TABLE OF CONTENTS

Chapter 1. INTRODUCTION TO COINSURED LOAN SERVICING

1-1 Organization of Handbook 1-1
1-2 Relationship Between HUD, the Lender and the Project Owner 1-1
1-3 Scope of HUD Requirements 1-2
1-4 Changes in Lender’s Personnel or Procedures 1-3
1-5 Delegation of Servicing Activities 1-4
1-6 Sale of Coinsured Mortgages 1-4
1-7 Reinsurance of Coinsuring Lender’s Risk 1-5
1-8 HUD Sanctions Against Coinsuring Lenders for Non-Performance or Misconduct 1-5

Section 2. Start-up Servicing

1-9 Overview of Section 1-6
1-10 Establish Servicing Docket 1-6
1-11 Establish Required Escrows 1-6
1-12 Distribute Amortization Schedule and Payment Instructions 1-7
1-13 Administer Any Special Escrow’s Required at Closing 1-7
1-14 Monitor Implementation of Required Management Improvements 1-8
1-15 Establish "Tickler" Systems 1-8

Section 3. Lender’s Annual Reports to HUD

1-16 Financial Audit of Lender 1-8
1-17 Inventory Reconciliation and Servicing Report 1-9

Chapter 2. COLLECTIONS AND ESCROWS

Section 1. Collections

2-1 Regular Monthly Payments 2-1
2-2 Late Charges 2-1
2-3 Delinquency Control 2-1
2-4 Lender Premium 2-2
2-5 Prepayment 2-2

5/84

Paragraph

Page No.

Section 2. HUD Escrow Requirements
Section 3.  Hazard Insurance

2-11 Amount and Type of Insurance Required 2-4
2-12 Processing Loss Settlement Drafts 2-5

Section 4.  Mortgage Insurance Premiums (MIP)

2-13 Amounts Due HUD 2-5
2-14 Late Charges 2-6
2-15 Collecting From the Owner 2-6
2-16 Duration of MIP 2-7
2-17 Pro Rata Refund of MIP Upon Termination of Insurance 2-7

Chapter 3.  PROJECT ACCOUNTING, FINANCIAL AND REPORTING REQUIREMENTS

Section 1.  Owner's Accounting and Recordkeeping Responsibilities

3-1 General 3-1
3-2 Uniform Chart of Accounts 3-1
3-3 Owner's Financial Recordkeeping Requirements 3-1
3-4 Tenant Security Deposits 3-1

Section 2.  Owner's Financial and Occupancy Reporting Responsibilities

3-5 Monthly Financial Reports 3-2
3-6 Annual Financial Reports 3-2
3-7 Annual Occupancy Reports 3-3
3-8 Other Reports 3-3

Section 3.  Use of Project Funds

3-9 General 3-4
3-10 Shop for Best Deal 3-4
3-11 Excessive Costs 3-4
3-12 Deposit and Investment of Project Funds 3-4
3-13 Repayment of Owner Advances 3-5

5/84

ii

Section 4.  Surplus Cash, Owner Distributions and Residual Receipts

3-14 Surplus Cash 3-5
### Chapter 3. Lender Review of Project Financial Reports

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-15</td>
<td>Distributions to Owners 3-6</td>
</tr>
<tr>
<td>3-16</td>
<td>Residual Receipts 3-7</td>
</tr>
</tbody>
</table>

#### Section 5. Lender Review of Project Financial Reports

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-17</td>
<td>Importance of Timely Submission 3-8</td>
</tr>
<tr>
<td>3-18</td>
<td>Lender Review of Annual Financial Reports 3-9</td>
</tr>
<tr>
<td>3-19</td>
<td>Lender Review of Monthly Accounting Reports 3-9</td>
</tr>
<tr>
<td>3-20</td>
<td>Initiation of Corrective Actions 3-10</td>
</tr>
<tr>
<td>3-21</td>
<td>Use of Enforcement Tools 3-10</td>
</tr>
<tr>
<td>3-22</td>
<td>Reporting to HUD 3-10</td>
</tr>
<tr>
<td>3-23</td>
<td>Financial Records Retention Requirements 3-10</td>
</tr>
</tbody>
</table>

### Chapter 4. MANAGEMENT AGENTS AND MANAGEMENT FEES

#### Section 1. Selection and Approval of Management Agents

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-1</td>
<td>General 4-1</td>
</tr>
<tr>
<td>4-2</td>
<td>Types of Management Entities 4-1</td>
</tr>
<tr>
<td>4-3</td>
<td>Owner Submission Requirements 4-2</td>
</tr>
<tr>
<td>4-4</td>
<td>Lender Review 4-2</td>
</tr>
<tr>
<td>4-5</td>
<td>Management Agreements 4-3</td>
</tr>
</tbody>
</table>

#### Section 2. HUD Requirements Relating to Management Fees

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-6</td>
<td>Introduction 4-4</td>
</tr>
<tr>
<td>4-7</td>
<td>Distributing Costs Between the Management Fee and the Project Account 4-5</td>
</tr>
<tr>
<td>4-8</td>
<td>How the Management Fee is Established 4-6</td>
</tr>
<tr>
<td>4-9</td>
<td>Owner Responsibility to Shop and Compare 4-7</td>
</tr>
<tr>
<td>4-10</td>
<td>Changes in Management Fees 4-7</td>
</tr>
</tbody>
</table>

#### Section 3. Lender Review of Reasonableness of Management Fees

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-11</td>
<td>Reasonableness of the Fee 4-7</td>
</tr>
<tr>
<td>4-12</td>
<td>Timing of Lender Review of Management Fee 4-8</td>
</tr>
<tr>
<td>4-13</td>
<td>Guidance for Lender Reasonableness Assessment Review 4-9</td>
</tr>
<tr>
<td>4-14</td>
<td>Distribution of Management Certificates 4-9</td>
</tr>
</tbody>
</table>

### Chapter 5. RESERVE FOR REPLACEMENTS

#### Section 1. Establishment and Investment of the Reserve

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-1</td>
<td>General 5-1</td>
</tr>
<tr>
<td>5-2</td>
<td>How the Reserve is Held 5-1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-3</td>
<td>Servicing Fees 5-2</td>
</tr>
</tbody>
</table>

#### Section 2. Withdrawals
5-4 Use of Reserve Funds 5-2
5-5 Owner Requests for Withdrawal 5-3
5-6 Lender's Processing of Owner's Requests for
Withdrawals 5-3
5-7 Monitoring the Owner's Use of Reserve Funds 5-3
5-8 Disposition of the Account 5-3

Section 3. Assessing Adequacy of the Reserve
5-9 General 5-4
5-10 Planning for Future Replacements 5-4
5-11 Suspension or Reduction of Deposits 5-5

Chapter 6. ON-SITE REVIEWS

Section 1. Types and Frequencies of Reviews
6-1 Introduction 6-1
6-2 Physical Inspections 6-1
6-3 Management Reviews 6-1
6-4 Relationships Between Types of Reviews 6-3

Section 2. Preparing for and Conducting the On-Site Review
6-5 Owner/Agent Notification 6-4
6-6 Conducting the Review 6-4

Section 3. Preparing and Processing Review Reports
6-7 Contents of Report 6-4
6-8 Ratings 6-5
6-9 Initial Distribution of Report 6-5
6-10 Lender Follow-up Efforts 6-5
6-11 Keeping HUD Informed 6-6
6-12 Records Retention Requirement 6-6

Chapter 7. RENTS AND CHARGES

Section 1. Introduction
7-1 Chapter Overview 7-1
7-2 Applicability of Chapter 7-1

5/84 iv

Paragraph Page No.

Section 2. Limitations on Rents and Charges
7-3 Commercial Facilities 7-1
7-4 Charges for Services and Facilities 7-2
7-5 Apartment Rents 7-2
7-6 Market Rents 7-2
7-7 Rent Computation Worksheet 7-3
Section 3. Owner Submission Requirements

Cost Method
Market Method

Section 4. Lender's Review of Owner Requests

Thirty Day Processing
Lender's Review of the Owner's Submission
Lender's Notice to the Project Owner and HUD

Section 5. Preemption of Local Rent Control

Introduction
Actions Owner Must Take Before Submitting a Formal Request for Preemption
Initial Lender Review for Completeness
Owner's Formal Preemption Request
Lender Processing of Preemption Request
HUD Processing of Preemption Request
Owner Implementation of HUD's Decision on Preemption
Preemption of Rent Control Board's Lease Requirements

Chapter 8. TRANSFER OF PHYSICAL ASSETS

Introduction
Definition of TPA
Owner Responsibilities
Lender Responsibilities
TPA Application Fees
Unauthorized TPA's

Chapter 9. DEFAULTS

Section 1. Definitions and Reporting Requirements

Introduction
Definition of Default
Lender's and HUD's Rights in the Event of Default

Section 2. Analysis of Reinstatement Prospects

Conditions for Mortgage Relief
Chapter 10. ACQUISITION, MANAGEMENT AND DISPOSITION

10-1 Introduction

Section 1. Acquisition

10-2 Available Methods of Acquisition
10-3 Notifying HUD
10-4 Accounting for Acquisition Costs

Section 2. Interim Management

10-5 General
10-6 Securing Competent Management
10-7 Accounting and Recordkeeping
10-8 Use of Funds
10-9 Reporting on Project Operations
10-10 Developing a Management Strategy

Section 3. Disposition

10-11 Required Appraisals
10-12 Methods of Disposition
10-13 Special Requirements for Projects Sold with Coinsured Financing or with a Subsidy Contract
10-14 Special Requirements if the Buyer has an Identity of Interest with the Lender
10-15 Sale by Competitive Bid
10-16 Records Retention Requirements
10-17 Accounting for Disposition Costs

Chapter 11. INSURANCE BENEFITS AND TERMINATION OF INSURANCE

11-1 Introduction

Section 1. Computation of Insurance Benefits

11-2 Overview of Formula for Computing Insurance Benefits
11-3 Items Included in Computing Insurance Benefits
11-4 Items Deducted in Computing Insurance Benefits
Section 2. Procedures for Filing Insurance Claims

11-5 General  
11-6 Claim Certification and Identity of Interest  
11-7 Application for Coinsurance Benefits and Fiscal Data in Support of Claim  
11-8 Allocation of Mortgage Receipts and Disbursements (Schedule A)  
11-9 Mortgagee's Report of Project Collections (Schedule B)  
11-10 Mortgagee's Report of Project Disbursements (Schedule C)  
11-11 Other Disbursements by Mortgagee (Schedule D)  
11-12 Mortgagee's Report of Special Escrow (Schedule E)  
11-13 Mortgagee's Report of Net Sales Proceeds (Schedule F)  
11-14 Certification for Sale by Competitive Bid  
11-15 Documentation of Receivership

Section 3. How HUD Pays Insurance Benefits

11-16 Claim Settlement Statement  
11-17 Method of Payment

Section 4. Remedies for Default by a Lender-Issuer Under the GNMA Mortgage-Backed Securities Program

11-18 Indemnification of GNMA  
11-19 HUD Actions  
11-20 GNMA Right to Assignment

Section 5. Termination of Mortgage Insurance

11-21 Termination of Coinsurance Contract  
11-22 Request for Termination  
11-23 Notice and Date of Termination by HUD

TABLE OF EXHIBITS

<table>
<thead>
<tr>
<th>Exhibits</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-1</td>
<td>Examples of Lender Actions Which Require Advance HUD Approval</td>
<td>1-10</td>
</tr>
<tr>
<td>1-2</td>
<td>Suggested Contents of Servicing Files</td>
<td>1-11</td>
</tr>
<tr>
<td>1-3</td>
<td>Suggested Ticklers for Loan Servicing and Management Oversight</td>
<td>1-12</td>
</tr>
</tbody>
</table>
3-1  Possible Corrective Actions  3-11
3-2  HUD Administrative Enforcement Actions  3-12
4-1  Types of Information the Lender Might Request 
    Regarding Project Conditions or a Management 
    Agent's Operations  4-10
7-1  Overview of the Preemption Process  7-12
8-1  Controlling Issuances on Transfers of 
    Physical Assets  8-8
8-2  Transactions Requiring Lender/HUD Approval 
    and Types of Reviews Required  8-9
10-1 Information the Lender Must Include in 
    the Prospectus  10-12
10-2 Items the Lender Must Include in the Bid Kit  10-13
11-1 Documents the Lender Must Submit When Filing a 
    Claim for Insurance Benefits  11-11

APPENDICES

<table>
<thead>
<tr>
<th>Appendix No.</th>
<th>Title</th>
<th>Form No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Previous Participation Certification</td>
<td>HUD-2530</td>
</tr>
<tr>
<td></td>
<td>(OMB #2502-0118)</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Mortgagee's Certificate (OMB #2502-0272)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Regulatory Agreement for Multifamily Housing Projects Coinsured by HUD (OMB #2502-0272)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Management Certification for Coinsured Projects</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. For Owner-Managed Projects (OMB #2502-0272)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. For Projects with Identity-of-Interest or Independent Management Agents (OMB #2502-02/2)</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Mortgage Record Change (OMB #2502-0186)</td>
<td>HUD-92080</td>
</tr>
<tr>
<td>6</td>
<td>RESERVED</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>RESERVED</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Property Insurance Schedule (OMB #2502-0272)</td>
<td>HUD-92329</td>
</tr>
<tr>
<td>No.</td>
<td>Title</td>
<td>Form No.</td>
</tr>
<tr>
<td>-----</td>
<td>----------------------------------------------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>9</td>
<td>Monthly Report for Establishing Net Income (OMB #2502-0108)</td>
<td>HUD-93479</td>
</tr>
<tr>
<td>10</td>
<td>Schedule of Disbursements (OMB #2502-0108)</td>
<td>HUD-93480</td>
</tr>
<tr>
<td>11</td>
<td>Schedule of Accounts Payable (OMB #2502-0108)</td>
<td>HUD-93481</td>
</tr>
<tr>
<td>12</td>
<td>Statement of Profit and Loss (OMB #2502-0052)</td>
<td>HUD-92410</td>
</tr>
<tr>
<td>13</td>
<td>Computation of Surplus Cash, Distributions and Residual Receipts (OMB #2502-0314)</td>
<td>HUD-93486</td>
</tr>
<tr>
<td>14</td>
<td>Civil Rights Tenant Characteristics/Occupancy Report-Insured Unsubsidized Housing Programs (OMB #2502-0007)</td>
<td>HUD-949</td>
</tr>
<tr>
<td>15</td>
<td>Suggested Content for Management Agent Profile (Coinsured Projects) (OMB #2502-0256)</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Items Eligible for Reimbursement from the Replacement Reserve</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Reserve Fund for Replacements Authorizations (OMB #2502-0314)</td>
<td>HUD-9250</td>
</tr>
<tr>
<td>18</td>
<td>RESERVED</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Sample Agreement to Increase Deposits to the Replacement Reserve (OMB #2502-0314)</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Report of Physical Condition and Estimate of Repair Costs (OMB #2502-0314)</td>
<td>HUD-9822</td>
</tr>
<tr>
<td>21a</td>
<td>Management Review Report for Unsubsidized Multi-family Housing Programs (OMB #2502-0259)</td>
<td>HUD-9838</td>
</tr>
<tr>
<td>21b</td>
<td>Management Review Worksheet (OMB #2502-0259)</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Rent Schedule (OMB #2502-0012)</td>
<td>HUD-92458</td>
</tr>
<tr>
<td>23</td>
<td>Rent Computation Worksheet for Unsubsidized Programs (OMB #2502-0314)</td>
<td>HUD-92547A</td>
</tr>
<tr>
<td>24a</td>
<td>Sample Owner Explanation of Expense Estimates</td>
<td></td>
</tr>
<tr>
<td>24b</td>
<td>Guidance on Assessing the Reasonableness of the Projects Proposed Budget</td>
<td></td>
</tr>
</tbody>
</table>
FOREWORD
This Handbook sets forth HUD's policies and procedure for the operation, management and disposition of coinsured projects and the servicing of coinsured loans. The Handbook provides guidance for coinsuring lenders, HUD Field staff, project owners and management agents. The statutory authority for the 223(f) coinsurance program is contained in Section 244 of the National Housing Act. The regulations governing this program are set forth in 24 CFR Part 255. Users of this Handbook will need to refer to the following HUD Handbooks.

IG 2003.3A        Audit and Investigation Activities
IG 4000.3 REV     Audit Guide for Audits of HUD Approved Non-Supervised Mortgagees for Use by Independent Public Accountants
4060.1            Mortgagee Approval Handbook
4060.2            Mortgagee Review Board敢于 Termination)
4065.1            Previous Participation Handbook        HUD-9807
4080.1            Compliance Handbook for Housing      5/84
4370.1 REV-1      Reviewing Annual and Monthly Financial Reports
43/0.2            Financial Operations and Accounting Procedures for Insured Multifamily Projects
4370.4            Basic Accounting Desk Guided procedure for the
IG 4372.1         Audit Guide for Mortgagors Having HUD Insured or Secretary Held Multifamily Mortgages for Use by Independent Public Accountants
4566.1 REV-1      Coinsurance for Private Lenders - Section 223(f)
GNMA 5500.1 REV-5  GNMA Mortgage Back Securities Guide. The

The Office of Management and Budget (OMB) has cleared all the information collection, recordkeeping and reporting requirements in this Handbook. Except as otherwise indicated, the OMB clearance number is 2502-0314.

5/84