1. This transmits the revised policy for holding and investing funds in the Reserve for Replacement Account and Residual Receipts Account, Change 9 to HUD Handbook 4350.1 REV-1, Multifamily Asset Management and Project Servicing.

2. Explanation of Materials Transmitted:

This revised policy authorizes the mortgagee, after consultation with the project owner, to invest funds in excess of $100,000 in U.S. government-backed securities and to hold funds in excess of $100,000 in institutions under the control of, and whose deposits are insured by, the Federal Deposit Insurance Corporation, National Credit Union Association, or other U.S. government insurance corporations under certain conditions. Further, this revised policy 1) removes the list of acceptable investment vehicles, 2) acknowledges and enforces the provisions of the regulations, the Regulatory Agreement and Mortgagee's Certificate that state the Reserve for Replacement Funds shall be established by and under the control of the mortgagee, and 3) places the responsibility for determining the appropriate investment with the owner and the mortgagee.

Also transmitted is the new Form HUD 9250, Funds Authorizations. This form may also be accessed through HUD Forms on the Local Area Network (LAN)

3. Effective Date: Upon receipt.

4. Filing Instructions:

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1. This transmits technical amendments to outstanding handbook procedures covering workouts and accompanies the release of the related Job Aid on "Loss Mitigation: Educational Supplement to Outstanding Handbook Procedures." The latter product is an important part of the Multifamily Asset Management Strategy and provides Asset Managers with a valuable tool for identifying and addressing the troubled insured inventory using a systematic portfolio-wide approach to Loss Mitigation. It is written in a user friendly, plain language format which should prove readily accessible. In addition to the main document itself, Asset Managers will find a score of interesting and useful instructional materials in the Appendices.

This Handbook Change emanates from a reevaluation of what has been done in the past, incorporates changes on how to improve workout policy based on suggestions from both Headquarters and Field personnel as well as private sector financial advisors working with the Department, revises policy in light of changing market circumstances and events, and provides a new section on the integration between workouts and the on-going MF HUD-Held note sales initiative.

The two directives taken together represent a comprehensive and integrated approach to policy development.

2. Explanation of Materials Transmitted, Significant Developments:

Workout-type arrangements may be utilized in order to stabilize still insured but troubled or potentially troubled
projects in order to avoid a default/assignment in the first place. The practice of this art form is referred to as "loss mitigation." Previously, workouts were used only in the context of the Hub-Held portfolio (i.e., after default/assignment when an insurance claim is paid and HUD becomes the mortgagee) . Extending the availability of workouts to insured assets is a proactive asset management tool and an important strategy in the Department's continuing efforts to mitigate losses.

An earlier change to the workout policy permitting longer term arrangements beyond the traditional 36-months was devised in light of changing market circumstances at the time reflecting (1) terms and this can lead to disputes or litigation. For this reason an "integration" clause has been added as a standard provision to the document.

- An insurance clause has also been added as a standard provision.
- Clarifying language regarding the 60-day cancellation period has also been incorporated into the Workout Agreement. The cancellation language states that workouts run on a year to year basis until their expiration and are subject to cancellation on any anniversary upon notice given within the 60-day period prior to such anniversary should there be a change in the holder of the note.

However, the cancellation language will be required only for unsubsidized mortgages. A mortgage in the HUD portfolio is considered "unsubsidized" if: (i) it was not insured under the Section 236 or Section 221(d)(3) BMIR mortgage subsidy programs; AND (ii) fifty (50) percent or fewer of the units in the property securing the mortgage receive a federal project-based rent subsidy. Please note that these instructions are in accordance with Deputy Assistant Secretary Helen Dunlap's memorandum dated February 27, 1995, which supersedes any earlier memoranda on this subject, and has now been codified into the handbook.

- The Paragraph regarding "penalties" has been changed to reflect changes in the law: fine of not more than $250,000 and imprisonment of not more than five (5) years.
- Clarifying language regarding the Department's rights due to the default and that the expiration provisions of the Provisional Workout Agreement (PWA) apply only to the forbearance afforded the borrower has also been added.

3. Effective Date: Upon Receipt.
4. Filing Instructions.
Remove: Table of Contents, 4350.1
Insert: Table of Contents, Rev-1 4350.1 Rev-1
State Coordinators; Directors of Housing; Directors, Multifamily Housing Division; Multifamily Loan Management and Development Branch Chiefs; Regional Counsel; Contract Administrators; Owners and Management Agents

Change 7 to HUD Handbook 4350.1 REV-1, Multifamily Asset Management and Project Servicing.

2. Explanation of Materials Transmitted:

This change informs HUD multifamily staff and project owners and managing agents about the disposition of escrow accounts when HUD-Held notes and mortgages are auctioned, sold, or conveyed without mortgage insurance.

The Department also has decided to clarify its administrative procedures in this regard for the knowledge and benefit of program participants and to eliminate any administrative inconsistencies that otherwise may have existed.

3. Effective date: Upon receipt.

4. Filing instructions:

Remove pages 4-1 and 4-2 dated 9/92.

Insert pages 4-1 and 4-2 dated 3/95 and page 10-16a dated 3/95.

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Assistant Secretary for Housing-
Federal Housing Commissioner

Special Attention of: Regional Administrators,
Directors of Regional Housing, Issued: 2/10/94
Managers of Category A, B, and C Offices,
Directors of Housing Management Division,
Directors of Housing Development Division,
Loan Management Branch Chiefs
1. This transmits Change 6 to HUD Handbook 4350.1 REV-1, Multifamily Asset Management and Project Servicing.

2. Explanation of Materials Transmitted:

This change allows the mortgagor to request the mortgagee to invest funds in the Reserve for Replacements and Residual Receipts in a tax-exempt mutual fund.

3. Effective date:

Upon receipt

4. Filing instructions:

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Assistant Secretary for Housing
- Federal Housing Commissioner

W-3-1, W-2(H), W-3(A)(OGC)(ZAS), W-4(H), R-1, R-2, R-3-1,
R-3-2, R-3-3, R-6, R-6-2, R-7, R-7-2, R-8, Special

Distribution to Field Offices and State Agencies

U.S. Department of Housing and Urban Development

HOUSING

Special Attention of:
Regional Administrators, Transmittal Handbook No.: 4350.1 REV-1
Regional Housing Commissioners, Directors CHG-5
of Regional Housing, Managers Issued: 7/23/93
Category A and B Offices, Directors of Housing Management
Divisions, Loan Management Branch Chiefs, Assisted Housing
Management Branch Chiefs, Owners, Management Agents and Resident Managers of Projects covered by this Handbook.

1. This Transmits
Change No. 5 to HUD Handbook 4350.1 REV-1

Explanation of Material Transmitted:

a. The change makes technical, administrative, and typographical corrections that were undetected during proofreading of the revised Handbook that was issued in September 1992.

b. In Chapter 4, paragraph 4-23 on page 4-17, the reference to "paragraph 4-10" in the first sentence is corrected to "paragraph 4-20."

c. In Chapter 4, sub-paragraph 4-23.A.3 on page 4-18 incorrectly identified the Section 223(f) program as a "Special Risk Insurance Fund" when Section 223(e) is the "Special Risk Insurance Fund." This Change inserts the corrected references to Section 223(e) and 223(f).

d. Three references in Chapter 6 are made to inspections of projects by all Field Office staff when in the vicinity of projects. This Change clarifies that these site visits are not formal inspections and are to be made only when staff is on official HUD travel, time permitting. These site visits are not expected to be made when employees are not in a "duty status." Additionally, these visits are "encouraged," not "required." This Change also clarifies that no special training is needed or necessary to make these informal inspections and report on conditions because observations made by employees without any special training in conducting physical inspections would achieve the desired benefit: alert the Loan Management Branch Chief about possible problems.


Effective Date: Upon Receipt.

CHG-5

Filing Instructions:

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     Pages 4-17, 4-18, 6-9, 6-10,     Pages 4-17, 4-18, 6-9, 6-10,
     6-33, 6-34, 6-37, 6-38, 25-5      6-33, 6-34, 6-37, 6-38,
and 25-6 dated 9/92                  25-5 and 25-6 dated 7/93
1. This Transmits Section 6, Six and Nine Year Workout Arrangements, to Chapter 11 of Handbook 4350.1.

2. Explanation of Materials Transmitted:

This new section to Chapter 11 provides guidelines and instructions on processing and approving workout proposals beyond 36 months. Due to recent changes in the real estate market condition that affect both project owners and the Department, it has become necessary to provide greater guidance on the subject of mortgage workout processing. The purpose of these workout guidelines and procedures is to restore the financial condition of the HUD-Held portfolio to a totally current mortgage position in the future. These guidelines do not apply to direct HUD loans under Section 202. After consultation with Regional and Field Office Management staff, industry and trade groups, as well as in conjunction with HUD's Budget preparation and presentation to Congress, the Office of Housing has developed these workout instructions in order to stabilize the financial and physical condition of the project and to make the project a viable housing resource to the community.
3. Effective Date: Upon receipt

4. Filing Instructions:

Remove:                            Insert

Table of Contents,                  Table of Contents,
    pages 13 & 14 dated 9/92          pages 13 & 14 dated 6/93
Pages 11-31 through 11-53          Pages 11-31 through 11-59
dated 9/92                         dated 6/93

Nicolas P. Retsinas
Assistant Secretary for Housing
- Federal Housing Commissioner

W-3-1,W-2(H),W-3(A)(OGC)(ZAS),W-4(H),R-1,R-2,R-3,
R-3-1,R-3-2,R-3-3,R-6,R-6-1,R-7,R-7-1,R-8,Special
Distribution to Field Offices and State Agencies
U.S. Department of Housing and Urban Development
HOUSING

Special Attention of:                   Transmittal Handbook No.: 4350.1
Regional Administrators,               REV-1 CHG-3
Regional Housing Commissioners,                       Issued 3/31/93
Directors of Regional Housing, Managers
Category A and B Offices, Directors of Housing Management
Divisions, Loan Management Branch Chiefs, Assisted Housing
Management Branch Chiefs, Owners, Management Agents, and Subsidy
Contract Administrators of Projects covered by this Handbook.

1. This Transmits
a new Chapter 35, entitled "Smoke Detectors," to Handbook
4350.1 REV-1, Multifamily Asset Management and Project
Servicing.

2. Explanation of material transmitted: this chapter
develops procedural instructions based on regulations
published by the Department on July 30, 1992 (57 FR 33846).
This chapter summarizes all of the basic requirements
contained in the rule and also provides the additional
interpretation and guidance requested by field office staff
and program participants in order to ensure proper compliance
and uniformity of procedures.

All relevant issuances are being transmitted in one
package. In addition to the freestanding chapter in
Handbook 4350.1 REV-1, this package transmits revised
pages of text from other handbook sources in order to incorporate references to smoke detector requirements where appropriate. Please make the necessary substitution of pages in these other source documents by following the filing instructions below.

3. Effective Date: Upon receipt. This chapter is applicable to all existing housing owners who comply with the requirements of the July 30, 1992 rule before April 24, 1993. Owners are put on notice that if they do not comply with the smoke detector requirements as set forth in this chapter by April 24, 1993, they may be subject to variations in these standards based upon requirements contained in the Fire Administration Act of 1992 which are more stringent than the July 30, 1992 rulemaking.

4. Filing Instructions:
Remove: Table of Contents pg. 29, dated 9/92 Chapter 35, pages 35-1 through 35-9
Insert: Table of Contents pg. 29, dated 3/93 Chapter 35, pages 35-1 through 35-9

James E. Schoenberger
Associate General Deputy Assistant Secretary for Housing

3/93 U.S. Department of Housing and Urban Development
1. This Transmits

Chapter 19 to Handbook 4350.1, Environmental Issues

2. Explanation of the Material Transmitted: This chapter highlights requirements of some environmental laws dealing with issues facing HUD-insured and assisted properties. Specifically, this chapter outlines the requirements for Lead-Based Paint Testing and Abatement as well as a brief discussion on the issues of Asbestos, Polychlorinated Biphenyls (PCBs), and Underground Storage Tanks (USTs).

3. Effective Date: Upon Receipt.

4. Filing Instructions:

Remove:                     Insert:

Chapter 19, dated 11/92
Table of Contents, Pages 21-22

Arthur J. Hill
Assistant Secretary for Housing
- Federal Housing Commissioner

U.S. Department of Housing and Urban Development

HOUSING
1. This Transmits

   a new Chapter 30 to Handbook 4350.1, entitled
   Conversion to Condominium Ownership.

2. Explanation of Material Covered:

   This Chapter establishes guidelines for the conversion of
   unsubsidized rental projects with HUD-insured or HUD-held
   mortgages to condominium ownership.

3. Effective Date: Upon receipt.

4. Filing Instructions:

   Handbook 4350.1 REV-1                  Handbook 4350.1 REV-1, CHG-1
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   Chapter 30, pgs 30-1 thru
   30-6 dtd 9/92

   Assistant Secretary for Housing
   - Federal Housing Commissioner
   U.S. Department of Housing and Urban Development
   H O U S I N G

   Special Attention of:
   Regional Administrators,
   Regional Housing Commissioners, Directors
   of Regional Housing, Managers
   Category A and B Offices, Directors of Housing Management
   Divisions, Loan Management Branch Chiefs, Assisted Housing
   Management Branch Chiefs, Owners, Management Agents, and Subsidy
   Contract Administrators of Projects covered by this Handbook.

   1. This Transmits

      Handbook 435,0.1 REV-1, Multifamily Asset Management and
      Project Servicing

   2. Explanation of the Materials Transmitted:

      A. This handbook replaces and renames the former version
         of Handbook 4350.1, formerly entitled, Insured Project
         Servicing Handbook, dated 9/70. The current handbook
         has been expanded to take into account changing
         concepts in the housing industry that have developed in
         the more than twenty years that have elapsed since its
         first issuance, particularly in concepts drawn from the
fields of real estate asset management, mortgage
servicing/loan administration, and subsidy contract
administration.

B. HUD staff should regard asset management as the art of
combining the management of the physical property with
the management of its financial aspects to achieve the
goals of HUD, owners, managing agents, and lenders.

C. This handbook is the primary handbook used by Field
Office Loan Management staff in fulfilling their asset
management and loan servicing (loan administration)
responsibilities in assisting managing agents and
owners to maintain multifamily projects in good
physical and sound financial condition. However, this
handbook is not all-inclusive and should be used in
conjunction with a number of other HUD issuances.

D. The former handbook has been reorganized to reflect the
many changes in the housing industry. Some chapters of
the current handbook may apply differently to different
types of multifamily projects, such as co-insured
projects, HUD-Held projects, projects for the elderly,
etc., so the "Applicability" paragraphs of these
chapters should be read closely.

E. Six new chapters were issued as separate "Changes" to
the former handbook 4350.1. These chapters were not
printed and distributed as "Changes" but instead are
incorporated in the printing of the current handbook.
These chapters should be read carefully by all users of
this handbook since they add many important changes:

1. Chapter 1, "Introduction," which describes the
reorganization of the current handbook, discusses
asset management, and lists other frequently used
HUD handbooks.

2. Chapter 15, "Refunding of Certain Tax-exempt Bonds
Issued to Finance Multifamily Housing Projects,"
which provides instructions for approving
refunding of tax-exempt bonds at lower interest
rates for mortgages that are in default or
threatening default.

3. Chapter 16, "Partial Release of Security;
Alterations, Modifications, or Additions to
Physical Structures," which clarifies certain
delegations of authority, discusses certain tenant
notification procedures, and revises former
handbook instructions on the topic.

4. Chapter 28, "Special Escrows," which describes
uses of escrows for special purposes, specific
information on Housing Management's role in administering Operating Deficit Escrows, and uses of Letters of Credit as a means of funding escrows.

5. Chapter 29, "Conversion to Cooperative Ownership," which establishes procedures for a specific type of cooperative conversion that falls under Housing/Loan Management's programmatic authority.

6. Chapter 34, "Calculating Rents Utilizing the Annual Adjustment Factor," which discusses processing steps Loan Management staff should take when calculating a Special Rent Increase for AAF calculated rents. It also addresses particular considerations for calculating special rent increases for previously HUD-owned Property Disposition projects sold on an "All Cash" basis.

3 Effective Date: Upon Receipt.

4. Filing Instructions:

Remove: Handbook 435,0.1, Insured Project Servicing Handbook, dated 9/70, together with all changes.

Insert: Handbook 4350.1 REV-1, Multifamily Asset Management and Project Servicing, dated 9/92

Assistant Secretary for Housing - Federal Housing Commissioner

3 9/92

Handbook 4350.01 REV-1

U.S. Department of Housing and Urban Development Office of Multifamily Housing Management

HUD Field and Regional Offices;
Multifamily Project
Owners, Managing
Agents, and Contract
Administrators

September 1992 MULTIFAMILY
ASSET
MANAGEMENT
AND
PROJECT
SERVICING
W-3-1, W-2(H), W-3-(A) (OGC) (ZAS), W-4(H), R-1, R-2, R-3,
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Agencies HUD-23 (9-81)

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Special Distribution to Field Offices and
State Agencies HUD-23 (9-81)
W-3-1  Directives Management Officers--Headquarters and Regions,
library, ACIR (Advisory Commission on Intergovermental
Relations)