

EXPENSE REDUCTION FORMAT

1.	Total Project Expense as Proposed WITH Prohibited Amenities	\$ _____
2.	Net Residential Square Foot Area as Proposed WITH Prohibited Amenities (Line C34 of HUD Form 92264).	\$ _____
3.	Net Residential Square Foot Area of Hypothetical Project meeting Design and Cost Standards.	\$ _____
4.	Difference in Net Residential Area Attributable to Prohibited Amenities. (Line 2 minus Line 3)	\$ _____
5.	Per Square Foot Project Residential Expense as Proposed WITH Prohibited Amenities (Line 1 divided by Line 2).	\$ _____
6.	Expense Attributable to Prohibited Amenities (Line 5 (x) Line 4).	\$ _____

The applicant will be required to establish an escrow account which will generate investment income. The investment income generated by the account must be sufficient to pay the annual expense associated with the prohibited amenity. The appraiser will calculate the amount necessary to deposit in the escrow account based upon a 5 percent annual rate of return. The appraiser will insert the following statement in Section O. Remarks, on the form HUD 92264; "An escrow account in the amount of \$ _____ is to be established at initial closing, for the purpose of payment of expenses of \$__(Line 6)__, which are associated with prohibited amenities. The escrow must be deposited in an interest bearing account insured by the FDIC."

Line E29 of the HUD Form 92264 should indicate the annual operating expense of the property without the prohibited amenities.

This format is predicated upon the assumption that there is a difference between the new rentable residential area of the

proposed project and the net rentable area of the hypothetical project incorporating and reflecting the design and cost standards, and that the difference in these areas is a reasonable basis for the allocation of operating expenses. If this is not the case, another reasonable and documented means for allocating expenses must be used.