enter .006 multiplied by Total Structures, for new construction. This amount, on Form HUD-92274, is not trended. Add it to the total of E-1 through E-20 to provide the Total Operating Expense in Line E-22.
- b. Items E-23 through E-28. Use data on Form HUD-92274 in a similar way to develop tax estimates for these items and to trend these estimates.

7) Section F. Income Computations

- a) Item F-30. Enter amount from Section C, Line 32.
- b) Item F-31. Occupancy Percentage and Rent Loss. Long-term occupancy and rent collection ratios will seldom exceed 93 percent for rental properties. However, where a higher ratio can be documented, 95 percent may be used. Any occupancy percentage below 93 percent anticipated during the rent-up period must be analyzed for possible need for an operating deficit requirement.
- c) Items F-32 through F-35 - Self-explanatory.

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- (9-4) d) Additional Mortgage Amount - Tax Abatement. Tax abatement is the reduction of property taxes for a specific amount or amounts for a specific term or terms by the appropriate taxing authority. Unless the abatement is for the same amount and for the entire term of the mortgage, property taxes will be estimated on line E-23 as if there was no abatement. Calculate mortgage amounts as follows:
 - 1. If the annual abatement is the same amount and for a term shorter than the mortgage term, calculate as follows:

- a. Determine annual income attributable to the abatement.
 - b. Divide by the debt service rate based on the per permanent interest rate, MIP and the term of the abatement.
 - c. Add the mortgage amount attributable to the abatement to the debt service criteria of Form HUD-92264-A.
2. If the abatement is for different amounts and terms and the amounts are declining, calculate as follows:
- a. Deduct the annual abatement amount from the second abatement term from the first annual abatement amount.
 - b. Repeat Item 7, d) 1.b. (Note base term of the abatement on the first term only.)
 - c. Deduct the annual abatement amount from the third abatement term from the second abatement amount.
 - d. Repeat Items 7, d) 1.b. again, based on the total of the first two abatement terms.
 - e. Repeat this process till all the terms of the abatement have been considered.
 - f. Total the mortgage amounts attributable to the abatement and add to the debt service criteria of Form HUD-92264-A.

8) Section G. Estimated Replacement Cost

Enter the estimate for "Total for All Improvements" established by lender's cost estimates on line G-50. Complete the Section as follows:

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- (9-4) a) First, approximate the project replacement cost by using one of the formulas in Exhibits 1 through 5, pages 9-38 through 9-42. This will show the replacement cost and mortgage amount that would result if the mortgage amount were limited only by the replacement cost.

To complete the formula refer to Form HUD-92013,

Section B, for type of mortgagor. To find the appropriate ratio of loan to cost, use the following table:

	Section	Mortgagor	Percentage
1)	221(d)(3)	General and Limited Distribution	90
2)	221(d)(3)	Cooperatives	98
3)	221(d)(3)	All others	100
4)	221(d)(4)	All Mortgagors	90

b) Next, complete a valuation trial copy of Form HUD-92264-A, Part I, Determination of Maximum Insurable Mortgage.

1. For Criterion 3, use the estimate produced by the replacement cost formula, multiplied by the loan ratio (according to above loan table) for the type of mortgagor and section of the Act. On Line 3b enter the value of any leased fee, multiplied by the loan ratio.
2. For Criterion 4, complete Exhibit 6 or 7, pages 9-43 through 9-44.
3. For Criterion 5.
 - a. Item 5a. Enter permanent interest rate from HUD-92013
 - b. Item 5b. Enter .5 percent for mortgage insurance premium payable to HUD and, if charged, .25 percent for lender's premium. (See paragraph 4-5B.)
 - c. Item 5c. Enter required initial curtail rate applicable to amortization plan and mortgage term.
 - d. Item 5d. Self-explanatory.

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- e. Item 5e. Enter net income from Item F-34 and applicable debt service percentage. (See paragraph 4-3 C.)
 - f. Item 5f. Enter ground rent from Item K-6 and special assessments from Item D-39.
 - g. Items 5g and h - Self-explanatory.

- h. Add the mortgage amounts attributable to tax abatement.
4. The final maximum insurable mortgage cannot exceed the least mortgage amount shown for any of the applicable criteria.
- c) Use the mortgage amount from b) above to estimate carrying charges and financing items to complete the total estimated replacement cost.
 1. Item G-53 - Interest. Estimate the accrual during estimated construction period plus 2 months at the rate requested in Section B of Form HUD-92013. It is computed on half the mortgage.

For example, the interest based on a \$2,600,000 mortgage, for a 16-month construction period, plus 2 months and an 11.0 percent interest rate is calculated as follows:

Half the Mortgage	\$1,300,000
Interest Rate	.110
Annual Interest	<u>\$ 143,000</u>
18-month construction period	
18 divided by 12 = 1.5 years	X 1.5
Interest during construction	<u>\$ 214,500</u>

2. Item G-54 - Taxes. Show on pro rata basis the taxes (and any special assessments) accruing during the estimated construction period plus 2 months.

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 3. Item G-55 - Insurance. Estimate insurance including fire, windstorm, extended coverage, liability and other risks customarily insured against in the community during construction. The estimate covers the construction period plus 2 months. Do not include workmen's compensation and public liability insurance. They are in the cost estimate, Line G-50.
 4. Item G-56 - Mortgage Insurance Premium. Calculate mortgage insurance premium earned during

the presumed construction period plus 2 months. The amount is 1 percent of the mortgage for the first year and 0.5 percent more for each additional year or part of a year.

5. Item G-57 - Examination Fee. Calculate based on not more than 0.3 percent of the estimated mortgage.
6. Item G-58 - Inspection Fee. Calculate based on not more than 0.5 percent of estimated mortgage.
7. Item G-59 - Financing Fee. Calculate based on not more than 2 percent of estimated mortgage. This is an initial service charge, not to be confused with discounts.
8. Item G-60 - AMPO. Calculate AMPO (allowance to make project operational) based on 2 percent of replacement cost in cases involving nonprofit mortgagors-not including cooperative mortgagors. See HUD Handbook 4500.1, Allowance for Making Nonprofit Projects Operational and Use of Housing Consultants, for more details, if needed.
9. Item G-61 - FNMA/GNMA Fee. Calculate fee for commitment and marketing (permanent loan placement fee) for all mortgagors, based on not more than 1-1/2 percent of the mortgage amount.
10. Item G-62 - Title and Recording. Show the costs typically incurred for a mortgage transaction, such as:
 - a. Recording fees

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- b. Mortgage and stamp taxes
 - c. Survey
 - d. Title Insurances
 - e. Title work - from initial through final endorsement
11. Item G-64 - Legal. Estimate the fees usually required for:

- a. Counsel to create the mortgagor entity; however, don't include cost of legal services to create tax shelters, trusts, etc.
- b. Initial and final closing.
- c. Normal interim activities in creating a project.

NOTE: Legal fees for land acquisition are not allowable since they are attributable to mortgagor's cost and are reflected in Land Value.

- 12. Item G-65 - Organization. Estimate administrative cost of services, reflecting project size and type of ownership, required to:
 - a. Initiate a project
 - b. Organize its planning, financing and construction
 - c. Control and manage construction through final endorsement

Examples of the above are:

- Collecting data and documentation for requests for mortgage insurance including analysis of market need, selection and optioning of site and project design considerations.
- Assembling the data and documentation from various parties for mortgage closings; arranging for execution of documents; attending to closings.

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- Controlling and accounting for disbursement of mortgage proceeds and working capital.
- Placing mortgagor's hazard and liability insurance; coordinating building release for occupancy.
- Paying and helping auditor obtain information for cost certification.
- Liaison with HUD through final endorsement, as normally indicated for typical projects.

13. Item G-66 - Cost Certification Audit Fee. Show typical cost of hiring an accountant to audit the account books and to issue an opinion for the mortgagor.
14. Item G-68 - Builder and Sponsor Profit and Risk. Calculate the Builder's and Sponsor's Profit and Risk Allowance (BSPRA) or Sponsor's Profit and Risk Allowance (SPRA). (Not applicable to non-profit mortgagors.)
 - a. If the lender determines that an identity-of-interest exists between the mortgagor and the general contractor, BSPRA will be calculated as follows:
 1. not more than 10 percent of the sum of lines G-50, G-63 and G-67.
 2. no profit will be allowed on line G-44.
 - b. If the lender determines that an identity-of-interest does not exist or will not exist between the sponsor and the general contractor as of the date of the firm commitment in insurance upon completion of cases or initial endorsement in insurance of advances cases , SPRA will be calculated as follows:
 1. not more than 10 percent of the sum of lines G-45, G-46, G-63 and G-67.
 2. profit may be allowed on line G-44.

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15. Item G-69 - Consultant Fee. If nonprofit sponsor is using an approved consultant, enter the consultant's fee. The maximum allowable in replacement cost and mortgage proceeds must not exceed the schedule in Chapter 2 of Handbook 4500.1.
 16. Item G-70 - Supplemental Management Fund. Not applicable to unsubsidized coinsured projects.
 17. Item G-71 - Contingency Reserve. Not applicable to coinsured new construction projects.
 18. Item G-72 - Total Estimated Development Cost. Total all items of replacement cost except the "Warranted Price of Land."

19. Item G-73 - Warranted Price of Land. Enter from item J14(3) of Form HUD-92264.
20. Item G-74 - Total Estimated Replacement Cost. Sum of Items G-72 and G-73. When the least mortgage amount on FHA Form 2264-A is the mortgage limited by replacement cost (in Criterion 3), the "Total Estimated Replacement Cost of Project" in G-74 should be within a few dollars of the "Replacement Cost by Replacement Cost Formula."

9) Section H. Maximum Permissible Rent

- a) Item H-1. HUD limits the return a sponsor can expect from the residential portion of a coinsured project by limiting the initial rents. Calculate maximum residential gross income using the rent formula in Exhibits 8 and 9, pages 9-45 and 9-46. Underline and enter the amount of the indicated monthly maximum.
- b) Items H-2 through H-7. Not applicable to coinsurance processing.

10) Section I. Estimate of Operating Deficit

A project that can not rent-up in the first year should be carefully examined for feasibility; however, it is almost inevitable that occupancy percentage for the first year or so will be less than the long-term percentage.

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Estimate the operating deficit as follows if the entire project net income probably will not be available during the initial rent-up period:

- a) Determine the estimated rent-up period or periods.
- b) Determine the approximate date of project construction completion and the date amortization of the mortgage will probably begin.
- c) For each period, estimate:
 - 1) the average number of units expected to be occupied
 - 2) rental income and

- 3) the expenses, taking into account probable initial increases in administrative expenses and decreases in maintenance expenses. Reserves for replacement should not be included in the estimate of the expenses before amortization, but must be included after amortization begins.
- d) Deduct total expenses for each period from rental income to find the net income available to pay the debt service.
- e) Calculate the debt service requirement.
 - 1) For any period of anticipated income deficit before start of amortization, multiply the mortgage by the sum of the interest rate and the mortgage insurance premium rate, and add to the total any ground rent for the period.
 - 2) For any period of anticipated income deficit after the start of amortization, include payments for principal, interest, MIP, and any ground rent.
- f) If debt service is greater than net income for the same period, the difference is the operating deficit for that period.

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(9-4) 11. Section J. Project Site Analysis and Appraisal

NOTE: If a negative answer is indicated for an item from J-1 through J-5, explain under "Remarks."

- a) Item J-1. Site Location. Analyze the location of the site.
 1. Relative to the needs of the tenants for
 - a. transportation
 - b. schools
 - c. shopping
 - d. community centers and
 - e. churches.

2. Determine any special hazards or nuisances such as:
 - a. flooding
 - b. airport hazards
 - c. airport, railroad, or highway noise levels
 - d. noxious odors and/or concentrated air pollution
 - e. flammable or explosive hazards
 - f. overhead high voltage transmission lines, pipelines and drainage channels.
- b) Item J-2. Adequacy of Site. Determine if the site is adequate in size, shape, exposure, and contour. Compare the density of the proposed project with that of similar successful projects operating in the same market area.
- c) Item J-3 - Permissive Zoning. Determine if the proposed structure(s) and the number of units comply with current zoning.

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- d) Item J-4 - Availability of Utilities. Determine whether the water, sewer, gas and electrical facilities are adequate for the project.
 - e) Item J-5 - Market of Rents Proposed. Analyze all market data for the area to determine demand potential for the type and number of units at the rents indicated by market rent comparison. Examine economic and market analysis reports, data from building departments on new construction absorption, and vacancy reports and rental schedules in the area.
 - f) Item J-6 and J-7 - Site Acceptable or Unacceptable. Check one based on J-1 through J-5.
 - g) Item J-8 - Value Fully Improved. Enter in the top row the location and size of the project. Use the rest of Item 8 to estimate, by market comparison, the market value of the site fully improved. Attach copies of the land sales data cards/sheets of the comparables (to the Form HUD-92264).

1. The value fully improved estimate for the site must be the value for the intended use for which the mortgage will be insured.
2. Under the heading "Adjustments", consider each element when estimating value, whether sales price per foot or per unit is the basis for comparison. Make adjustments from the comparison property to the subject.
 - a. To find the "Adjusted Price" for a comparable: apply its "Total Adjustment" to the comparable's sale price per square foot or per unit.
 - b. To find an "Indicated Value by Comparison": multiply the area of the subject site by the comparable's adjusted square foot price or number of subject's units times the comparable's adjusted unit price.
 - c) Use this procedure for each comparable to arrive at a range of values from which the value of the site fully improved is estimated by correlation and entered in Item 9.

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This value estimate is based on the assumption that any offsite work has been completed and any unusual site conditions corrected.

- d) Pertinent remarks explaining all adjustments must be made in the remarks section or in an accompanying memorandum.
- h) Item J-10 - Value "As Is." Enter "N/A" for "not applicable."
- i) Item J-12 - Acquisition Cost. Record the names and addresses of the principals, the price paid, date of sale and sources of information for the last arm's-length transaction. The transaction that first gave the sponsor effective control of the property (whether the control was direct or indirect) is the last arm's-length transaction. Interview principals, brokers or others who know the price paid in that transaction.

- j) Item J-13 - Other Costs. Enter reasonable actual or estimated costs related to acquisition of site.
 - k) Item J-14 - Value of Land and Cost Certification. Fill in J-14(1) through (7) according to Handbook 4480.1, page 2264-27, to estimate the "Warranted Price of Land Fully Improved" and the "Commissioner's Estimated Value of Land 'As Is'."
 - l) Remarks. Use this section for pertinent comments on any item in the analysis and site appraisal. If necessary, attach a separate memorandum to the Form HUD-92264, with a note here to see the memorandum.
- 12) Section K. Income Approach to Value
- 1. Item K-1. Estimate economic life of the property.
 - 2. Items K-2 through K-5. Leave blank.
 - 3. Item K-6. Estimate the value of any leased fee. Generally it can't exceed the as is value. See Chapter 3 of Handbook 4465.1 for details.
- 13) Section L. Market Comparison Approach to Value
- Leave blank.

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(9-4) 14) Section M. Cost Not Attributable to Dwelling Use

Copy data from form supplied by cost analyst.

15) Section N. Calculation of Budgeted Construction Cost.
Leave blank - not applicable in coinsurance proposals.

16) Section O. Remarks

Enter any relevant remarks, including, but not limited to, the value of land underlying items of cost not attributable to residential use.

17) Narrative Summary

Briefly summarize important conclusions.

Both the Form HUD-92264 and this report must be signed by the appraiser.

NOTE: For Section 221(d)(3) Builder - Seller proposals,

two Form HUD-92264s are to be completed. One as a nonprofit mortgagor and one as a limited distribution mortgagor. The difference in the mortgages will be placed in an escrow account. If the nonprofit mortgagor is not formed, the mortgage will be reduced by the escrow amount.

9-5 Rehabilitation Processing

A. General Processing Consideration

- 1) As Is Value of the property before rehabilitation is based on:

- a. the property's intended multifamily use and not the current or highest and best use.
- b. its condition at the time of appraisal

You may complete the "as is" appraisal using the Form HUD-92264 or by a narrative containing all pertinent conclusions and documentation.

- 2) Once you have the as is value, complete Form HUD-92264 as instructed for new construction, with the following exceptions and amplifications:

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- a) Section C. Estimate of Income. Estimate rent to be obtained after rehabilitation, when the project is offered to the market. Form HUD-92273 (Rental Analysis Worksheet) are completed showing rental estimates for each unit type trended to two months beyond rehabilitation completion.
 1. Project Eligibility, See Chapter 3.
 2. General Underwriting, See Chapter 4.
 - b) Section E. Replacement Reserve. Calculate Item E-21 by applying the factor .004 to the mortgage amount used in processing.
 - c) Section G. Estimated Replacement Cost. Complete the appropriate replacement cost format (see exhibits) to show mortgage amount if replacement cost were the only limiting criterion.

Use the replacement-cost-by-formula to complete the cost-not-attributable format (Appendix 16) for

rehabilitation only.

Enter the resulting cost-not-attributable amount on line 4b of the trial Form HUD-92264-A.

Complete the trial Form HUD-92264-A to show the mortgage amount to be used in completing Section G.

B. Step-by-Step Processing of Form HUD-92264

- 1) Item G-53 - Interest. Calculate in the same manner as new construction except compute it on half the sum of the mortgage and the as is value.
- 2) Item G-58 - Inspection Fee. Calculate at 0.5 percent on the total (rounded to the next \$100 multiple) of Line 50 plus either BSPRA or SPRA.
- 3) Item G-71 - Contingency Fee. Enter the amount, which may vary from 0 to 10 percent of the sum of Items 36(c), 41 and 42. The lender will tell you the exact percentage to use for this reserve on each project.
- 4) Item G-72a - Offsite. Show any offsite costs or onsite demolition costs, by inserting an "Item 72a." This separate entry is necessary in rehabilitation processing because the as is value does not include offsite requirements.

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- (9-5) 5) Item G-73 - Warranted Price of Land. Amend to read as-is value. Enter the value of the property before rehabilitation.

9-6 Commercial Space Processing - New and Substantial Rehabilitation
(Also see paragraphs 3-1 J, 7-7 and 7-8)

A. General Considerations

- 1) Eligibility. See paragraph 3-1 J.
- 2) Commercial Space In Excess of 10 Percent Net Rentable Area.

The lender must submit the commercial rent test as outlined below with the supporting data to HUD Headquarters (Office of Insured Multifamily Development) for approval.

- 3) Commercial Rent Test. Commercial income must support its cost. (Use Appendix 17.)

- 4) Commercial Data. The appraiser must:
- a) Use current and complete income and expense data from successfully operating commercial projects and other residential projects containing commercial facilities.
 - b) Make a special effort to obtain commercial data that reflects the type of commercial use and condition of the space being processed.

- 5) Commercial Processing. The appraiser must:

- a) Obtain from the application or the mortgagor the proposed type of commercial use and rents.
- b) Determine if the proposed occupancy percentage of commercial use is realistic.
- c) Determine the degree of finishing required to make the space competitive.

HUD will allow finishing and alteration costs in mortgage amount to cover minor tenant accommodations, such as electrical and heating locations.

HUD will not allow in mortgage amount commercial realty improvements not typical in competing commercial space in the area. An escrow must be established for any cost to the sponsor not included in the mortgage.

- (9-6)
- d) Identify lease agreements concerning payments of property charges - such as taxes, insurance, maintenance, utilities, etc. - or any other condition that would affect lease payment. This will clearly define actual income derived from the lessee.
 - e) Verify with local building department that the facilities would meet local codes for parking, fire, delivery and any other requirements.

B. Step-by-Step Processing of Form HUD-92264

- 1) Section C. Estimate of Income

- a) Don't limit the analysis to the two categories shown on the form if plans and specifications indicate more are applicable.

- b) Use a minimum of three commercial income comparables for each type of commercial space offered.
 - c) Make adjustments if lease terms applicable to the comparables are different from the proposed commercial terms. Rent raises and percentage clauses may be considered if data warrants.
 - d) Convert all rents to a square-foot basis for analysis and for Form HUD-92264.
- 2) Section F. Income Computations

a) Vacancy Factor:

Use an 80 percent occupancy factor for the commercial portion of gross effective income unless signed leases from established commercial tenants approved by the lender support a higher estimate. At any time during processing, before initial endorsement, any newly signed acceptable leases will be considered. Never will the commercial occupancy factor exceed the residential occupancy factor.

1. When carrying the total annual rent from Section C to Section F, show it on Line F 30 in two amounts: the commercial portion broken out and identified as such just above the remainder of total project gross income.
2. On Line F 31, show the occupancy factors used. Keep in the case file all documentation supporting the factors.

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(9-6)

3. To find effective gross income (Line F 32), apply the appropriate occupancy factors to the respective gross incomes.

b) Expense Analysis:

1. If the lessee assumes all property charges and there are no operating expenses attributable to the commercial facilities, note this on Form HUD-92274 prepared for the residential portion of the project.
2. If certain property charges such as utilities, taxes, maintenance and insurance will be borne by the lessor, identify them either on a

separate analysis worksheet or on the Form HUD-92274 and note appropriately.

3. Keep on file all documentation supporting the commercial expense estimate.

3) Section I. Estimate of Operating Deficit. Show calculations on Form HUD-92264 to support need or lack of need for an operating deficit.

4) Section G. Estimated Replacement Cost

a) Review the plans with the cost analyst to see how much finishing HUD can be expected to coinsure for each commercial area, as warranted by market and the commercial rents.

b) On Line G 71, enter the amount estimated by the cost analyst and identified as "Commercial Contingency". For rehabilitation proposals, put the amount just to the left of the total dollar amount.

9-7 Cooperative Processing Procedures

The procedures for processing Section 221(d)(3) cooperative projects are basically the same as under the Sections 221(d)(3) and 221(d)(4) rental programs. The following handbooks help.

A. 4465.1 - Valuation Analysis for Project Mortgage Insurance

B. 4480.1 - Multifamily Underwriting Reports and Forms

C. 4550.1 - Basic Cooperative Housing Insurance

D. 4550.2 - Presale-Management Type Cooperative

9-8 Basic Form for Cooperatives

Use the Form HUD-92264B Cooperative or Condominium Housing Project Analysis, (See Appendix 65 for list of cooperative forms). Exhibits to include are:

A. Form HUD-92273 - Estimate of Market Rent by Comparison

B. Form HUD-92274 - Operating Expense Analysis Worksheet

C. Replacement Cost Formula

D. Rent Formula

E. Land Sales Data

F. Absorption Data

G. Trial Form HUD-92264-A

9-9 Commitment Processing - Cooperative Management Type,
Under 221(d)(3)

Complete Form HUD-92264B as follows. Use the mortgagor's application (Form HUD-93201, Application for Mortgage Insurance Cooperative Housing - Condominium Housing) as the prime source of data for the descriptive portion of the form. Unless noted in the following, the individual items will be completed as described in paragraph 9-4, New Construction Processing.

A. Location and Description. No change from paragraph 9-4 B.2.

B. Property Information Concerning Land or Property. No change from paragraph 9-4 B.3.

C. Unit Composition and Charges

In order to limit the cooperative mortgage to an amount which bears a reasonable relationship to the earning capacity of the property in the rental market, the unit charge per month shall be based on the current rental charge for similar units in the same or competing locations. Using Form HUD-92273, make adjustments for:

1. Any significant differences but not for

2. Owner's income tax benefits

(NOTE: Income sufficient to support a 90 percent rental mortgage would be more than adequate to support a 98 percent cooperative mortgage.)

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(9-9) D. Equipment and Services Included in Charges and Special Assessments

Ranges and Refrigerators Replacement - indicates that subsequent replacements will be made from the corporate replacement reserves. If down payments are typically less than \$500 per unit, replacement of refrigerators and ranges as a corporate expense must be required.

E. Estimate of Annual Common Expense

Determine the common expense by an estimate performed on Form HUD-92274 or equivalent. The only variances from the rental procedure are:

- an estimate of apartment resale expense in lieu of advertising.
- computation of "Reserve for Replacements" .004 of Section H, Line 50, when replacement of refrigerators and ranges is not a corporate expense. When it is a corporate expense, compute the replacement as .066-of Section H, Line 50.

F. & G. Annual Fixed Charges and Net Common Expense and Fixed Charges

Exhibit 10, "Cooperative Net Income," page 9-47, has been substituted for these sections and is self-explanatory. When the Annual Net Income has been entered in Line 7 of Exhibit 10, it is used in Criterion 5, "Amount Based on Debt Service Ratio," of Form HUD-92264-A, in accordance with instructions in paragraph 9-4B and with mortgage credit instructions in Chapter 10 of this handbook.

H. Estimated Replacement Cost

Complete as for rental processing (See paragraph 9-4 B.8), with the following exceptions:

- 1) The replacement cost loan ratio percentage will be 98%.
- 2) If the debt service criterion is not controlling, the unit charges will have to be reduced to conform with the cooperative rent formula. (Exhibit 11, page 9-48)
- 3) Development Services Allowance and Marketing
 - a) Development Services Allowance. Modify Line 77 on the Form HUD-92264B, entitled "Other", to read:
"Development Service Allowance." Enter the estimate there.

(9-9)

Consider the following development requirements that are generally unique to cooperatives.

1. Effort by the professional group initiating the project - i.e., analysis, evaluation and/or negotiation of market, site and design.
2. Extra forms and other exhibits, both for legal

and administrative needs. Examples are:

- a. Form FHA 3265 - (Agreement for Commencement of Early Construction)
 - b. Information Bulletin (Prospectus)
 - c. Occupancy Agreement (Differs from a Lease)
 - d. Form of Balance Sheet of Cooperatives
 - e. Minutes - Membership Meeting of Cooperatives
 - f. Agreement for Reimbursement of Certain Expenses of Developer Hold Back Escrow Agreement
3. Development and execution of procedures usually needed for building separately and later combining model units and various sections into one project.
 4. Development of procedures for additional escrow requirements for funds received from subscribers.
 5. Development of the procedures and setting up the provisional board of directors to function on behalf of the cooperative until it can elect its own board.
 6. Additional advice and assistance, both legal and administrative, to newly elected board of resident members for 90 days after final closing.

The above is not intended to be a total listing of items that may be acceptable for this allowance, but to illustrate types of service that qualify.

- b) Item 75 - Marketing. Marketing expense, based on data reflecting the location, size and type project, includes the amounts necessary to:

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(9-9)

1. Hire professional real estate sales agencies or individuals to qualify applicants.
2. Cover the usual advertising and promotion expenses for a reasonable sale period.

- c) Item 81 - Value of Leased Fee. See Chapter 3 of

4465.1 concerning leaseholds. In general, the ground rent capitalized cannot exceed the as-is value of the site.

I. Estimated Expenses Not Included in Common Expense

Personal benefit expenses are those housing expenses not included in the unit charges and are an obligation of the individual cooperator. For each type unit, make estimates for all essential services and equipment not provided for.

J. Total Requirements for Settlement

This section is reserved. Leave blank.

K. Estimated Annual Operating Statement. Not applicable.

L. Cost Not Attributable to Dwelling Use

Obtain data from cost analyst.

M. Calculation of Budgeted Construction Cost. Not applicable.

O. Project Site Analysis and Appraisal. Same as rental (See paragraph 9-4 B.11.).

9-10 Commitment Processing, Investor-Sponsor-Proposed Construction

A. Complete sections A through F and section I on Form HUD-92264 as if the project were operated as a rental. Determine the mortgage amount that could be supported by 90 percent of the net income. That mortgage amount will be deducted from the cooperative mortgage as determined below in 9-10-B. An escrow in the amount of the difference will be established. In case the cooperative is unsuccessful, the escrow will be deducted from the cooperative mortgage.

B. Process Form HUD-92264B according to instructions for management-type proposed construction, with the following exceptions:

Section H. Estimated Replacement Cost

1) Item 66 - Interest. Base the amount on a 98% loan ratio.

(9-10) 2) Items 62, 65, 67, and 68 - Base on the mortgage amount applicable to the investor sponsor, which will be the lesser of 90 percent of estimated replacement cost or the debt service mortgage from A above.

- 3) Items 73 and 74 - Indicate separately the amounts applicable first to a rental project and second the additional amounts applicable to the cooperatives. Make these entries to the left of the totals.

9-11 Management Type - Rehabilitation for Conversion

In processing rental projects for conversion to cooperatives, complete Form HUD-92264B, using instructions for management-type proposed construction, with the following exceptions:

Section E. Item 21 - Replacement Reserve. Enter .004 times the amount of the mortgage. (.006 if replacement refrigerators and ranges are a cooperative expense.)

Section H. Estimated Replacement Cost. The cost analyst will complete items 43 through 61 based on the amount of rehabilitation.

Item 62 - Interest. Base on half the sum of the as-is value and the mortgage.

Item 67 - Inspection Fee. Enter .5% of the amount of the rehabilitation recorded in Item 59.

Item 73 and 74 - Legal and Organization. Include only that amount required to effect conversion from a rental to a cooperative project.

Item 77(a) - Contingency Reserve. Interline "Contingency Reserve" between Items 77 and 78. Enter the amount of the reserve, which may vary from 0 to 10 percent of the sum of Items 45, 50 and 51. The chief underwriter will tell the appraiser the exact percentage to use for this reserve for each project.

Item 79 - Warranted Price of Land. Amend to read "as-is" value - value before rehabilitation.

Item 80 - Total Estimated Replacement Cost of Project. Amend to read "Summation Estimate." This is the sum of the: as-is value of the property; the rehabilitation cost and carrying charges; legal, organization and marketing expense of the cooperative mortgagor.

The sum will be the lender's estimate of project replacement cost.

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9-12 Investor Sponsor - Rehabilitation

In processing rehabilitation projects as investor sponsor cooperatives, complete Form HUD-92264-B, HUD-92264 and HUD-92264-A as for Investor Sponsor Cooperatives, New Construction. with the following exceptions:

Section H. Estimated Replacement Cost

Items 43 through 61 will be completed by the cost analyst based on the amount of rehabilitation.

Item 62 - Interest. Base on half the sum of the as-is value and the mortgage.

Item 67 - Inspection Fee. Enter .5% of the amount of the rehabilitation recorded in Item 59.

9-13 Retirement Service Centers (ReSC) - Valuation Considerations

For final determination of overall feasibility of any ReSC proposal, the total cost of the shelter and services will have to be analyzed to determine the depth and availability of the potential market.

Consider the following when processing a ReSC in conjunction with Section 221(d) program.

A. Shelter Budget Income - Represents the funds for:

- 1) Shelter in the living unit
- 2) Equipment such as range and refrigerator in the living unit
- 3) Maintenance
- 4) Utilities included in the rent

The total of the above for a feasible ReSC should exceed rent in a noncongregate project by cost of debt service on congregate facilities.

This income is reflected in Section C, Form HUD-92264, and net income from this budget supports the mortgage on the realty.

B. Nonshelter Budget Income - Represents the funds for:

- 1) Meals in a congregate dining room

- (9-13)
- 2) Maid service
 - 3) Furniture in individual living units (if any)
 - 4) Entertainment
 - 5) Recreational or social services
 - 6) Medical services (only with prior approval of HUD Headquarters' Office of Insured Multifamily Housing Development).
- C. Nonshelter Budget for Meals in Congregate Kitchen and Dining Facilities. (Identity-of-Interest between the ReSC Sponsor and the Provider of the Food Service.)
- 1) Show expenses for meals on Form HUD-92013E as follows:
 - a) Food Service Employees
 - cooks
 - servers
 - cleaners
 - b) Food and other related supplies
 - c) Maintenance and repair
 - d) Reserve for replacement of dining furniture
 - e) Any other related cost
 - 2) The meal charge to the tenant must be sufficient to:
 - a) Cover expenses listed above
 - b) Provide a small profit
 - 3) The meals may be mandatory in order to:
 - a) Provide a stability of income
 - b) Ensure a reasonable charge
- D. Commercial Leases of Space to Provide Food Service Facilities (Nonidentity-of-interest between the ReSC sponsor and the provider of the food service.)

-
- (9-13) 1) The expenses will not be shown on HUD Form-92013-E. Instead, a statement similar to the following must be entered on the form:

"Three (mandatory/nonmandatory) meals a day are available from a commercial restaurant on the premises. The initial average cost of meals is expected to be:

Breakfast \$ _____
Lunch \$ _____
Dinner \$ _____."

- 2) The meals may be mandatory provided the sponsor has the right to concur on:

- a) Meal charges which:

- cover expenses
- provide reasonable profit

- b) Changes in service.

These rights must be transferable to the mortgagor's successors in the event of foreclosure or deed in lieu.

- 3) Income from lease of congregate kitchen and dining areas can be included in Section C of Form HUD-92264 when supported by an adequate market study. Such rent must be enough to pay:

- a) Debt-service on the cost of kitchen and dining facilities

- b) Any operating expense of the facilities, including but not limited to their share of taxes and insurance.

- 4) Leases that have escape clauses not requiring the lessee to begin payments at completion, or by a certain date, cannot be used to increase the occupancy above the normal 80 percent used in processing commercial space (see paragraph 9-6).

To avoid duplication of income, the shelter rent estimate should not give any recognition to the cost of debt-service on the commercial congregate facilities.

(9-13) E. Contract Food Service

A "Meals on Wheels" approach to providing meal service can also be used in conjunction with a ReSC. This should cause little or no additional rent in Section C, Form HUD-92264 either for shelter or commercial space, but will still require identification of the average meal costs added to tenant charges.

F. Income Comparables

Retirement Service Center comparables that include Founder's fees or initial admission fees cannot be used as income comparables to determine rental charges. However, fees paid for meals and other ancillary services, if they can be determined on these type comparables, can be used in analyzing the ancillary-type service cost.

G. Processing Changes on Form HUD-92264

- 1) Insert between Items G-70 and G-71 an Item titled G-70a, Movable Equipment. The figure will be furnished by the cost estimator.
- 2) Insert between Items E-21 and E-22 an Item titled E-21a, Replacement Reserve Movable Equipment. Calculate on the basis of .10 of line G-70a, Movable Equipment.

9-14 Section 103(b)(4)(A) - Valuation Considerations.

Section 103(b)(4)(A) bond financed projects have income restrictions. The appraiser, when directed by the lender, will complete Form HUD-92264-TE (see Exhibit 12, page 9-49).

The Form HUD-92264-TE is self-explanatory with the exception of the following:

- A. Line 3 - Applicable Section 8 Eligibility Income Limit. Use four-person income, eligibility limit on all unit types.
- B. Line 4 - Estimated Maximum Affordable Monthly Rent for Restricted Units is predicated on:
 - 1) Tenant incomes at the top of the eligibility limit
 - 2) Tenant's payment of up to 30 percent of gross income

-
- (9-14) C. Market. When the rent for the restricted unit is less than market, the appraiser will determine if there is sufficient market for the restricted units, based on what eligible families are willing to pay.
- D. Operating Deficit. If the appraiser determines the project is marketable with this restriction, an operating deficit may still be required in order to provide time to attract qualifying families.
- E. Covenant Review. The appraiser shall also review the special deed covenants or other long-term restrictions recorded to run with the land that are imposed to comply with the requirements of Section 103(b)(4)(A). The appraiser must ascertain that:
- 1) Covenants are subordinate to the mortgage
 - 2) Covenants will automatically terminate in the event of foreclosure or transfer of title by deed in lieu if foreclosure
 - 3) Covenant provisions are subordinate to all applicable coinsurance regulations and related administrative requirements

State and local restrictions shall also be reviewed for their impact on the project.

9-15 Section 8 Moderate Rehabilitation - Valuation Consideration

- A. Rents. In processing rehabilitation cases with Section 8 Moderate Rehabilitation funds, the rents will be determined by one of two methods:
- 1) Market Rents or
 - 2) Market Rents plus up to 20 percent if required for feasibility (only applies to Section 8 assisted units). Feasibility refers to the maximum rent required to have the debt-service criteria equal the controlling mortgage criteria.

NOTE: If the market rents exceed the rents needed to support the controlling mortgage criteria, the rents must be reduced to that rent or to the Moderate Rehabilitation Fair Market Limit as described below, whichever is lower.

-
- (9-15) B. Fair Market Rent. The total charge to tenant (rent plus personal benefit expense) will be limited by the Moderate Rehabilitation Fair Market Rent Limits which are 120 percent of the Existing Fair Market Rents in effect on the date the Section 8 Moderate Rehabilitation Agreement is signed.
- C. Exception Before Construction. The above Fair Market Rent Limits may be increased by up to 110 percent, if the HUD local Field Office determines that median rents for units of a given size in a specific area are more than 10 percent higher than the Existing Fair Market Rents.
- D. Execution of Section 8 Moderate Rehabilitation Agreement. On all projects, the agreement must be signed after issuance of the firm commitment but on
- 1) Insured Advances Cases. Before the date of initial endorsement or start of construction, whichever is first.
 - 2) Insurance on Completion Cases. Before the start of construction.
- E. Required HUD Field Review. In all cases, the rents must be reviewed and approved by the local HUD Office.
- F. Exception to Fair Market Rent Limits After Cost Certification. After cost certification, the limits can be raised an additional 10 percent, if necessary, for the following reasons:
- 1) Contingency type construction change orders
 - a) Changes that reasonably could not have been anticipated or are required by HUD or by local codes or ordinances, and
 - b) were not listed in the PHA or HUD approved work write-up
 - 2) Unforeseen factors beyond the owner's control
 - a) strikes
 - b) weather delay
 - c) unexpected delays caused by local government
 - d) temporary relocation costs
-

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(9-15) NOTE: (The above procedure varies from the noninsured Section 8 Moderate Rehabilitation procedures which allow rent increases for changes in financing, and PHA rent computation errors.)

G. Approval. If the additional 10 percent is required, that processing must be reviewed and approved by HUD Central Office.

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EXHIBIT 1

[illegible]

Consultant Fee (If Lump Sum)(NP Projects Only)	\$_____
Supplemental Management Fund	_____
Warranted Price of Land	_____
Movable Equipment	_____

TOTAL KNOWNs ON WHICH BSPRA MAY NOT BE ALLOWED \$_____ = A

Total For All Improvements	\$ _____
Taxes	_____
Insurance	_____
Title and Recording	_____
Legal	_____
Organization	_____
Cost Certification Audit Fee	_____

TOTAL KNOWNs ON WHICH BSPRA MAY BE ALLOWED = \$_____ = B

Interest Rate: 2 x Construction Period (Years)	_____
Mortgage Insurance Premium	_____
Examination Fee	_____
Inspection Fee	_____
Financing Fee	_____
AMPO (NP Projects Only)	_____
FNMA/GNMA Fee	_____
Consultant Fee (If An Unknown)(NP Projects Only)	_____

Subtotal _____ x _____ Loan Ratio = \$ _____

Marketing Expense (Cooperative or Condominium
Project Only) _____

TOTAL UNKNOWNNS _____=C

WITH BSPRA:

A + 1.1B
_____ = \$ _____ Total Project Cost = X
1.0 - 1.1C

WITHOUT BSPRA:

A + B
_____ = \$ _____ Total Project Cost = X
1.0 - C

X = \$ _____ X _____ Loan Ratio = \$ _____ Maximum Mortgage

Complete Part G of Form HUD-92264 using the above determined "maximum mortgage" rounded to the next lower \$100 multiple. The resulting "Total Estimated Replacement Cost of Project" should correspond approximately to the total project cost found by the formula.

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EXHIBIT 2

REPLACEMENT COST - BY FORMULA
PROPOSED CONSTRUCTION WITH SPRA

Item 36c - Total Land Improvements	\$ _____
Item 41 - Total Structures	_____
Item 42 - General Requirements	_____
Item 43 - Builder's General Overhead	_____
Item 44 - Builder's Profit	_____
Item 47 - Bond Premium	_____
Item 48 - Other Fees	_____
Item 69 - Consultant Fee	_____
Item 70 - Supplement Management Fund	_____
Item 70a - Movable Equipment	_____
Item 71 - Contingency Reserve	_____
Item 73 - Warranted Price of Land	_____

Total Knowns on Which SPRA may not be allowed \$ _____ = Quantity A

Item 45 - Arch Fee - Design	\$ _____
Item 46 - Arch Fee - Supervisory	_____
Item 54 - Taxes	_____
Item 55 - Insurance	_____
Item 58 - Inspection Fee (on Line G 50)	_____
Item 62 - Title and Recording	_____
Item 67 - Total Legal, Organization & Audit	_____

Total Knowns on which SPRA may be allowed \$ _____ = Quantity B

Item 53 - Interest x 1/2 x Construction Time _____ %

Item 56 - MIP _____
 Item 57 - Exam Fee _____
 Item 59 - Financing Fee _____
 Item 60 - AMPO _____
 Item 61 - FNMA/GNMA Fee _____
 _____% = Quantity C

A + 1.1B
 _____ = _____ = \$ _____ Total Project Cost = X
 1.0 - .99C

X - A
 _____ = _____ = \$ _____ = SPRA
 11 11

Total Project Cost \$ _____ x .9 = \$ _____ Max. Mtge. (If Based on Cost)

Check by completing Section G of Form HUD-92264 using the above "maximum mortgage" amount rounded to the next lower \$100 multiple. The resulting total project cost Item 71 should correspond approximately to the total project cost found by the formula.

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EXHIBIT 3

REPLACEMENT COST - BY FORMULA
 PROPOSED CONSTRUCTION
 (WITH GROUND LEASE)
 (WITH BSPRA) / (WITHOUT BSPRA)

Consultant Fee (If lump sum NP projects only)	\$ _____
Supplemental Management Fund	_____
Warranted Price of Land	_____
Ground Rent During Construction	_____
Movable Equipment	_____
TOTAL KNOWNNS ON WHICH BSPRA MAY NOT BE ALLOWED	\$ _____ = A
<hr/>	
Total For All Improvements	\$ _____
Taxes	_____
Insurance	_____
Title and Recording	_____
Legal	_____
Organization	_____
Cost Certification Audit Fee	_____
TOTAL KNOWNNS ON WHICH BSPRA MAY BE ALLOWED	= \$ _____ = B
<hr/>	
Interest Rate Divided By 2 x Construction Period (years)	_____
Mortgage Insurance Premium	_____

Examination Fee _____
 Inspection Fee _____
 Financing Fee _____
 AMPO (NP Projects Only) _____
 FNMA/GNMA Fee _____
 Consultant Fee (If An Unknown) (NP Projects Only) _____

 Subtotal _____ x _____ Loan Ratio = _____

 Marketing Expense (Cooperative or Condominium Projects
 Only) _____

 TOTAL UNKNOWNNS = _____ = C

 VALUE OF LEASED FEE (From Section K, Form HUD-92264) _____ = L

WITH BSPRA:

$$\frac{A + 1.1B - 1.1CL}{1.0 - 1.1C} = \$ \text{_____} \text{Total Project Cost} = X$$

WITHOUT BSPRA:

$$\frac{A + B - CL}{1.0 - C} = \$ \text{_____} \text{Total Project Cost} = X$$

$$(X - L) \times \text{_____ Loan Ratio} = \$ \text{_____} \text{Maximum Mortgage}$$

Complete Part G of Form HUD-92264 using the above determined "maximum mortgage" rounded to the next lower \$100 multiple. The resulting "Total Estimated Replacement Cost of Project" should correspond approximately to the total project cost found by the formula.

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EXHIBIT 4

REPLACEMENT COST - BY FORMULA
 REHAB PROJECTS
 (WITH BSPRA) / (WITHOUT BSPRA)

Consultant Fee (If lump sum) \$ _____
 Supplemental Management Fund _____
 Off-Site Costs (If Any) _____
 "As Is" Value _____
 Relocation Cost (If Any) _____
 Movable Equipment _____

 TOTAL KNOWNNS ON WHICH BSPRA MAY NOT BE ALLOWED \$ _____ = A

Total For All Improvements \$ _____
 Interest on 1/2 of either the "As Is" Value or
 Existing Indebtedness _____
 Taxes _____
 Insurance _____
 Inspection Fee (On "TOT. for All Imprmts.") _____
 Title and Recording _____
 Legal _____
 Organization _____
 Cost Certification Audit Fee _____

 TOTAL KNOWNNS ON WHICH BSPRA MAY BE ALLOWED = \$ _____ = B

Interest Rate Divided By 2 x Construction
 Period (years) _____
 Mortgage Insurance Premium _____
 Examination Fee _____
 Financing Fee _____
 AMPO (NP Rental Projects Only) _____
 FNMA/GNMA Fee _____
 Consultant Fee (When Dollar Amount Is Unknown) _____

 Subtotal _____ x _____ Loan Ratio = \$ _____

 Marketing Expense (Cooperative or Condominium
 Projects Only) _____

 TOTAL UNKNOWNNS = \$ _____ = C

WITH BSPRA:

$$\frac{A + 1.10055B}{1.0 + 1.10055C} = \$ \text{_____} \text{Total Project Cost} = X$$

$$\frac{X - A}{11} = \$ \text{_____} \text{BSPPA}$$

WITHOUT BSPRA:

$$\frac{A + B}{1.0 - C} = \$ \text{_____} \text{Total Project Cost} = X$$

X = \$ _____ x _____ Loan Ratio = \$ _____ Maximum Mortgage

Recalculate the interest based on 1/2 of the sum of the mortgage and either
 "As Is" Value or existing indebtedness. Enter the result on line titled
 "Int.____ Mos. @ _____, Part G of Form HUD-92264.

For projects with BSPRA only, recalculate the inspection fee based on
 "Tot. For All Imprmts," plus rounded to the next higher \$100 multiple.
 Enter the result on line titled "FHA Inspec. Fee", Part G of Form
 HUD-92264.

Complete Section G of Form HUD-92264 using the above "maximum mortgage"
 amount rounded to the next lower \$100 multiple. The resulting "Total

Estimated Replacement Cost of Project" should correspond approximately to the total project cost found by the formula.

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EXHIBIT 5

REHABILITATION
REPLACEMENT COST - BY FORMULA WITH SPRA

Item 36c - Total Land Improvements	\$ _____
Item 41 - Total Structures	_____
Item 42 - General Requirements	_____
Item 43 - Builder's General Overhead	_____
Item 44 - Builder's Profit	_____
Item 47 - Bond Premium	_____
Item 48 - Other Fees	_____
Item 69 - Consultant Fee	_____
Item 70 - Supplement Management Fund	_____
Item 70a - Movable Equipment	_____
Item 71 - Contingency Reserve	_____
Item 73 - "As Is" Value	_____

Total Knowns on Which SPRA may not be allowed \$ _____ = Quantity A

Item 45 - Arch Fee - Design	\$ _____
Item 46 - Arch Fee - Supervisory	_____
Item 53 - Interest on 1/2 of "As Is" or Ex Ind	_____
Item 54 - Taxes	_____
Item 55 - Insurance	_____
Item 58 - Inspection Fee (on Line G 50)	_____
Item 62 - Title and Recording	_____
Item 67 - Total Legal, Organization & Audit	_____

Total Knowns on which SPRA may be allowed \$ _____ = Quantity B

Item 53 - Interest x 1/2 x Construction Time	_____ %
Item 56 - MIP	_____
Item 57 - Exam Fee	_____
Item 59 - Financing Fee	_____
Item 60 - AMPO	_____
Item 61 - FNMA/GNMA Fee	_____

Subtotal _____ x 90% = Unknowns _____ %= Quantity C

A + 1.10055B
_____ = _____ Total Project Cost = X
1 - 1.10055C

X - A
_____ = _____ SPRA

X = \$ _____ x _____ Loan Ratio = \$ _____ Maximum Mortgage

Recalculate the interest based on 1/2 of the sum of the mortgage and either "As Is" Value or existing indebtedness. Enter the result on line titled "Int. Mos. @ _____ %, Part G of Form HUD-92264.

For projects with SPRA only, recalculate the inspection fee based on "Tot. For All Imprmts." plus SPRA rounded to the next higher \$100 multiple. Enter the result on line titled "FHA Inspec. Fee," Part G of Form HUD-92264.

Complete Section G of Form HUD-92264 using the above "maximum mortgage" amount rounded to the next lower \$100 multiple. The resulting "Total Estimated Replacement Cost of Project" should correspond approximately to the total project cost found by the formula.

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EXHIBIT 6

CRITERION 4, TRIAL Form HUD-92264A Without BSPRA

No. of	0BR LU	_____	x \$	_____	= \$	_____
No. of	1BR LU	_____	x \$	_____	= \$	_____
No. of	2BR LU	_____	x \$	_____	= \$	_____
No. of	3BR LU	_____	x \$	_____	= \$	_____
No. of	4+BR LU	_____	x \$	_____	= \$	_____
Total Statutory Mortgage Knowns					\$ (A)	_____

Value of Site Not Attributable to Dwelling Use \$ _____ x Loan to Value Ratio _____ % = \$ (B) _____

Item 50	- Total For All Improvements	= \$	_____
Item 54	- Taxes	= \$	_____
Item 55	- Insurance	= \$	_____
Item 62	- Title & Recording	= \$	_____
Item 64	- Legal	= \$	_____
Item 65	- Organization	= \$	_____
Item 66	- Cost Certification audit	= \$	_____
Item 69	- Consultant Fee	= \$	_____
Item 70	- Supplemental Management Fund	= \$	_____
Item 70a	- Movable Equipment	= \$	_____
Item 71	- Contingency Reserve	= \$	_____
Total Knowns		= \$	_____

Total Knowns \$ _____ x Loan to Value Ratio _____ % = \$ (C) _____

Cost Not Attributable to Dwelling Use \$ (D) _____ %

Item 53 - Interest Rate Divided By 2 x Construction
Time in Months Divided by 12 _____ %

Item 56	- Mortgage Insurance Premium	_____	%
Item 57	- FHA Exam Fee	_____	%
Item 58	- FHA Inspection Fee	_____	%
Item 59	- Financing Fee	_____	%
Item 60	- AMPO	_____	%
Item 61	- FNMA/GNMA Fee	_____	%
	Total Unknowns	_____	%

Total Unknowns _____ % x Loan to Value Ratio _____ % = (E) _____ %

Step 1 - A \$ _____ + B \$ _____ = \$ _____
 Step 2 - D _____ % x C \$ _____ = \$ _____
 Step 3 - Total of Steps 1 and 2 \$ _____
 Step 4 - D _____ % x E _____ % = _____
 Step 5 - 1.0 - Step 4 _____

Mortgage Amount = $\frac{\text{Step 3}}{\text{Step 5}}$ = \$ _____

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EXHIBIT 7

CRITERION 4, TRIAL Form HUD-92264A With BSPRA

No. of	0BR LU	_____	x \$	_____	= \$	_____
No. of	1BR LU	_____	x \$	_____	= \$	_____
No. of	2BR LU	_____	x \$	_____	= \$	_____
No. of	3BR LU	_____	x \$	_____	= \$	_____
No. of	4+BR LU	_____	x \$	_____	= \$	_____
Total Statutory Mortgage Knowns					\$ (A)	_____

Value of Site Not Attributable to Dwelling Use \$ _____ x Loan to Value Ratio _____ % = \$(B) _____

Item 50	- Total For All Improvements	= \$	_____
Item 54	- Taxes	= \$	_____
Item 55	- Insurance	= \$	_____
Item 62	- Title & Recording	= \$	_____
Item 64	- Legal	= \$	_____
Item 65	- Organization	= \$	_____
Item 66	- Cost Certification Audit	= \$	_____
	Subtotal Knowns	=	\$ _____
	Subtotal x 1.1 (10% BSPRA Adj.)	=	\$ _____
Item 69	- Consultant Fee	= \$	_____
Item 70	- Supplemental Management Fund	= \$	_____
Item 70a	- Movable Equipment	= \$	_____
Item 71	- Contingency Reserve	= \$	_____
	Total Knowns Adjusted for BSPRA	\$	_____

Total Knowns \$ _____ x Loan to Value Ratio _____ % = \$(C) _____

Cost Not Attributable to Dwelling Use \$(D) _____ %

Item 53 - Interest Rate Divided By 2 x Construction
Time in Months Divided by 12 _____ %
Item 56 - Mortgage Insurance Premium _____ %
Item 57 - FHA Exam Fee _____ %
Item 58 - FHA Inspection Fee _____ %
Item 59 - Financing Fee _____ %
Item 60 - AMPO _____ %
Item 61 - FNMA/GNMA Fee _____ %
Total Unknowns _____ %

Total Unknowns _____ % x Loan to Value Ratio _____ % = (E) _____ %

Step 1 - A \$ _____ + B \$ _____ = \$ _____

Step 2 - D _____ % x C \$ _____ = \$ _____

Step 3 - Total of Steps 1 and 2 \$ _____

Step 4 - D _____ % x E _____ % = _____

Step 5 - 1.0 - Step 4 _____

Mortgage Amount = $\frac{\text{Step 3}}{\text{Step 5}}$ = \$ _____

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EXHIBIT 8

SUPPLEMENT TO FORM HUD-92264

Case No. _____

SECTION 221(d)(3) RENT FORMULA
SUPPLEMENT TO FORM HUD-92264

(For 221(d)(3) Rental Projects)

1. Multiply the replacement cost (from line G74, Form HUD-92264)
\$ _____ by the debt service rate (interest rate
plus initial curtail rate plus MIP, if any)
_____ % = \$ _____
2. Divide the result from "1" by _____ %
(95% for nonprofit or 100% for limited distribution) = \$ _____
3. Add total amount project expenses (including management
expenses) \$ _____ to the result from "2" = \$ _____

4. Less annual effective gross commercial income, if any.
(Annual gross commercial income \$ _____ x
occupancy expected _____ %) = \$ _____
5. Annual effective gross residential rents, parking and
laundry = \$ _____
6. Annual gross income to residential units, parking and
laundry (divide line 5 by residential occupancy)
= \$ _____
7. Divide the result of line 6 by 12. The result equals
monthly income to residential units, parking and
laundry = \$ _____
8. Subtract monthly parking and laundry, if any = \$ _____
9. Rent formula residential total rent per month (enter
in line H 1., Form HUD-92264) = \$ _____

NOTE: For all calculations (lines 1 through 9), answers
in dollars and cents are to be rounded upward to
the next higher whole dollar amount.

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EXHIBIT 9

BASIC RENT FORMULA SUPPLEMENT TO FORM HUD-92264
MAXIMUM ALLOWABLE GROSS RENTAL - MULTIFAMILY HOUSING
(For Sections 207, 213 Investor-Sponsor, 220, 221(d)(4) and 231 PM)

PROJECT NO. _____

1. Total estimated cost of property (from Form HUD-92264) \$ _____
2. Ratio of total cost to Dwelling Unit Cost _____ %
3. Cost applicable to dwelling use (Line 1 divided by
Line 2) \$ _____
4. Cash working capital (_____ % of mortgage amount) \$ _____
5. Total investment in dwelling units (Line 3 plus Line 4) \$ _____
6. Interest Rate _____ %
Initial Curtail _____ %
FHA-MIP _____ %
Over-ride _____ %
Total _____ % on Line 5 - Allowable return
on Investment \$ _____

7. Total annual expense, taxes and reserves (from Part E of Form HUD-92264) \$ _____
8. Expense applicable to dwelling units (Line 7 divided by Line 2) \$ _____
9. Allowable gross income applicable to dwelling structures and tenant parking, not including vacancy and collection losses, (Line 6 plus Line 8) \$ _____
10. Occupancy estimate _____ %
11. Maximum allowable annual gross income applicable to dwelling structures and tenant parking adjusted for vacancy and collection losses, (Line 9 divided by Line 10) \$ _____
12. Maximum allowable monthly gross rental applicable to dwelling structures and tenant parking \$ _____
13. Monthly income from tenant parking \$ _____
14. Maximum allowable monthly rental for all family units (enter in Part H, Item 1 of Form HUD-92264). \$ _____

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EXHIBIT 10

COOPERATIVE NET INCOME

1. Total Monthly Rent Roll from Residential Units _____
2. Total Monthly Income from:
- a. Commercial _____
 - b. Parking _____
 - c. Laundry _____
 - d. Subtotal _____
 - e. Line 2d x _____ % of collections expected _____
3. Total Monthly Income All Sources (Line 1 plus Line 2e) _____
4. Annual Income From All Sources (Line 3 x 12 months) _____
5. Annual Income After Provision for 3% Operating Reserve and 2% Vacancy Reserve (Line 4 x .95) _____

6. Total Annual Expense, Replacement Reserves,
and Taxes _____

7. Annual Net Income (Line 5 minus Line 6)* _____

*In remarks, enter "Annual Net Income for
Debt Service Criterion \$ _____. "
This amount will be used by the mortgage credit processor.

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EXHIBIT 11

COOPERATIVE RENT FORMULA

1. Mortgage Amount _____

2. Multiplied by DS Rate of _____

3. Annual Payments to P, I, MIP _____

4. Annual Payments to Ground Lease _____

5. Total Payments Divided by .95 _____

6. Total Annual Expense,
Replacement Reserves & Taxes _____

7. Total Allowable Annual
Effective Gross Income Before
Vacancy & Operating Reserves
(Sum of Lines 5 and 6)

8. Total Allowable Annual Gross
Income (Line 6 Divided By .95
To Provide 3% Operating Reserve
and 2% Vacancy Reserve) _____

9. Total Monthly Gross Income
(Divided By 12 Mo.) _____

10. a. Monthly Commercial Income _____

b. Parking Income _____

c. Laundry Income _____

d. Subtotal _____

e. Effective Gross Income

From Commercial Parking
And Laundry (Line 10d x
Percentage Collected
_____%)

11. Monthly Charge To Units
(Residential) (Line 9 minus
Line 10e)

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EXHIBIT 12

UNITS IN NON-SECTION 8 PROJECTS
INVOLVING TAX-EXEMPT FINANCING

0-BR 1-BR 2-BR 3-BR 4-BR

1. Rent by Market Comparison

2. Personal Benefit Expense
(if any)

3. Applicable Section 8
Eligibility Income Limit

4. Estimated Maximum Affordable
Monthly Rent for Restricted 1/
Units (30 x line 3) - line 2

12

5. Monthly Rent Estimate for
Restricted Units (lesser of
line 1 and line 4) 2/

NOTES:

1/ Where State or local laws, ordinances or regulations limit rent to an amount lower than this formula estimate, or the Sponsor's proposed rent is less than this formula estimate, enter the lower amount and explain below.

2/ Enter in Section C of Form HUD-92264.

