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CHAPTER 4. APPLICATION PROCEDURE - MORTGAGOR

- 4-1. FILING AN APPLICATION. A Form HUD-92013, Application - Project Mortgage Insurance, is attached as Appendix 2. It is necessary that lenders use the HUD form. Supplies of these forms may be requisitioned from the local HUD office. Xerox copies are acceptable. Instructions for completion of the application are included in the form package.
- 4-2. APPLICATION STAGES. At the option of the lender, the application and processing may be divided into two stages.
- a. Conditional stage. Utilization of a conditional stage may be particularly helpful in a purchase transaction in which the purchasing entity has not been identified. Two principal determinations are made during this stage, the appraised value of the project and the maximum coinsurable mortgage amount based upon value. Although the cost estimating and architectural personnel will have input regarding repairs and summation value, conditional processing will be primarily an appraisal function. Paragraph 4-3 below lists the exhibits necessary in order to accomplish the entire processing function; however, if the processing seeks only to make conditional stage conclusions, only items a, b, c, d, e, i and s need be submitted. A fee not to exceed \$1.50 per \$1,000 of mortgage amount requested may be charged for this processing stage.
  - b. Firm stage. Having utilized the conditional stage, it will be necessary to go through a firm application and processing stage in order to reach the conclusions necessary to issue a firm commitment. If the necessary repairs and local requirements have not changed, the firm processing will be confined primarily to Mortgage Credit related processing. The application for firm processing must be accompanied by all of the exhibits listed in paragraph 4-3 not submitted with the conditional package. If changes have occurred which affect the sufficiency of previously submitted documents, revised documents must be submitted. A fee not to exceed \$1.50 per \$1,000 of mortgage amount requested may be charged for the firm processing stage.
  - c. Combined stages. Where there is to be one application and processing stage, all of the exhibits shown in paragraph 4-3 must accompany the application package. If, during processing, the lender finds that the project is eligible but, for financial or other reasons, the mortgagor is not

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(4-2) acceptable, a conditional commitment may be issued indicating this finding. The fee for combined processing may not be greater than \$3.00 per \$1,000 of mortgage amount requested.

4-3. APPLICATION EXHIBITS. The following exhibits must be reviewed by the lender in conjunction with the an application, Form HUD 92013.

- a. A legal description of the property.
- b. A current "as built" survey showing all improvements on the site and a Surveyor's Certificate, Form FHA-2457. Note that, at the time of application, the survey submitted need not be a current one; however, a current survey and certificate must be submitted prior to coinsurance of the loan.
- c. A copy of the occupancy permit for all units submitted and the project final inspection report (not required if issuance of these documents was not a local practice at the time of construction). If these documents are unavailable, a waiver of this requirement may be sought from the Multifamily Development Division at HUD Headquarters.
- d. One set of plans and specifications for any project under 10 years of age. For a project older than 10 years, this submission is not mandatory; however, if available, one set of plans and specifications should be submitted to facilitate processing, after which they may be returned to the sponsor/owner.
- e. A list of any repairs to be made to the project. This information should be sufficiently detailed to make clear the scope of the repairs to be undertaken.
- f. A report from the office of building inspection in the locality in which the project is located identifying any local code violations or indicating the property to be free of code violations.
- g. A brief description of the management program addressing the relationship between the owner and the management agent (including any delegations of authority), the staffing of the project and rent collection and maintenance procedures. A copy of the lease shall also be submitted for approval. The mortgagee may allow submission of management agent operating handbooks instead of the above statement provided all of the above items are addressed.

- (4-3) h. A copy of the Management Agent Certification (Appendix 8) signed by the management agent and a copy of the proposed management agreement if the lender considers that the latter document would be helpful. The proposed management fee shall be submitted as a part of the management agreement. In those cases where an existing management agreement is in force, a copy of the agreement shall be submitted for lender review.
- i. Balance sheets, statements of income and expenses and "Statement of Changes in Financial Position" on the existing facility for the last 3 years prior to submission of the application to the lender. The latest year's statement must be audited by an IPA or CPA having no identity of interest with the mortgagor or management agent (i.e., no business or other relationship except for performance of the audit, systems work, and/or tax preparation). If more than 3 months have expired since the closing date of the latest year's statements, a year-to-date balance sheet and operating statement signed by an authorized official of the mortgagor must also be submitted.
- j. If, in a purchase transaction, where ownership of the project is changing, satisfactory evidence can be provided the lender, that complete balance sheets, statements of income and expenses, and "Statements of Changes in Financial Position" were not maintained by the seller and are therefore unavailable, the 3 year requirement may be waived by the lender. In such cases, a balance sheet, operating statement and "Statement of Changes in Financial Position," all of which must be audited by an IPA or CPA having no identity of interest with the mortgagor, on the existing facility for the latest fiscal year must be submitted. If more than 3 months have expired since the closing date of the financial statement, a year-to-date balance sheet and operating statement signed by an authorized official of the mortgagor also be submitted.
- k. Form HUD-2530's on all principals as defined in paragraph 5-4c of this handbook.
- l. For a purchase transaction, a statement, certified to be true and correct by the seller, purchaser and previous lender, clearly disclosing all identities of interest that exist or will exist between any and all parties involved in the proposal, including the previous and proposed lender.
- m. A statement reflecting the balance in all existing escrow accounts, including the reserve fund for replacements, if any.

- (4-3) n. Fully completed Form FHA-2417's, Personal Financial and Credit Statement, (see Appendix 3 of this handbook) or its equivalent (which must include bank and trade references) on the sponsor(s) or any individual who will provide funds to meet the cash requirements. If this information is submitted in a form other than Form FHA-2417, the substituted form must have a statement added wherein the person acknowledges that the information is submitted for the purpose of influencing a decision concerning a Federally-insured mortgage and is therefore subject to sanctions provided by the U.S. Criminal Code.
- o. A copy of the documentation creating the mortgagor entity.
- p. For a purchase transaction, a copy of the purchase agreement certified to be true and correct by the seller and purchaser fully disclosing (1) all assets, e.g., reserve for replacements, escrows, etc., and liabilities to be transferred with the sale, (2) whether or not the seller will make the repairs and, if so, (3) whether or not the cost of the required repairs is included in the purchase price.
- q. For a refinancing transaction, a statement by the mortgagor listing all outstanding obligations (payoff balances, including prepayment penalties, if applicable) of the project whether secured or unsecured. The statement must contain the following language, "I hereby certify that the above constitutes all secured and unsecured obligations against this project," and must be signed by the mortgagor.
- r. A title search report which discloses all liens, secured transactions, former owners and dates of the transfer of owners for a three year period prior to the submission of the application to HUD.
- s. A rent roll, the general format of which shall follow that shown as Appendix 4 of this handbook, disclosing the following information:
- (1) Apartment number and type (e.g., Apt 204, 1 BR). All apartments must be listed, whether they are vacant or occupied.
  - (2) Tenant name. "Vacant" is entered where there is no tenant.

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- (4-3) (3) Rental rate. The rent rate being paid by the tenant is to be shown. If the apartment is occupied on a nonpaying basis, e.g., by a resident manager, maintenance,

etc., zero is entered.

- (4) Term of lease (monthly, yearly, etc.).
- (5) Date of first occupancy. The date that the tenant occupied the apartment is shown.
- (6) Remarks. Indicate "U" to denote an unfurnished apartment or "F" to denote a furnished apartment.
- (7) The owner's signature and certification on the rent roll attesting that it is correct.

NOTE: The lender must verify the rents being charged for each unit type and the stated rental and occupancy dates.

- t. Management Agent Profile Questionnaire (see Appendix 5 for suggested form).
- u. Proposed Operating Budget.
- v. Apartment unit vacancy and tenant turnover data for the last 2 years (see Appendix 6).
- w. Tenant accounts receivable data for the last 2 years and a delinquency analysis (aging of tenant accounts receivable) for the most recent rental period (see Appendix 7).
- x. Such other information as the lender may require in support of the application.
- y. If it is contemplated that the repair program will cause the involuntary displacement of tenants, the mortgagor must submit a plan for minimizing such displacement (see paragraph 3-4 of this handbook).

NOTE: Appendices 6 and 7 provide suggested forms for Exhibits v and w. The lender may use an alternative form or may accept computer print-outs from the applicant, provided that the same basic information is available for review and analysis.