CHAPTER 9. THE MORTGAGE CREDIT PROCESS

9-1. PURPOSE. The purpose of Mortgage Credit processing in the 223(f) coinsurance program is to analyze the credit risk, the acceptability of the sponsorship (defined as the principals of the mortgagor entity), evaluation of the mortgagor's ability to close the transaction, the mortgagor's cost certification, and the mortgagor's ability to successfully operate the project and liquidate the mortgage debt. These analyses involve a great deal of informed judgment supported by credit bureau, Dun and Bradstreet, or similar reports on the principals, current financial statements of the principals and the project under consideration, and bank and trade references.

9-2. PROCESSING STAGE. Except as may be required to assist in the valuation analysis and rent roll verification at the conditional stage of processing (if utilized), mortgage credit processing will usually commence at the firm commitment stage. It is, however, advantageous to keep the mortgage credit examiner apprised of pertinent information at all stages of processing.

9-3. PROCEDURES AND ANALYSIS. Mortgage Credit procedures and analyses are to be completed in general conformance with the procedures set forth in HUD Handbook 4470.1, Mortgage Credit Analysis for Project Mortgage Insurance, Section 207, Reference 12 of the Foreword, except as modified herein. Specific instructions for completion of Form HUD-92264A to determine the maximum insurable mortgage are contained in paragraph 9-15c of this Chapter. It is important that the form be completed as required, as the information will be used by HUD for program data purposes.

9-4. MORTGAGE AMOUNT. The determination of the maximum mortgage amount is subject to certain restrictions depending upon the type of transaction. Two types of transactions are eligible. A purchase transaction is one in which the property is changing hands by way of a sale on an arms length basis. A refinance transaction is one in which an existing owner is restructuring the mortgage debt against the property.

a. Purchase transaction. The amount of the 223(f) coinsured loan in a purchase transaction may not exceed the lesser of:

(1) An amount not to exceed 85 percent of the lender's estimate of the value of the project (90 percent if the project meets the requirements of 24 CFR 207.32a(1)).

(2) The statutory limitations (adjusted for cost not attributable to dwelling use) applicable to the area in which the project is located. See paragraph 9-4d.

(9-4) (3) An amount which entails a debt service not in excess of 85 percent of the net annual income as estimated by the lender based upon the project appraisal.

(4) Eighty-five percent (90 percent if the project meets the requirements of 24 CFR 207.32a(1)) of the amount required to acquire the property, as determined by the lender. For purposes of this program, the cost of acquisition is defined as the sum of the following:

(a) Purchase price as indicated in the purchase agreement and determined allowable by the lender.

(b) The estimate of repair cost, if any, as determined by the lender, provided such costs will be borne by the purchaser and are not included in the purchase price.

(c) The sum of the amounts attributable to financing, legal, organizational, title and recording expenses which the mortgagor is required to pay and which the lender determines are reasonable.

(d) Discounts as determined eligible by the lender provided they are paid by the purchaser. See limitations in paragraph 9-12.

(e) The amount as determined by the lender for the initial deposit to the Reserve Fund for Replacements, provided such deposit will be funded by the purchaser.

(f) Architect's fees, mechanical engineering fees, and municipal inspection fees, as may be determined eligible by the lender.

NOTE: Any fees, discounts or other amounts which are included in the preceding calculation and which are paid by the seller for or on behalf of the purchaser must be reflected as a reduction to the acquisition cost.

(5) In purchase transactions, a determination must be made as to whether any identity of interest exists between the seller and the purchaser. If there is any identity of interest, regardless of how slight, the application shall be processed as a refinancing transaction. The amount used as existing indebtedness shall be the allowable amount of the indebtedness on the property existing prior to the change in ownership. It is not necessary that an identity of interest exist in the subject transaction in order for an identity to exist for this purpose. If, for example, the seller and buyer

(9-4) are partners in an unrelated complex or business or are related by blood or marriage, an identity is considered to exist for purposes of this computation.

b. Refinancing transaction. The amount of a 223(f) coinsured loan in a refinancing transaction will be the lesser of:

(1) An amount not to exceed 85 percent (90 percent if the project meets the requirements of 24 CFR 207.32a(1)) of the lender's estimate of value of the project.

(2) The maximum statutory per unit limitation (adjusted for cost not attributable to dwelling use) applicable to the area in which the project is located. See paragraph 9-4d.

(3) An amount which entails a debt service not in excess of 85 percent of the net annual income as estimated by the lender.

(4) An amount which equals the greater of the following:

(a) 70 percent of the lender's estimate of the value of the project, or

(b) The cost to refinance the project. For purposes of this section, the cost to refinance is defined as the sum of the following:

1 The amount required to pay off the existing indebtedness as determined eligible by the lender.

2 The amount as determined by the lender for the initial deposit to the Reserve Fund for Replacements.

3 The estimate of repair cost, if any, as determined by the lender.

4 The sum of the amounts attributable to financing, legal, title, and recording expenses which the mortgagor is required to pay and which the lender determines are reasonable.

5 Discounts as determined eligible by the lender provided they are paid by the mortgagor. See limitations in paragraph 9-12.

6 Architect's fees, mechanical engineering fees, and municipal inspection fees, as may be determined eligible by the lender.

(9-4) c. Existing indebtedness. For the purpose of determining the maximum insurable mortgage in a refinancing transaction, existing indebtedness is defined to be:

(1) The outstanding mortgage(s) incurred in connection with the construction of the project or with capital improvements made to the property as confirmed in writing by the present lender, and other recorded indebtedness such as mechanics' and tax liens. The tax liens must be for a project indebtedness rather than for an indebtedness against the property arising from a personal obligation of the mortgagor, or in connection with other realty.

(2) Some unrecorded indebtedness, such as delinquent interest, indebtedness incurred in making significant betterments to the property subsequent to the initial completion of the project, prepayment penalties, etc., may also be eligible. If the indebtedness is not recorded, the mortgagor must provide the lender with documentation which unquestionably identifies the indebtedness with the project. The key here is to make certain that the obligation is directly connected to the project.

(3) In some instances, it shall not be appropriate to recognize the total indebtedness in establishing the maximum mortgage amount. For example, if a second mortgage has been created shortly before the application for mortgage insurance was filed and runs to an identity of interest party, there is a strong presumption that such debt was created merely for the purpose of securing a large insured loan to enable the owner to recapture equity out of mortgage proceeds. In any such case, the amount of the existing indebtedness shall not include the second mortgage unless it can be proven that such mortgage was essential to the project.

(4) Any recent indebtedness placed against the property whether or not an identity of interest party is involved must be closely investigated. If it appears that any such indebtedness was placed against the project in an effort to increase the mortgage or to circumvent program intent, then it shall not be considered existing indebtedness for the purpose of determining the maximum insurable mortgage.

d. Statutory limits. Statutory limits vary depending upon the type of construction (elevator and non-elevator) and location. In order to apply this criterion, it will be necessary that the lender call the HUD field office having jurisdiction in the area in which the project is located to obtain the applicable per unit limitations.

9-5. TERM OF MORTGAGE AND COMMENCEMENT OF AMORTIZATION.

a. Term. The term of the mortgage shall not be less than 10 years, nor shall it exceed the lesser of 35 years or 75 percent of the estimated remaining economic life of the physical improvements. Accordingly, the mortgage term shall be the eligible number of whole years between 10 and 35. Any fraction of a year shall be disregarded. Note that these maximums may be increased to 40 years and/or 100 percent of remaining economic life if the project meets the eligibility requirements of 24 CFR 207.32a(1).

b. Commencement of Amortization. Amortization shall commence on the first day of the second month following the date of the lender's endorsement of the mortgage.

9-6. RESERVE FUND FOR REPLACEMENTS. The initial deposit to the Reserve Fund for Replacements shall be eligible for inclusion in determining the maximum insurable mortgage in either a purchase or a refinancing transaction. If a Reserve Fund for Replacements has already been established for the project under consideration, the funds on deposit shall be used first to reduce the required deposit, with the excess, if any, applied toward the reduction of any discounts, miscellaneous fees, etc., that are included in the mortgage. In order to avoid possible duplication of costs, the following shall be required:

a. Purchase Transaction.

(1) The purchase agreement must specify whether or not the acquisition price includes the purchase, as an asset of the project, of any Reserve Fund for Replacements (9-6) or other escrows that may be on deposit with the lender and must specify the dollar amount of such escrows that are being transferred with the sale.

(2) The purchase agreement must specify the dollar amount any and all items which the seller will pay on behalf of the mortgagor, e.g., the operating deficit, discounts, the initial deposit to the Reserve Fund for Replacements, etc.

(3) In order to ensure that the required initial deposit to the Reserve Fund for Replacements will be included in the mortgage (if the deposit will be funded by the purchaser), the amount of the required deposit must be included on the appropriate line of Criterion 7 on Form HUD-92264A. If, as a result of the disclosures required in (1) and (2) above, the lender determines that a Reserve Fund for Replacements was transferred to the new mortgagor as an asset of the project, then the amount currently on deposit must be applied as a reduction when computing Criterion 7.

(9-6) b. Refinancing Transaction.

(1) The mortgagor is required to submit a list of all escrows currently on deposit in connection with the project. All such escrows must remain with the project.

(2) In computing Criterion 10, the required initial deposit to the Reserve Fund for Replacements must be shown on the appropriate line.

(3) If the analysis of the escrow statement reveals that the mortgagor currently has funds on deposit in a Reserve Fund for Replacements, the amount currently on deposit must be applied as a reduction when computing Criterion 10 on Form HUD-92264A.

(4) The commitment shall carry the requirement that the balance in the existing Reserve Fund for Replacements account must be applied to the initial deposit to the Reserve Fund for Replacements; and that any excess shall be applied as a reduction to the costs of discounts, miscellaneous fees and charges, etc., which have been included in the determination of the maximum insurable mortgage.

9-7. EXHIBITS TO BE REVIEWED IN MORTGAGE CREDIT PROCESSING. The following required exhibits must be reviewed as a part of the mortgage credit processing.

a. Form HUD-92013, Application for Project Mortgage Insurance.

b. The rent roll.

c. Balance sheets, operating statements, "Statements of Changes in Financial Position."

d. All Forms HUD-2530, Previous Participation Certificate.

e. The statement reflecting the balance in any existing escrow accounts.

f. The statement reflecting any identities of interest between the seller, buyer, present mortgage holder, etc.

g. A copy of the legal documents creating the mortgagor entity. (A copy must be forwarded to the lender's counsel for review and comment.)

h. A copy of the Purchase Agreement, if applicable.

i. Credit bureau reports and credit references.

(9-7) j. Form FHA 2417, Personal Financial and Credit Statement, or equivalent.

k. The statement reflecting all debt service requirements of the project.

l. The title search report.

9-8. FINANCIAL AND CREDIT ANALYSIS. The fundamental credit consideration in the analysis of an existing multifamily project transaction involves the determination that the mortgagor has the financial capacity to provide the necessary equity to complete the loan transaction, liquidate the mortgage debt and successfully operate the project. This determination is based upon the analysis of current financial statements submitted by the mortgagor with appropriate supporting schedules (which include an aging of accounts receivable). Commercial and individual credit reports shall be ordered by the mortgage credit examiner as appropriate.

a. Statements of mortgagor entity. If the mortgagor entity has been formed and capital has been paid in prior to the issuance of a commitment, financial statements of the mortgagor entity shall be analyzed in accordance with sound analytical credit practices. The analysis shall determine the adequacy of this capital to meet the financial requirements to which the mortgagor entity may be obligated.

b. Aging of receivables. If the "accounts receivable" entry includes rents, an aging of the receivables must be provided by the applicant with a listing of the tenants from whom the rents are due and the units occupied by those tenants. This information will be needed when the operating deficit is established. (See paragraph 9-13.)

c. Age of financial statements. Financial statements submitted in connection with the transaction should bear a date not in excess of 90 days prior to the date of the loan application. An exception may be granted by the lender where the statement is CPA prepared. In such cases, the statement may be up to one year old at the time of application.

d. Extent of credit investigation. While the extent of credit investigation required for competent analysis will vary with each project, it is essential that any important contradictory information be reconciled. Care should be exercised to obtain adequate information for sound conclusions. The investigation should not extend into unimportant or nonessential details which would not have a material bearing on the final determination of acceptability of the risk in the transaction.

(9-8) e. Information required. Information required for analysis of the credit risk ordinarily includes:

(1) Bank and trade references for each project principal and on the mortgagor entity, if applicable.

(2) Current, within 90 days of the application date, credit reports on each sponsor and on any business concern in which the sponsors hold a substantial ownership interest.

9-9. SECONDARY FINANCING. The usual policy with respect to HUD-insured multifamily mortgages requires that the insured first mortgage be the only indebtedness against the property, with no secondary indebtedness of any kind permitted. In 223(f), however, that policy has been altered to permit secondary financing in accordance with the following:

a. Purchase Transaction. When a loan is made to finance the purchase of an existing multifamily housing project, additional obligations are permitted in connection with the transaction which do not exceed the lesser of:

(1) Seven and one-half percent (7.5%) of the lender's estimate of value, or

(2) Seven and one-half percent (7.5%) of the cost of acquisition as defined in paragraph 9-4a(4).

Such additional obligations may only be represented by a "Promissory Note," Form FHA-2223, without alteration or amendment, except that the name of the lender may be inserted in lieu of the words "Federal Housing Administration" in the last line of the second paragraph.

Example 1.	Fair Market Value	$2,000,000
	7-1/2% of Value	$ 150,000
	Cost of Acquisition	$2,200,000
	7-1/2% of Cost of Acquisition	$ 165,000
	Maximum Amount Permitted to be Financed thru Promissory Notes	$ 150,000
Example 2.	Fair Market Value	$2,000,000
	7-1/2% of Value	$ 150,000
	Cost of Acquisition	$1,900,000
	7-1/2% of Cost of Acquisition	$ 142,000

Maximum Amount Permitted to be
Financed thru Promissory Notes $ 142,000

(9-9) b. Refinancing Transaction. When a loan is made to refinance an existing debt on a multifamily housing project, additional promissory obligations are permitted in connection with the transaction which do not exceed the lesser of:

(1) Seven and one-half percent (7.5%) of the lender's estimate of value; or

(2) Fifty percent (50%) of the difference between the cost to refinance as defined in paragraph 9-4b(4) and the maximum mortgage amount as determined by the lender.

Such additional obligations may only be represented by a "Promissory Note," Form FHA-2223, without alteration or amendment, except as noted in the example cited in paragraph 9-9a.

Example 1. Fair Market Value $2,000,000

85% of Value		$1,700,000
Cost to Refinance		$1,900,000
Maximum Mortgage Amount		$1,700,000
Maximum Amount Permitted to be Financed thru Promissory Notes is		$ 100,000
This represents the lesser of	(a)	$2,000,000
		x .075
		$ 150,000
	or (b)	$1,900,000
		-1,700,000
		$ 200,000
		x .50
		$ 100,000

Example 2.

Fair Market Value		$2,000,000
85% of Value		$1,700,000
Cost to Refinance		$2,100,000
Maximum Mortgage Amount		$1,700,000
Maximum Amount Permitted to be Financed thru Promissory Notes is		$ 150,000
This represents the lesser of	(a)	$2,000,000
		x .075
		$ 150,000

	or (b)	$2,100,000
		-1,700,000
		$ 400,000
		x .50
		$ 200,000

(9-9) Example 3.

Fair Market Value	$2,000,000
85% of Value	$1,700,000
Cost to Refinance	$1,650,000
Maximum Mortgage Amount	$1,650,000
Maximum Amount Permitted to be Financed thru Promissory Notes is	$ 0
This represents the lesser of (a)	$2,000,000
	x .075
	$ 150,000
or (b)	$1,650,000
	-1,650,000
	$ 0

Example 4.

Fair Market Value	$2,000,000
85% of Value	$1,700,000
70% of Value	$1,400,000
Cost to Refinance	$1,300,000
Maximum Mortgage Amount	$1,400,000
Maximum Amount Permitted to be Financed thru Promissory Notes is	$ 0
This represents the lesser of (a)	$2,000,000
	x .075
	$ 150,000
or (b)	$1,300,000
	-1,400,000
	($ 100,000)

c. Decreases in cost. In both purchase and refinancing transactions, if the cost of acquisition or cost to refinance decreases for any reason, the maximum allowable amount of promissory notes must be recomputed. For example, in a purchase transaction, the seller may lower the purchase price in order to reduce the buyer's front money requirements. Also, in a refinancing transaction, the financing plan may reveal that a portion of the indebtedness has been forgiven in order to reduce the mortgagor's front money requirements. In either case, the permissible amount of promissory notes must be recomputed.

d. Special eligiblity projects. The foregoing limitations also apply to projects which meet the requirements of 24 CFR 207.32a(1).

9-10. CASH REQUIREMENTS. HUD terminology defines cash requirements as the difference between the total cost to finance the purchase or refinance a project and the indicated co-insurable mortgage amount.

9-11. FINANCING PLAN. At the time of firm commitment processing, the mortgagor must submit a financing plan setting forth all obligations in connection with the project and identifying the source of payment for each such item. The plan must be signed by a principal of the proposed mortgagor entity.

a. Promissory Notes. If a promissory note(s) will be utilized to retire any portion of the cash requirements, the financing plan must disclose to whom the note(s) (in approved form - see paragraph 9-9) will be issued and the amount(s) of each. Any other source(s) of capital must also be identified; the amount to be obtained from each source must be specified; and verification from the source(s) involved must accompany the plan.

b. Indebtedness Forgiven. If any portion of the indebtedness will be forgiven, verifications from the appropriate lenders must accompany the plan.

c. Verification. If the financing plan indicates that a particular mortgagor principal is to provide a specified sum, the mortgage credit examiner must be satisfied, based upon an analysis of the principal's financial statement, that the principal has sufficient net assets to support the proposed contribution.

9-12. DISCOUNTS. For purposes of 223(f) coinsurance, permanent loan discounts may be eligible for inclusion in the computation upon which the maximum coinsurance mortgage is based. The mortgage credit examiner (MCE) must review the documentation submitted regarding permanent financing. Such documentation will state the amount of the discounts to be charged and to whom they will be paid. If the MCE determines that the stated discounts are reasonable and are in line with prevailing market conditions and mortgage credit data, they may be included in the determination of the maximum coinsurable mortgage subject to the following limitations:

a. In a refinancing transaction, where there is an identity of interest between the present permanent lender or the interim lender and the new permanent lender, no additional financing charges or discounts other than the 2 percent financing fee and 1 1/2 percent placement fee shall be eligible for inclusion.

b. In a purchase or refinancing transaction where an identity of interest exists between the lender and the mortgagor, no additional financing charges or discounts other than the 2 percent financing fee and 1 1/2 percent placement fee shall be eligible for inclusion.

c. In a refinancing or purchase transaction, where there is no identity as described in a and b above, discounts may be recognized only for those actual costs charged by the permanent lender which are determined to be eligible.

(9-12) Discounts charged for warehousing a mortgage for future delivery as well as those which may be charged by the interim lender are not eligible for inclusion.

d. In a refinancing or purchase transaction where an identity of interest exists between the lenders, and the GNMA Mortgage-Backed Securities Program will be used for permanent financing, discounts as determined reasonable by the lender may be included.

e. If the GNMA Mortgage-Backed Securities Program will be used for permanent financing, a sum equal to 1 percent of the mortgage amount must be placed in escrow for three years. This sum shall not be eligible for inclusion in the determination of the maximum insurable mortgage but will be a cash requirement to the mortgagor, notwithstanding any identity of interest which may or may not exist between any of the parties.

f. Each of the foregoing fees (if applicable) must be identified as an obligation in the financing plan discussed earlier in this chapter.

9-13. OPERATING DEFICIT. It is expected that most projects which are the subject of 223(f) coinsurance applications will have reached sustaining occupancy at the time of application. There may, however, be projects which have not reached sustaining occupancy but which can be reasonably anticipated to do so within a relatively short period. For 223(f) coinsurance purposes, this period may not exceed 12 months. In such cases, the mortgagor must establish an operating deficit escrow to cover the difference between project income and expenditures during this period (also see paragraph 3-2f).

a. The appraiser, based upon a study of the local rental market, will have recorded in the remarks section of the Form HUD-92264, the date upon which the project will reach sustaining occupancy.

b. The mortgage credit examiner, based upon the verified rent roll figures, the time the appraiser has estimated as required to reach sustaining occupancy, and the expense and debt service requirement of the project, will determine the necessity for an operating deficit by completing the format shown at Appendix 14 of this handbook.

c. If an operating deficit is necessary, an escrow must be established at the time of endorsement for mortgage coinsurance. Form FHA-2476A, Escrow Agreement - Additional Contribution by Sponsors, must be used for this purpose. The form, however, may be altered to omit references to HUD approval for disbursements, etc. Such determinations are the responsibility of the lender in this program.

(9-13) (1) The escrow agreement provides that the lender may accept, at its option and discretion, cash, a letter of credit, or United States bearer bonds in support of the agreement.

(2) If a letter of credit is accepted, it must be issued by a banking institution other than the lender. Further, if a letter of credit or bearer bonds are accepted by the lender in support of the escrow agreement, the burden of collection is on the lender. If there is a need to draw upon the escrow, the lender is expected to provide cash. In the event of a claim under the mortgage insurance contract, the undrawn balance of the escrow will be considered as cash held by the lender and will be deducted in the computation of the coinsurance claim.

9-14. COST CERTIFICATION. The mortgagor must submit a certificate of actual costs using Form FHA-2205A shown at Appendix 11. This certificate must be submitted and approved after the repairs, if any, are completed and prior to endorsement of the mortgage for coinsurance. An exception to this requirement is granted for refinancing transactions where 70 percent of value is the criterion upon which the maximum coinsurance mortgage is based. In such cases, cost certification is not required.

a. The mortgagor must certify to the total actual costs incurred in the acquisition or refinancing of the property. The certification must be dated and signed by an authorized agent of the mortgage entity.

b. The MCE shall review the submission comparing the amounts claimed to those used in the firm commitment processing to reestablish the maximum insurable mortgage amount. Generally, the amounts used in processing establish an upper limit in each cost category. Any disallowance shall be explained on a separate worksheet and attached to Form FHA-2205A. The MCE shall complete Section II of Form FHA-2205A.

c. The general contractor will only be required to submit a cost certification if a cost-plus form of contract is used.

d. If, in a purchase transaction, the amount of the acquisition cost is determined allowable at cost certification exceeds the lender's estimate of value of the project determined during processing, the rent formula must be recomputed by the appraiser. In order that the appraiser may accomplish this recomputation, the MCE shall advise the appraiser of (1) the allowable acquisition cost as determined by cost certification and (2) the dollar amount of secondary financing represented by the approved promissory notes, Form FHA-2223, shown at Appendix 12.

(9-14) e. If no repair contract has been executed between the mortgagor and the general contractor, or where the mortgagor elects to act as its own repair contractor, the maximum cost allowable will be the lender's estimate of repairs.

9-15. INSTRUCTIONS FOR COMPLETING FORM HUD-92264A, SUPPLEMENT TO PROJECT ANALYSIS. This form is used by HUD in connection with multifamily insured programs. Not all portions of the form need be completed in the 223(f) coinsurance process.

a. The heading of the form should be completed with the name of the mortgagor, if known, and the name and location of the project. The type of mortgagor in 223(f) coinsurance projects will, in nearly all cases, be private, profit-motivated mortgagors. Check both blocks. The type of project will be rental housing and in one of the blanks to the right of this section indicate 223(f) coinsurance. In the other blank indicate whether the transaction is a purchase or a refinance.

b. Instructions for completing the remaining portion of the form will depend upon whether the transaction is a purchase or a refinance.

c. Section I, Determination of Maximum Insurable Mortgage. In a purchase transaction, Criteria 1, 3, 4, 5 and 7 must be completed. The maximum coinsurable mortgage is the least of the following criterion:

(1) Criterion 1. Enter the amount of mortgage applied for.

(2) Criterion 3. In line a, enter the amount from Section L, Line 9 of the Form HUD-92264 in the first space and 85 in the second. Multiply the figures as indicated and enter the result in column 2. Lines b, c, and d are inapplicable to this program. Enter the result of the computation from line a in column c of line e.

(3) Criterion 4 involves a determination of the maximum mortgage based upon statutory per unit limitations. A no-bedroom unit as referred to in the form is an efficiency unit. The amounts vary from location to location depending upon the high cost factor determined. The MCE must contact the HUD office in whose jurisdiction the project under consideration is located. The office will advise the MCE of the applicable limits. The MCE must contact the office each time an application is processed because high cost limits change regularly and different limits apply to different locales within a given Area Office's jurisdiction.

(9-15) (4) Criterion 5 computes the maximum coinsurable mortgage based upon debt service.

(a) In item a, enter the interest rate to be charged on the coinsured mortgage.

(b) In item b, enter the annual mortgage insurance premium, i.e., .75, which is applicable after the initial year.

(c) In item c, enter appropriate initial curtail rate from the table shown at Appendix 22.

(d) Item d is self-explanatory.

(e) In item e, enter in the first blank the net income to the project from Section F, line 34 of the Form HUD-92264. Enter 85 as the percentage limitation. Multiply these figures and enter the result in Column 2.

(f) If there is any periodic payment required for a special assessment indicated in Section D, line 39 of Form HUD-92264, enter the amount here and extend the sum to Column 2. The references herein to ground leases are inapplicable to 223(f) coinsurance.

(g) Items g and h are self-explanatory.

(5) Criterion 7 as it appears on the form must be deleted and a revised criterion completed using the following format.

Criterion 7. AMOUNT BASED ON MORTGAGOR'S TOTAL COST OF ACQUISITION

FORMAT		Column 1	Column 2	Column 3
Item 7a.	Purchase Price Project	$_______		
	Repairs and Improvements, if any	$_______		
	Other Fees	$_______		
	Loan Closing Charges	$_______		
	Sum of Items a, b, c, and d		$_______	
	Amount of Reserve for Replacements on Deposit under Existing Mortgage		$_______	
	Item e minus Item f		$_______	
	Item g x _______ %			$_______

INSTRUCTIONS

Item 7a. Enter the purchase price of the property reflected in the purchase agreement and determined allowable.

Item 7b. Amount to be entered on this line will not exceed the estimated cost of these repairs determined as a result of the visit to the project and entered in the "Remarks" Section of the Form HUD-92264. If the cost of the repairs has been included in the purchase price per the purchase agreement, enter zero.

Item 7c. If costs will be incurred for municipality inspection services or architectural and/or engineering services that are required by the lender, enter the sum of these costs, which appear in the "Remarks" Section of the Form HUD-92264. Then record an itemization of these costs in the "Remarks" Section of the Form HUD-92264A.

Item 7d. Disregard the amounts appearing in Section G of the Form HUD-92264. The amount to be entered on this line will be the sum of the allowable costs for MIP, Exam Fee, Financing Fee, Permanent Placement Fee, Discounts, Title and Recording, Legal, and Organizational expenses and the initial deposit to the Reserve for Replacements

Fund (which expenses the appraiser will furnish to the MCE in the "Remarks" Section of the Form HUD-92264), and will be computed as follows:

Step 1. Add the known dollar amounts for the following:

A. Purchase Price
B. Repairs
C. Legal
D. Organizational
E. Title and Recording
F. Initial Deposit to the Reserve Fund for Replacements, provided the deposit will be funded by the purchaser.
G. Other Fees

Step 2. Deduct the amounts of any Replacement Reserve Escrow which will be purchased as an asset of the project.

Step 3. Multiply the sum from Step 2 by 85 percent.

Step 4. Add the known percentages for the following:

A. MIP (1%)
B. Permanent Placement Fee (not to exceed 1 1/2%)
C. Financing Fee (Initial Service Charge)
D. Exam Fee
E. Discounts, if allowable

Step 5. Multiply total from Step 4 by 85 percent. (Product should be shown to four decimal places.)

Step 6. Subtract result from Step 5 from 100 percent.

Step 7. Divide the product from Step 3 by the result from Step 6. The quotient rounded down to the nearest hundred becomes the mortgage amount.

Step 8. Using the percentages from Step 4, compute and total the actual fees based on the mortgage amount determined in Step 7 for the following items:

A. MIP
B. Permanent Placement Fee (not to exceed 1 1/2%)
C. Financing Fee (Initial Service Charge - not to exceed 2%)

D. Exam Fee (not to exceed 3/10%)
E. Discounts, if allowable*

Step 9. Add to the total derived from Step 8, the allowable amounts for Legal, Organizational, Title and Recording, the Initial Deposit to the Reserve Fund for Replacements, and Permanent Placement Fee. The sum will be transferred to Item 7d.

Using the Mortgage Credit data based on prevailing market conditions, the MCE will evaluate the amount of the requested discounts for reasonableness.

The MCE will prepare a worksheet showing the computation of the loan charges as indicated above and attach it to the completed copy of the Form HUD-92264A.

Item 7e. Self-explanatory.

Item 7f. Enter the amount of the Reserve for Replacement on deposit with the lender, provided that the Replacement Reserve will be purchased as an asset of the project. The lender must furnish verification of the amount on deposit.

Item 7g. Self-explanatory.

Item 7h. Enter 85 as the percentage. Multiply Item g by this percentage and extend the product, rounded down to the nearest hundred, to Column 3.

d. Section II, Total Requirements for Settlement. This section consists of two parts, A and B. Part B should be completed before Part A.

(1) Part B.

a Line 1, Fees Not to be Paid in Cash, is not applicable to 223(f) processing.

b Commitment, Marketing Fees, and Discounts.

*The instructions regarding the eligibility of discounts are set forth in paragraph 9-12. After establishing whether the discounts are eligible for inclusion in the determination of the maximum insurable mortgage, the MCE will determine the amount to be allowed.

1 Fees: GNMA. If the GNMA mortgage-backed securities plan is used for permanent financing, an escrow of 1 percent of the mortgage amount will be required. This amount is not eligible for inclusion in the maximum insurable mortgage, but is a cash requirement to the mortgagor. As such, the MCE will enter the appropriate amount.

2 Discounts. The amount of those discounts which will be charged by the new lender, but have been determined not to be eligible for inclusion in the determination of the maximum insurable mortgage, will be entered.

c Working Capital. This line is inapplicable in 223(f) processing.

(2) Part A.

a Line 1, Development Cost. Delete the words "Development Cost" and enter "Purchase Price Including Loan Closing Charges." The amount to be entered on this line represents the total of Item 7a plus the "Other Fees" reflected on Line 7c, plus the loan closing charges based on the maximum insurable mortgage. The MCE will compute the fees based on the maximum insurable mortgage and list a breakdown of these fees and other loan charges (Legal, Organizational, Title and Recording, Initial Deposit to the Reserve Fund for Replacements), in the "Remarks" Section of the Form FHA-2264A.

b Line 2, Land Indebtedness. Delete "Land Indebtedness" and enter "Required Repairs." The amount to be entered on this line will be the amount shown in Item 7b of Criterion 7.

c Line 3, Self-explanatory.

d Line 4. Enter the lowest of the criteria established in Section I.

e Line 5. Not applicable.

f Line 6. Self-explanatory.

g Line 7. Self-explanatory.

h Line 8, Initial Operating Deficit. Compute the operating deficit following the format which appears as Appendix 14, and enter the required deposit on this line. Attach a

copy of the worksheet showing the computation of the operating deficit to the completed Mortgage Credit copy of the Form FHA-2264A.

i Line 9, Commitment, Marketing Fees, Discounts. Transfer amount entered in Part B, No. 2.

j Line 10. Not applicable.

k Line 11. Not applicable.

1 Line 12, Total Estimated Cash Requirement. Add the amounts in lines 7, 8, and 9 and enter the total. This figure represents the estimated difference between the mortgage amount and the estimated total cost of effecting the transaction.

m Front Money Escrow. Not applicable.

e. Section III, Source of Funds to Meet Cash Requirements. Enter the results of the financial statement analyses. Further, identify and enter any amounts already on deposit or expended by the mortgagor to cover the requirements listed above. This is done in order to provide the mortgagor with credit for funds already invested to satisfy cash requirements, e.g., the deposit on the purchase of the land, the Reserve for Replacements escrow already on deposit with the lender, etc.

If the mortgagor has submitted a financing plan which indicates that promissory notes will be used to meet the cash requirements, the amount of the notes, provided it does not exceed the amount allowable in accordance with paragraph 9-9, will also be entered under this section. Complete the format which appears as Appendix 15 to determine the maximum amount permitted to be financed through promissory notes.

f. Section IV, Recommendations, Requirements and Remarks.

Remarks. Show itemization of figures included in the total reflected in Section II, Part A, Line 1, and any other appropriate comments.

g. Refinance transactions. Instructions for completing Form HUD-92264A for refinance transactions are, for the most part, the same as those to be followed in a purchase transaction, except as set forth below.

h. Section I, Determination of Maximum Insurable Mortgage.

(1) Type of project. In addition to completing the other applicable boxes, place an X in the first blank space and enter "Refinancing Transaction."

(2) Criteria. Apply limitations applicable to Refinancing Transactions:

a Complete Criteria 1, 3, 4, 5, and add Criterion 10. Note, however, that the format for computing certain of the entries for refinancing transactions differs from those used in a purchase transaction. For example, see Appendix 16, Format to Compute Fees in a Refinancing Transaction, and Appendix 13, Format to Compute Fees in a Purchase Transaction.

b Additional information regarding these criteria is set forth in HUD Handbook 4565.1, Mortgage Insurance for the Purchase or Refinancing of Existing Multifamily Projects, Section 223(f).

Add Criterion 10 in the blank spaces in the following format and complete as follows:

Criterion 10. AMOUNT BASED ON EXISTING INDEBTEDNESS, REPAIRS, AND LOAN CLOSING CHARGES.

FORMAT		Column 1	Column 2	Column 3
Item 10a.	Total Existing Indebtedness	$_______		
Item 10b.	Required Repairs	$_______		
Item 10c.	Other Fees	$_______		
Item 10d.	Loan Closing Charges	$_______		

Item 10e. Sum of Items a, b, c, and d $_______

Item 10f. Amount of Reserve for Replacement on Deposit under Existing Mortgage $_______

Item 10g. Item e minus Item f $_______

Item 10h. 70% of Value $_______

Item 10i. Greater of Item g or Item h $_______

INSTRUCTIONS.

Item 10a. Enter the total outstanding existing indebtedness as determined in accordance with paragraph 9-9 of this Handbook.

The current indebtedness and a list of the betterments must be furnished by the mortgagor in support of the request to include this sum in the refinancing transaction.

Item 10b. Amount to be entered on this line will not exceed the estimated cost of repairs as determined by the lender as a result of the team visit to the project.

Item 10c. If costs will be incurred for municipality inspection services or architectural and/or engineering services that are required by the lender in addition to the basic inspection enter the sum of these additional costs, which appear in the "Remarks" Section of the Form HUD-92264. Then, record an itemization of these costs in the "Remarks" Section of the Form FHA-2264A.

Item 10d. Disregard the amount appearing in Section G of the Form HUD-92264. The amount to be entered on this line will be the sum of the allowable costs for MIP, Exam Fee, Financing Fee, FNMA Fee, Discounts, Initial Deposit to the Reserve for Replacements Fund, and Title and Recording, Legal and Organizational expenses (which expenses the Appraiser will furnish to the MCE in the "Remarks" Section of the Form HUD-92264), and will be computed as follows using the format which appears as Appendix 16:

Step 1. Add the known dollar amounts for:

A. Existing Indebtedness
B. Repairs
C. Initial Deposit to Reserve for Replacements
D. Legal
E. Title and Recording
F. Organizational
G. Other Fees

Step 2. Deduct the amount of the Replacement Reserve currently on deposit with the present lender.

Step 3. Add the known percentages for:

A. Financing Fee (Initial Service Charge)
B. MIP (1%)
C. Exam Fee
D. Permanent Placement Fee (not to exceed 1 1/2%) E. Discounts, if allowable

Step 4. Subtract the sum from Step 3 from 100 percent. The result will be the percentage of the mortgage represented by the known fees.

Step 5. Divide the sum from Step 2 by the result from Step 4. The quotient, rounded down to the nearest hundred, becomes the mortgage amount supportable by this criterion.

Step 6. Using the percentages from Step 3, compute and total the actual fees based on the mortgage amount determined in Step 5 for the following items:

A. Financing Fee
B. MIP (1%)
C. Exam Fee

D. Permanent Placement Fee
E. Discounts, if allowable*

Step 7. Add to the total derived from Step 6 above, the allowable amounts for Legal, Organizational, Initial Deposit to the Reserve for Replacements Fund, and Title and Recording.

The result from Step 7 will be transferred to Item 10d.

The MCE will prepare a worksheet showing the computation of the loan charges as indicated above and attach it to the completed Mortgage Credit copy of the Form HUD-92264A.

Item 10e. Self-explanatory.

Item 10f. Enter the amount of the Replacement Reserve presently on deposit with the lender under the existing mortgage. The lender must furnish verification of the dollar amount.

Item 10g. Self-explanatory.

Item 10h. Self-explanatory.

Item 10i. Self-explanatory.

i. Section II, Total Requirements for Settlement.

(1) Part A.

a Development Cost. Delete "Development Cost" and enter "Existing Indebtedness Including Loan Closing Charges." The amount to be entered on this line will be the amount reflected in Item 10a, plus the "Other Fees" reflected on Line 10c, plus the amount of loan closing charges based on the maximum insurable mortgage. The MCE will compute the fees based on the maximum insurable mortgage

*The instructions regarding the eligibility of discounts are set forth in paragraph 9-12. After establishing whether the discounts are eligible for inclusion in the determination of the maximum insurable mortgage, the MCE will determine the amount to be allowed. Using data based on prevailing market conditions, the MCE will evaluate the amount of the requested discounts for reasonableness.

and list a breakdown of these fees and other loan charges (Legal, Organizational, Title and Recording, Initial Deposit to Reserve for Replacements and Permanent Placement Fee) in the "Remarks" Section of the Form FHA-2264A.

b Land Indebtedness. Delete "Land Indebtedness" and enter "Required Repairs." The amount to be entered on this line will be the amount reflected in Item 10b of Criterion 10.

c Mortgage Amount. Enter the amount of the coinsurable mortgage.

d Fees Not to be Paid in Cash. Not applicable to 223(f) coinsurance.

e Initial Operating Deficit. Compute the operating deficit following the format which appears as Exhibit 14, and enter the required deposit on this line. Attach a copy of the worksheet showing the computation of the operating deficit to the completed copy of the Form HUD-92264A.

f Commitment, Marketing Fees, Discounts. Transfer amount entered in Part B, No. 2.

g Working Capital. Delete "Working Capital" and enter "Other Indebtedness." The amount to be entered on this line will represent any notes payable or recorded indebtednesses which were not eligible for inclusion in the determination of the mortgage amount. Other indebtedness is not to include accounts payable as these items are normally ongoing operating expenses.

h Total Estimated Cash Requirements. The total entered here is the amount over and above the mortgage which the mortgagor must provide either by way of cash or promissory notes. See Appendices 12 and 15 for computing maximum amount of promissory notes permitted.

j. Section III, Source of Funds to Meet Cash Requirements. Enter the results of the financial statement analysis. Further, identify and enter any amounts already on deposit or expended by the mortgagor to cover the requirements listed above. This is done in order to reflect a credit for funds already invested to satisfy the cash requirements, e.g., the Reserve for Replacements escrow already on deposit with the lender, repairs already made, etc.

If the mortgagor has submitted a financing plan which indicates that promissory notes will be used to meet the cash requirements, the amount of the notes, provided it does not exceed the amount allowable in accordance with paragraph 9-9, will also be entered under this section. Complete the format which appears as Appendix 17 to determine the maximum amount permitted to be financed through promissory notes.

The financing plan will be attached to the Form HUD-92264A.

k. Section IV, Recommendations, Requirements and Remarks.

Remarks. Show itemization of figures included in the total reflected in Section II, Part A, Line 1 and other appropriate comments.

l. The form must be dated and signed by the preparer.