CHAPTER 3. ARCHITECTURAL ANALYSIS AND INSPECTION

3-1. ARCHITECTURAL ANALYSIS. Instructions contained in Reference No. 2 of the Foreword, shall also pertain to projects Insured under Section 223(f), except as modified herein.

3-2. STANDARDS. Eligible properties are existing construction. The criteria for acceptance are not the same as for proposed construction. The objective is to assure an acceptable risk through only necessary repair requirements. The Minimum Property Standards apply in the following manner:

a. Chapter 2, General Acceptability Criteria shall be met with the exception of the requirement for a primary entrance readily accessible to the physically handicapped.

b. Other Chapters. The property shall comply with the general intent of all other chapters of the MPS.

c. Compliance With Statutory and Regulatory Requirements is mandatory. These include: (1) restrictions on the use of lead base paint, (2) flood hazard limitations, (3) high pressure gas and liquid petroleum transmission requirements, and (4) smoke detector for each living unit.

3-3. CODES. The Department does not assume responsibility of determining compliance with local codes.

3-4. ENGINEERING REPORTS. Where advisable, because of the nature of the project and noted conditions, it is recommended that the Field Office Director require sponsors to employ a competent mechanical engineer, who must be acceptable to the Field Office. He will report on all mechanical elements in the project and their condition, as well as the remaining useful life of various elements. He will also report repairs and replacements needed immediately and the probable cost of such work. Structural, geotechnical or other types of engineering or special reports are to be required of the sponsor as deemed necessary by the Field Office.

3-5. PREVAILING WAGE REQUIREMENTS. Work performed as a condition for insurance is not subject to prevailing wage requirements, see Section 207.32a(g) of the Regulation.

3-6. PREAPPLICATION CONFERENCE. The Design Representative may be asked to discuss engineering studies or reports generally required for projects of the age and type being proposed.

3-7. CONDITIONAL COMMITMENT PROCESSING. Processing for the Conditional Commitment begins when the Field Office accepts the sponsor's application, HUD Form 2013, supported by exhibits listed in Paragraph 2-7a and any additional exhibits requested at the Preapplication Conference. The Director,
HPMC/Chief Underwriter will distribute copies of the application with supporting exhibits to each processing section.

a. The Design Representative, upon notification by the Chief Architect that he has been assigned to the inspection team on a particular project, will:

(1) Study all exhibits submitted by the sponsor.

(2) Coordinate with the appraiser assigned to the project and notify other interested office staff of the inspection date.

(3) Arrange for specialized engineering assistance, if warranted.

(4) Prepare a letter for the Director's signature inviting the controlling municipal agency to participate in the inspection to identify local building code violations. A telephone communication may be substituted with the Director's concurrence.

(5) Arrange for access to the premises.

b. The Inspection Team will always include a HUD architectural representative. The HUD appraiser should usually be present during the inspection, but may substitute a separate property review with the Chief Underwriter's concurrence. A building department inspector should be present, if possible, or a copy of his inspection report made available. The sponsor's representative must be present for inspection of occupied units. If the sponsor has an engineering consultant, it would be beneficial for him to be present at the inspection. At the discretion of the Director HPMC/CU HUD technical specialists, cost analysts and loan management specialist may be included on the inspection team.

c. Inspection shall be made of a sufficient number of units and the project in general to ascertain any repairs and replacements necessary to place the property in eligible condition. An inspection of not less than 10 percent of typical units is
to be made for projects less than 5 years old, and 25 percent of typical units for projects five to 10 years old. Additional units should be inspected at the discretion of the inspection team and local office, if unusually hard use or accelerated deterioration of the property requires further inspection to develop an appropriate work write-up (a list of required repairs). An inspection of all units is to be made of projects more than 10 years old. Additionally, the remaining useful
life of equipment, mechanical features, appliances, carpeting, resilient floor tiling and window coverings in the units and the project in general is to be determined for projects over 5 years old. For properties 5 years old or less the initial deposit to the reserve fund will be the amount of annual deposit to replacement reserves (cost of structures x .006) multiplied by years of age of the buildings.

(1) The need for engineering surveys or reports on items found during inspection (Mechanical, structural, seismic, termite, etc.) should be brought to the immediate attention of the Director, HPMC/Chief Underwriter by a separate memorandum.

(a) The nature of the engineering investigation and items to be covered should be clearly identified.

(b) Special tests desired, such as pressure or flow tests of plumbing, or the cutting of line segments for examination, should be specified.

d. The Report of Inspection is to include a work write-up, an estimate of useful life and a statement concerning substantial rehabilitation.

(1) The work write-up (list of required repairs) shall list any requirements for repair or correction of on-site and off-site property improvements. For projects 10 years old or less, where only a small portion of the units are inspected, minor nonrepetitive items of deferred maintenance are not to be included in the work write-up. A one-part work write-up of general requirements is acceptable for such properties. For projects more than 10 years old and others for which numerous unit deficiencies are found, items of repair and replacement are to be identified by location and living unit number, if they are not entirely general in their application. A two-part work write-up consisting of general and special requirements is to be prepared for such projects.

All requirements must be specific. Phrases such as, "Repair or replace" or "As required" are unacceptable.

The work write-up is to be headed up by the statement, "All repairs or alterations must meet the specific requirements contained in Chapters 5 and 6 of the Minimum Property Standards.

(a) General Requirements, work write-up part 1,
include work applicable to all elements in the property, for example: site work, exterior work, painting, decorating and caulking. Rehabilitation of kitchens, bathrooms, roofs, mechanical systems, interior walls, floors, windows and doors would apply to properties requiring more extensive work.

(b) Special Requirements, work write-up part 2, describes any special work required for a specific item, room, space, or building which is not required for the project as a whole. For example: The General Requirements may state that all floors are to be sanded and refinished. However, if in a particular living room the floor must be removed and replaced, it should be included in a Special Requirement.

(c) When an engineer's survey or report is required but has not been completed prior to preparation of the work write-up, the work write-up shall be deferred pending HUD receipt of the engineer's findings and recommendations. The Director, HPMC/CU shall be advised of the situation by a separate memorandum.

(2) The Estimate of Useful Life is to be prepared as the basis for the Reserve for Replacement. List the estimate of useful life of all equipment, mechanical features, appliances, carpeting, resilient floor tile, window coverings and other features required for establishing a reserve for replacement. Items are to be identified by location and living unit number, if not general in location.

(3) A Statement as to whether required repairs or corrections to the property constitutes substantial rehabilitation, as defined in paragraph 1-4i is to be made part of the inspection report.

9/75 3-4

e. FHA Form 2264, Section O shall be completed referring to the attached report of inspection. Form 2264 shall be signed and dated to indicate completion of architectural processing.

f. Review of the work write-up will be made by the Director, HPMC/CU for concurrence. The list of required repairs and any additional requirements of the Valuation, Cost and Mortgage Credit Sections become conditions of the commitment.

g. The Conditional Commitment Conference is conducted by the Director, HPMC/CU. The Design Representative may be requested to attend to clarify questions concerning the work write-up and discuss its contents with the sponsor.
and any technical representatives he may have present.

3-8. SPECIFICATIONS AND DRAWINGS. If any item in the list of required repairs must have drawings and/or specifications prepared by the sponsor and accepted by HUD/FHA before that item of repair can be accomplished, a statement to that effect shall be included with the item.

a. Preparation of the specifications and drawings is the sole responsibility of the sponsor. His employment of professional consultants does not require the use of HUD contract forms, professional liability insurance, nor HUD involvement in fees.

b. The Design Representative performs the following during this portion of the processing:

   (1) Provides liaison between HUD and the sponsor or his technical representatives and as coordinator of the suggestions of HUD advisory specialists.

   (2) Determines that specifications, and drawings if required, are prepared in accordance with requirements of the work write-up and conditions of the commitment.

   (3) Prepares a memorandum for the Chief Architect's signature advising the Director, HPMC/Chief Underwriter that specifications and drawings have been completed satisfactorily for beginning work on all items in the repair list.

3-9. COMMENCEMENT OF REPAIRS. Any repair item included in the List of Required Repairs attached to the Conditional Commitment may be accomplished after the issuance of the Conditional Commitment. However, when drawings and specifications concerning that repair item are required to be submitted by the sponsor and accepted by HUD/FHA, this must be accomplished before work commences on this repair item. If repairs have not been completed at the time Firm Commitment is issued, the List of Required Repairs becomes an attachment to the Firm Commitment, but after Firm Commitment is issued any repair items which are to be paid for by the mortgagor may not be started or contracted for by the mortgagor before the Agreement and Certification Form has been executed by the mortgagor, mortgagee and the Federal Housing Commissioner, and the mortgagor is bound thereby with respect to any subsequent contracts or subcontracts.

3-10. INSPECTION OF REPAIRS. Inspection of work performed under Section 223(f) is to be performed by HUD staff. Employment of a supervisory architect will not be required for projects under this program.
a. Inspection exhibits shall consist of a copy of the Firm Commitment issued including: Exhibit A, Survey; Exhibit B, Work Write-up; and Exhibit C, Specifications and Drawings.

b. The Inspector shall report any noncompliance with the conditions or exhibits of the Firm Commitment and unsatisfactory work on HUD Form 5379, HUD Representative's Trip Report.

   (1) Discrepancies in the existing work or exhibits not previously considered are to be reported to the Chief Architect by memorandum but are not to be included in the inspection report.

   (2) The inspector is to be factual and explicit in all statements, and in reporting and recording significant construction developments.

c. HUD Representative's Trip Report, Form 5379, shall be completed and distributed in accordance with outstanding instruction in Reference No. 7 of the Foreword, except:

   (1) The second copy shall be distributed to the mortgagor or his designated representative.

   (2) Item 3 of the form, architect's supervision and services, is to be completed only if the sponsor employs professional services.

d. Changes in work must be submitted on FHA Form 2437, Request for Construction Changes. Form 2437 is to be completed in accordance with Reference No. 7 of the Foreword, except signature blanks for the architect and contractor need not be completed for projects in which they are not employed.

e. Payment Considerations are not involved in Section 223(f). Instructions in HUD Handbook 4460.1 for projects insured upon completion are to be followed in lieu of instruction for projects with insured advances, HUD Form 5379 is to be used for all inspection reports.

f. The Final Inspection Report is prepared on Form 5379. It is not issued until all work has been accomplished in accordance with the work write-up, specifications and drawings, and all required approvals and/or final inspections have been issued by the controlling municipality and a copy furnished to the HUD office.

   (1) If eligible items of delayed completion are involved, the inspector still reports all items as 100 percent complete. He lists the Items of Delayed Completion with a description of each. He lists any incomplete off-site work. He then endorses the
report with the statement, "Construction acceptably completed, subject to the escrowing of sufficient funds to assure acceptable completion of items listed as Items of Delayed Completion. All off-site sewer, water, electrical and gas facilities are completely installed, connected and operable, and safe, adequate, all-weather facilities for ingress and egress are provided. Incomplete off-site construction at time of inspection is stated on this form." Reference to escrowing funds for "Items of Delayed Completion" or reference to incomplete off-site work is omitted, unless applicable.

(2) The Chief Architect reviews the Final Inspection Report. If it is acceptable, he shall countersign it and prepare a memorandum to the Director for signature by the Director, HPMC/Chief Underwriter, attaching a copy of the Final Inspection Report and the list of incomplete off-site work and listed Items of Delayed Completion including the amount escrowed.

(3) Items of Delayed Completion may only be minor exterior items which do not preclude occupancy, and which cannot be completed because of weather conditions. The Chief Architect may recommend that construction be accepted provided funds are escrowed to cover the cost of completing the work. The estimated amount cannot exceed 2 percent of the mortgage. The escrow shall be sufficient to provide an incentive to complete the work, and shall not be less than 2 times the cost of completing the work as estimated by the Architectural Section.

(4) Items of incomplete off-site work may only be items which do not preclude occupancy or subject the property or its tenants to hazard. An escrow shall be required in an amount not less than 2 times the cost of completing the work as estimated by the Architectural Section or by posting an appropriate bond with the controlling municipality.

h. Inspections After Final Endorsement. Items of Delayed Completion must be completed within 9 months of Final Endorsement.

3-11. FIRM COMMITMENT STAGE PROCESSING. No architectural, cost or valuation processing is performed at the firm commitment stage unless the conditional and firm commitment stages are combined. When an application is received for a conditional commitment, all architectural, cost and valuation processing is done at the conditional commitment stage. When an application for firm commitment is received for the same
property, mortgage credit processing determines the amount of mortgage which will be available to a purchaser or refinancing mortgagor. No additional architectural, cost or valuation processing is needed.

3-12. CONDITIONAL AND FIRM COMMITMENT STAGES COMBINED. When the initial application requests a firm commitment all processing is done which is necessary to meet the requirements of both the conditional and firm commitment stages. Architectural, cost and valuation processing required for the conditional commitment stage is completed, as well as mortgage credit processing needed to issue a firm commitment. The architectural processing performed is described in paragraph 3-7 of this Handbook.