

## **MAP Guide Appendix**

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# MAP Guide Appendices

# Major Highlights

Appendix / Section	Highlights
4A.I.8	<b>Application Requirements Checklist</b> Active Partner Performance System Participate Certification Form 2530 (electronic or paper certification) for all phases/stages of processing.
4A.II.A.39 4B & 4D	Added Financial Requirements for Closing. Removed appendices for Section 232 program.
5A 5A.J.2.a (2) 5A.J.2.b (2) 5A.O	<b>Architectural Analysis</b> Section 231 added to Sections 220 and 221(d) Corrects ALTA/ACSM MSDR from 1997 to 2005. Corrects ALTA/ACSM MSDR from 1997 to 2005. Energy code changed from CABO 1992 to IECC 2006. Encourages the use of Energy Star products.
5A.1	New - HUD Standards for Section 207 Manufactured Home parks
5B 5BF 5B.1	Section 231 added to Sections 220 and 221(d) References Appendix 5D, paragraph B for fire protection. New - Additional HUD Standards for Section 207 Manufactured Home Parks - Substantial Rehabilitation
5C.C.4	Clarification on Smoke Detectors. Specific types of battery-operated smoke detectors are permitted.
5C.C.4.b	Smoke detectors are Critical Repairs for Section 223(f) projects.
5C.E.1 5C.E.2	Regulation and/or program requirements for accessibility. Repair of Fair Housing Act violations for 223(f) may be deferred until after Initial/Final Closing.
5C.F 5D.B.1	New - Survey requirements for Section 223(f). Fire safety requirements for substantial rehabilitation and Section 223(f) projects.
5D.B.1.b	Smoke detectors are Critical Repairs for Section 223(f) projects.
5D.B.4	Fire safety requirements for substantial rehabilitation must comply with NFPA new construction requirements.

5E.I Removed references to FEMA-273 with FEMA-310 and FEMA-356.

**Appendix /  
Section**

**Highlights**

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5E.A.2	Signature requirements expanded to include administering Architect and Lender.
5E.B	Clarification of drawing numbering requirements.
5E.R.4	Clarification of specification numbering requirements.
5E.R.4.a	Adding Lender’s name and title to the identification Cover Sheet.
5F	Changed heading to Construction Specification Institute Format
5G.1.B.2	Deletes “Structural Adequacy” as a review requirement.
5H.II.C.4	For multiple building projects, the Project Inspection Report must be itemized for each building.
5H.II.C.5	For multiple building projects, the Repair Work Write-up must be itemized for each building.
5H.II.C.5.c	New repair category: Fair Housing Act compliance-related modifications and retrofits.
5H.II.C.5.d	Owner-proposed improvements to enhance property value are categorized as Non-Critical Repairs.
5H.II.C.7.b	New repair category: Fair Housing Act compliance-related modifications and retrofits.
5H.II.F.1	Addition of third repair category covering properties with Fair Housing Act violations.
5H.II.F.1.a	Properties with Fair Housing Act violations must be modified/retrofitted.
5H.II.F.1.b	Requires Needs Assessor to hire qualified LBP and asbestos inspectors and abide by regulatory requirements. Contractor must provide an O&M plan for any LBP and/or asbestos remaining in place.
5H.II.F.1.d	New - Seismic repairs under the 223(f) program should be treated as non-critical unless there are circumstances that warrant otherwise.
5H.III.C.1.a	New - Lender must certify that there is an Operations and Maintenance (O&M) Plan for Lead Based Paint and/or asbestos.
5H.IV.A.2	New - Items involving any repairs, rehabilitation or construction shall not be included in the Replacement Reserve Account.
5I.1	New Appendix - Certificate of Professional Liability Insurance

**Cost Processing**

Appendix 6 TOC	6D - Example of calculating CNA for new construction and sub rehab.
6A.2.B.2	Evidence of front end loading eliminated from HUD analyst’s

review.

6C Revision and new instructions for determining Rehab Cost not Attributable, including revision of Rehab CNA worksheet

**Appendix /  
Section**

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6D.C.4 Addition of SNA calculations for New Construction projects and a new CNA example for Sub Rehab projects.

**Valuation**

7A Complete Revision of Guide for General Occupancy Housing  
7B New – Value Definitions for HUD Multifamily Appraisals, replaces the former appendix on Market Studies for Residential Care Facilities

7C.1.D.2 [C.2, C.3] MAP Lender’s appraiser use of HUD insured project as expense comparable.

7C.1.D.3 [C.2, C.3] Confirmation of expense data in FASS.

7C.1.E [C.2, C.3] Occupancy % must be entered.

7C.1.I.2 [C.2, C.3] Expense per unit and expense ratio must be entered.

7C.2.A Same as 7C.1.A.

7C.2.B.5 Value attributed to LIHTC Award.

7C.2.B.8 PGI, Occupancy %, Expenses and NOI are now required entries.

7C.1.H.5 [C.2, C.3] Length and Amount of Operating Deficit now required.

7C.3 Updated & New Sections G - I.

**Mortgage Credit Underwriting and Processing Requirements**

8B The annual basic statutory mortgage limits are not found on hud.gov.

**Lender Underwriting HUD Review**

11A Standardized Underwriting Narrative – Section 221(d)(4)

11B Standardized Underwriting Narrative – Section 223(f)

12A.A.1.a Disburse cash escrow funds for onsite construction before insured mortgage proceeds.

12A.A.5 New - Procedure for the disbursement of front-end mortgage proceeds and mortgage proceeds on tax credit projects.

12A.C.5 NOTE The FHA fee for bond-financed projects is capped at 5.5%. Any amount in excess of the 5.5% is not mortgageable.

12A.C.6.e Fees for the Lender and legal services are included in the land value.

**Specimen Letters**

13 New appendices 13A, Reopening of Mortgage and 13B, Deferment of Principal Payments.

**Appendix 2**

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## Lender Guidelines for a Quality Control Plan

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### Background

**2A**

As a condition of receiving or continuing to receive Multifamily Accelerated Processing (MAP) privileges, Lenders must have and maintain a Quality Control Plan (QC Plan) for underwriting and construction loan administration, if applicable, of insured mortgages processed under the MAP procedures. Each MAP Lender must develop and maintain an acceptable QC Plan and conduct quality control using the guidelines below.

On January 30, 2004, the Department issued Mortgagee Letter 2004-06, a revision to Chapter 6 (Quality Control Plan) of HUD Handbook 4060.1, REV-1 CHG-1, Mortgagee Approval Handbook. Part A (Overall Requirements) applies to multifamily Lenders as well as single-family mortgagees, but is written primarily for single-family operations. Parts B, C, and D are for single-family mortgagees only.

This Quality Control Plan of the MAP Guide incorporates, for MAP Lenders, parts of Part A of Mortgagee Letter 2004-06 which are relevant to multifamily. Part E (Quality Control for Multifamily Servicing) of Mortgagee Letter 2004-06 is applicable to MAP Lenders as well as other multifamily mortgagees.

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### Lender Application Requirement, Exhibit M

**2B**

A Quality Control (QC) Plan is a required exhibit in the Lender's application package for MAP approval. The Lender will include the QC as Exhibit M of the application package, as in accordance with the instructions set forth in this Appendix.

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### Policy Objectives

**2C**

The primary objectives of the QC Plan are to assure:

- A. The MAP Lender operates at a high quality performance level in the origination, underwriting, construction loan administration and closing of MAP processed multifamily insured projects.

- B. The MAP Lender operates in full compliance with the National Housing Act (NHA), HUD-FHA and MAP requirements and its own policies and procedures.
- C. The MAP Lender adheres to the MAP Guide policies and procedures, the MAP Forms Book and clarifications and revisions in Frequently Asked Questions (FAQ), applicable regulations, Mortgagee Letters, HUD Notices and HUD Handbooks, and internal controls.
  - 1. These policies and procedures are distributed to and consistently followed by its personnel.
  - 2. These policies and procedures are supported internally by appropriate training and staff development activities.
- D. The MAP Lender's third party contractor(s) involved in a MAP project are familiar with, understand and adhere to the MAP Lender's policies and procedures regarding quality control.
- E. The MAP Lender's operating procedures are revised in a timely manner to:
  - 1. Accurately reflect any and all changes in HUD-FHA and MAP regulations, policies, directives or instructions;
  - 2. Keep all affected, accountable personnel informed and trained so as to guarantee an immediate compliance thereto; and
  - 3. Assure that all employees and third party contractors are held accountable for performance failures, errors and omissions.
- F. The MAP Lender utilizes a program of internal and external audits that provides for an independent review by MAP Lender's staff and/or contractor(s) who are knowledgeable and have no direct MAP loan origination, underwriting or construction loan administration responsibilities.

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## General Requirements of a Quality Control Plan

**2D**

The QC Plan must clearly describe the requirements for the MAP loan origination, underwriting and construction loan administration. The QC Plan must also state the actions the MAP Lender will take to assure

acceptable management and comprehensive risk reduction in the lending process.

1. Each office of the MAP Lender, including its branches must maintain or have direct access to copies of the NHA and all HUD issuances, including Part 24 CFR regulations, HUD handbooks, Mortgagee Letters, HUD Notices, MAP Guide, MAP Forms Book, MAP Frequently Asked Questions (FAQ's), etc. which are relevant to the MAP Lender's HUD-FHA MAP origination, underwriting and/or construction loan servicing activities.

The documents in A. above must be:

1. Accessible to all employees and third party contractor(s);
2. Periodically reviewed with appropriate staff and third party contractor(s); and
3. If maintained in paper format, kept current.

2. The quality control plan must confirm the following about the Lender's place of business:

Operations are conducted in a professional, business-like environment. If located in a commercial space, the office is properly and clearly identified, has adequate office space and equipment, and is separated from any other entity by walls or partitions (entrances and reception areas may be shared). If located in a non-commercial space, the office has adequate space and equipment. If it's open to the public, it should be accessible to people with disabilities, including those with mobility impairments.

- C. The MAP Lender has procedures in place to:

1. Distribute any electronic information received from HUD to the appropriate employees and third party contractor(s).
2. Notify LQMD of any change in the MAP Lender's:
  - o Point-of-contact for the MAP procedures
  - o Name
  - o Address
  - o Email address
  - o Telephone and/or FAX numbers
  - o Underwriter(s)

Appendix 2

Lender Guidelines for Quality Control Plan

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- o Construction loan administrator(s), if applicable; and
  - o Authorized signatory(s).
- 3. Provide annual certifications signed by an authorized signatory of the MAP Lender.
  - a. The annual certification must be submitted to LQMD in Washington, DC no later than June 30<sup>th</sup> of each year.
  - b. The certification must:
    - 1) List the names of the lender's approved MAP underwriter(s), construction loan administrator(s), and authorized signatory(s) to bind the lender on MAP loan applications.
    - 2) State that:
      - (a) All MAP underwriters have attended MAP Lender training.
      - (b) The MAP Lender is currently a HUD approved multifamily mortgagee.
    - 3) Include corrective actions employed as a result of most recent QC reviews.
    - 4) Include a summary of loans underwritten by new underwriters (approved within the last fiscal year).
    - 5) Contain the following language: **WARNING: "HUD will prosecute false claims and statements. Convictions may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31U.S.C. 3729, 3802)."**
  - c. Submit the certification to:  
US Department of Housing and Urban Development  
Lender Qualification and Monitoring Division (LQMD)  
Office of Multifamily Development  
451 7<sup>th</sup> Street, SW, Room 6138  
Washington, DC 20410
- E. The MAP Lender maintains or has access to the latest **Limited Denial of Participation (LDP)** list available on the Internet at: <http://www.hud.gov/offices/enforce/ecldp.cfm>.

- F. The MAP Lender, for each application, checks the latest **Debarment** list available on the Internet at: <http://epls.arnet.gov/>.

***Note: The Excluded Parties Lists System (EPLS) is the electronic version of the Lists of Parties Excluded from Federal Procurement and Nonprocurement Programs (Lists), which identifies those parties excluded throughout the U.S. Government (unless otherwise noted) from receiving Federal contracts or certain subcontracts and from certain types of Federal financial and nonfinancial assistance and benefits.***

- G. The MAP Lender does not:

1. Conduct FHA-HUD related business with any person, as defined in 24 CFR 24.105, who are debarred, suspended or subject to a Limited Denial of Participation.
2. Employ or have contact with any individual or firm to perform FHA-HUD related services in origination, processing, and underwriting or construction loan servicing who is restricted from participation in HUD/FHA programs. To this end, the MAP Lender must check their employee list and third party contractors every six months to ensure compliance with this requirement.

- H. The MAP Lender retains a copy of the entire case file pertaining to the MAP loan origination, underwriting and/or construction loan administration, either in hard copy or a generally accepted electronic storage format, for example microfilm or scanned and stored on CD Disk, for at least three years from the final endorsement date.

- I. The Quality Control Review:

1. Is sufficient in scope to enable the MAP Lender to evaluate the accuracy, validity and completeness of its MAP operation.
2. Provides for independent evaluation of the information gathered or developed by the MAP Lender for use in the MAP origination, underwriting and construction loan administration decision processes.

3. Documents whenever deficiencies in processing, underwriting or construction loan administration are found.
  
- J. Procedures exist for expanding the scope of a QC Review where instances of alleged fraudulent activities or patterns of deficiencies are identified. Other entities or individuals may need to be made part of any ongoing investigation of suspected fraudulent misdeeds to protect their interests as well.
  
- K. The QC Reviewing official(s) defined in Appendix 2C.F above will:
  1. Document all findings - positive and negative in writing; and
  2. Present each project's QC Review at the next designated committee meeting.
  
- L. Senior management committee meeting.
  1. The meeting must be scheduled to meet on a semi-annual basis to hear the findings and recommendations resulting from the QC Reviews or more frequently if serious quality control issues are present.
  2. Committee members must receive written notification of deficiencies cited as a result of a QC Review before the meeting.
  3. At the meeting, the committee will carefully review and analyze the results of a QC Review and will undertake corrective actions as necessary, including:
    - a. Prompt initiation of corrective actions to address all deficiencies, including procedural problems, as identified;
    - b. Formal documentation of the corrective actions taken by citing each deficiency, identifying the cause of the deficiency, and providing management's response or actions taken;
    - c. Affected third party contractor(s), employees and departments will be notified in writing of such findings, and corrective actions taken to assure senior management that repetitive or recurring actions will not reoccur;
    - d. Prompt distribution to all MAP loan origination, underwriting and construction loan administration personnel

including contractor(s) of the corrective instructions for the identified deficiencies;

- e. Training for the prevention of such activities will be implemented promptly; and
  - f. All remedial actions will be re-reviewed for compliance at the next regularly meeting.
- M. The MAP Lender reports to LQMD in Washington D.C., and provides the reported results of its QC Reviews (not the entire review with checklists) to include the corresponding corrective action plans, provides assurance that the information being reported is accurate, all required information is being reported, and the information is reported promptly.

The MAP Lender shall promptly notify LQMD of any violation of law or regulation, false statements or program abuses by the MAP Lender, its employees, its contractors or any other party to the transaction. A MAP Lender's Quality Control Program must ensure that findings discovered by employees during the normal course of business and by the quality control staff during reviews/audits of FHA loans are reported to HUD. Findings discovered by employees during the normal course of business and by quality control staff during reviews/audits of FHA loans are reported to HUD within 60 days of the initial discovery. If there is a finding of fraud or other serious violation, finding must be submitted in writing to LQMD. If HUD staff is suspected of involvement, the Lender should refer the matter to the Office of Inspector General, Department of Housing and Urban Development SW, 451 7<sup>th</sup> Street, Room 8256, Washington, DC 20410.

- N. The MAP Lender will retain any QC Review and follow-up, including review finding and actions taken, plus procedural information (such as the percentage of loans reviewed, basis for elected loans, and who performed the review) for a period of three years. These records must be made available to HUD on request.

- O. The MAP Lender will periodically review and update the QC Plan.

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### Specific Requirements of a Quality Control Plan

2E

- A. For the MAP Underwriting Function.

- 1.** The QC Plan must address how quality control is integrated into the MAP Lender's **production process**. For example, before they send the AE&C analyst and the appraiser out to do a review they should hold a pre-performance meeting. The pre-performance meeting is an important first step to document how the Lender is enforcing their quality control in the production process. During the pre-performance meeting take attendance, take minutes, record action items, and schedule a follow-up meeting when done. At a minimum the following functions must be met for a thorough review of the QC Plans as it pertains to the production process. The MAP Lender must retain in the loan file all documentation supporting any determinations of decisions made for these following functions.
- 2.** The QC plan must address how the MAP Lender will exercise prudence and due diligence in determining whether the mortgagor is an acceptable credit risk, with a reasonable ability to make payments on the loan obligation.
- 3.** The QC plan must address how the MAP Lender will exercise prudence and due diligence in determining that the general contractor, if applicable, is an acceptable credit risk, with a reasonable expectation of completing construction of the project.
- 4.** The QC plan must address how the MAP Lender will exercise prudence and due diligence in determining that the property's estimated value, market need, earning capacity, operating expenses, and warranted cost of the property will be sufficiently ascertained to insure that they are sufficient for a long-term HUD insured mortgage.
- 5.** The QC plan must address how the MAP Lender will exercise prudence and due diligence in determining that new construction/substantial rehabilitation project's design meets all applicable design standards.
- 6.** The QC plan must address how the MAP Lender will exercise prudence and due diligence in determining that project's construction/rehabilitation/repair costs are reasonable.
- 7.** The QC plan must address how the MAP Lender will exercise prudence and due diligence in assuring that they have not



- established minimum loan amounts, "floors," below which they will not lend. **Note: This is a violation of Section 535 of the National Housing Act.**
8. The QC plan must address how the MAP Lender will exercise prudence and due diligence in determining that they are in compliance with Section 2.6 of the MAP Guide dealing with prohibited identity-of-interest relationships.
  9. The QC plan must address how the MAP Lender will exercise prudence and due diligence in assuring that the MAP Lender originators:
    - a. Cannot:
      - (1) Perform the role of underwriter for projects they originate.
      - (2) Hire contractors on behalf of the underwriter.
      - (3) **Small MAP Lenders with limited staff may request a waiver of (1) and (2) above from the Office of Multifamily Development in Washington DC.**
    - b. Must certify for each loan conflicts-of-interest with the proposed mortgagor or other transaction participants.
  10. The QC plan must stipulate that the HUD approved MAP underwriter(s) is(are) a full time employee(s) of the MAP Lender.
  11. The QC plan must address how the MAP Lender will exercise prudence and due diligence in assuring that the MAP Lender's technical staff and/or third party contractor(s) are knowledgeable of HUD's requirements. Where required by state or local law or regulation, the technical staff or third party contractor must be properly licensed in the jurisdiction where the project is located.
- B. For MAP construction loan administration function.
1. The QC plan must address how the MAP Lender will exercise prudence and due diligence in determining that construction loan administration is performed in accordance with accepted practices of prudent lending institutions and HUD's requirements.

2. The QC plan must stipulate that the HUD approved MAP construction loan administrator(s) is a full time employee of the MAP Lender.
3. The QC Plan must provide for a review of the construction loan administration function in order to:
  - o Determine that construction loan administration records are promptly established after loan closing and that the servicing records contain the information necessary to properly service the loan.
  - o Determine that inquiries from borrowers concerning their individual loan accounts are promptly responded to.

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### Submission of Quality Control Plans

**2F**

The Quality Control (QC) Plan is a required exhibit in the MAP application package. Submit the QC Plan in both paper and electronic formats, e.g. pdf format or Microsoft Word. An authorized signatory of the Lender must sign the original paper document. Whenever the QC Plan is revised the Lender must send updated paper and electronic copies to LQMD.

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### Quality Control Reviews

**2G**

Quality Control Reviews (QC Reviews) of the lender's MAP operation are to be performed annually. The annual QC Review shall perform three functions:

1. Track all MAP loans presented by individual loan originators and underwriters.
2. Evaluate the Lender's overall QC plan for adequacy and the lender's operation for compliance to the QC plan
3. Perform audits of individual loan commitments.

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**Lender Guidelines for Quality Control Plan**

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A. Tracking: As a function of the annual quality control review, each lender shall track all MAP loans presented by individual loan originators and underwriters.

- a. The term loan originator includes mortgage broker, correspondent or packager.
- b. Annually submit a copy of the tracking report no later than June 30<sup>th</sup> of each year to:

US Department of Housing and Urban Development  
Lender Qualifications and Monitoring Division  
Office of Multifamily Development  
451 7<sup>th</sup> Street SW Room 6138  
Washington, DC 20410

- o The first annual tracking report must cover the period from implementation of the MAP procedures forward regardless of where the loan originator or the loan underwriter may have worked.
  - o Annual tracking reports for active underwriters include the following information:
    - FHA Number
    - Project Name (identification)
    - Initial/ Final Endorsement Dates
    - Mortgage Insurance Program
    - Original Principle Balance
    - Loan Servicer
    - Loan Status
    - Whether or not the loan has any of the following issues:
      - o Waivers
      - o Master Lease
      - o Underserved Area
      - o Criteria 5 (debt service) controlled mortgage Government subsidies (LIHTC, Section 8, etc.)
- B. QC Plan Analysis: The annual QC review must evaluate the Lender's overall QC plan for adequacy. It should include an analysis of the lender's operation and for compliance to the QC plan.

- a. The QC review should include an opinion as to whether the lender's QC plan proposes an adequate system to insure that FHA underwriting requirements are followed.
- b. The QC review should include an analysis as to whether or not the lender is following the plan they have proposed.
- c. The QC review should include an analysis as to whether or not the lender has completed the correct number of audit reviews.
- d. The QC review should include an analysis as to whether or not the lender is adequately staffed to implement the QC plan.

C. Audit Reviews:

1. The QC review shall also include Quality Control (QC) Audit reviews of individual commitments.
  - a. For MAP Lenders with total commitments on 20 or more loans in the applicable year of review, QC reviews will be completed for 5% of all closed MAP loans. The maximum number of required reviews will be the lesser of 5% of all closed MAP loans or three reviews.
  - b. MAP Lenders with fewer than 20 commitments in the applicable year of review will be required to perform one QC review.
  - c. The required number of QC Reviews as defined above will be performed on loans with the greatest Risk Assessment Score as defined herein.
  - d. Amending previous instructions, MAP Lenders will no longer be required to perform a QC review for each Section of the National Housing Act used.
  - e. Amending previous instructions, MAP Lenders no longer must perform a QC review for each underwriter, so long as the minimum prescribed number of loans is reviewed.
  - f. QC audit reviews shall evaluate the quality of work performed by the MAP originators, underwriters and technical staff and/or third party contractor(s). All

appraisals reviewed must receive a field review. Field reviews must be performed by qualified senior staff not involved in origination or underwriting; or review appraisers employed on a contract basis. .

- g. For QC audit reviews involving new construction/substantial rehabilitation, the QC review should provide an analysis as to whether or not MAP construction loan servicing policies and requirements have been met.

**Note: The review appraiser or appraisal firm working on the QC Audit Reviews cannot be used in underwriting any MAP loan.**

## 2. Quality Control Ranking Factors and Review Selection

The QC Review official will assign a risk assessment score to each loan originated in the previous reporting cycle and required audit reviews will be targeted to the loans with the greatest score, concluded to therefore represent the greatest degree of risk to the Department. Points will be assigned for the following risk indicators:

- Loans that are troubled, defaulted, or assigned:  
20 Points
- Mortgage amount over \$15,000,000:  
15 Points
- Mortgage amount over \$10,000,000:  
10 Points
- Mortgage amount over \$5,000,000:  
5 Points
- Mortgage amount over \$1,000,000:  
1 Point
- New Construction Loans:  
15 Points
- Substantial Rehabilitation Loans:  
10 Points
- Purchase Loans:  
5 Points
- Refinance Loans:  
1 Point
- Loans that are not typical in size (small numbers of units or high

- numbers of units):  
5 Points
- Loans in which Criterion 5, Debt Service, established the Maximum Loan Amount: 5 Points
- Loans underwritten by underwriters approved within the last three years: 10 Points
- Loans underwritten by underwriters with a default in the previous three reporting cycles: 10 Points
- Loans that have waivers: 5 Points
- Loans in underserved areas: 5 Points
- Unsubsidized loans: 5 Points
- Properties with a Master Lease: 10 Points

3. Audit Reviews of Problem Loans.

In addition to the above review requirements, the originating MAP Lender must also undertake a comprehensive review and reexamination of any MAP loan it underwrote that goes into default either during construction or within **three years** after final endorsement. This must be done in all cases including those in which the MAP Lender no longer has the loan in its portfolio.

4. Loans purchased/transferred from another MAP Lender.

While not required, we encourage MAP Lenders to perform basic due diligence QC Review on any loan purchased from another MAP Lender.

The purpose of individual loan audit reviews is to determine the accuracy and completeness of underwriting conclusions and MAP Lender documentation. At a minimum, the following requirements must be met for QC Reviews of loans underwritten using the MAP procedures.

- A. All processing and underwriting must comply with the applicable provisions of the NHA, Title 24 of the Code of Federal Regulations, the MAP Guide, the MAP Forms Book and MAP FAQs.
- B. All identity-of-interest certifications were properly filed.
- C. Determine whether each loan file contains all HUD required loan processing, underwriting and legal documents including supporting reports and that all required documents were provided to HUD.
- D. Determine if there was a violation of the Department's prohibition of referral fees.
- E. Determine if anything of value was paid directly or indirectly to any person or entity who has received any other compensation from the mortgagor, seller, builder, or any other person for services related to the transaction, or related to the purchase or sale of the mortgaged property. Exception can be made where services were actually rendered, the name of the broker is furnished, and there is no identity of interest between the mortgagee and the broker or the mortgagor and the broker, and the Hub Director has given her or his approval in writing. The broker's fee must be included on the Mortgagee Certificate.
- F. Determine if staff allowed third parties to represent the MAP Lender in meeting(s) with the Hub/Program Center to discuss specific MAP projects.
- G. Determine if excess and unallowable fees are being charged to mortgagors. Examples include charging discount points not disclosed on the Mortgagee's Certificate, Form HUD-2434, or at firm commitment, charging larger fees than permitted by HUD/FHA.
- H. If new construction or substantial rehabilitation, did the pre-application submission include an acceptable narrative summary, summarizing the market study and extent of competition as well as describe the features of the proposal

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which may present problems, such as zoning, ground leases, and environmental issues.

- I. Did the Lender's pre-application submission list the proposed MAP Lender reviewers? Were any proposed reviewers rejected by the Hub, and, if so, why?
- J. In the application for the firm commitment, did the Lender provide a narrative analysis which discussed the characteristics of the project for which mortgage insurance was sought, presenting the reasons that the Lender recommends the loan for mortgage insurance?
- K. Did the Lender's narrative analysis for the firm commitment application discuss the risk factors?
- L. Did the narrative analysis for the firm commitment application properly evaluate the financial capacity and the experience in multifamily housing of the principals of the borrower?
- M. If the application is for refinancing or purchase, did the narrative analysis provide a satisfactory description of the property?
- N. Did the Lender's narrative analyses provide a satisfactory analysis of the market, the rents, and expenses, and the estimated rent-up costs and operating deficit?
- O. For refinancing, did the Lender determine the adequacy of the reserve for replacement?
- P. Did the underwriter make any changes to the appraisal or technical reports? If so, what were they, what was the justification?
- Q. At the Lender's request, did the Hub or Program Center Director waive any of the MAP requirements? If so, what requirements were waived and were there justification for the waivers?
- R. At the Lender's request, were any waivers requested by the Hub Director from HUD Headquarters? If so, what were the waivers requested, and was the request approved or rejected and why?
- S. Did the Lender obtain the necessary certifications from the individual reviewers?
- T. Did the Lender certify that the proposed loan represented an acceptable risk to the Department (Section 220, or 221d3, 221d4 or 231) or is economically sound (Section 223(f)), based upon the Lender's analysis, and that the loan complied with all FHA statutory, regulatory and administrative requirements?



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- U. Did the Lender prepare a Master HUD 92264 signed by the Lender's underwriter?
- V. Did the Lender submit an application for a firm commitment within 120 days of the date of the invitation letter? If not, did it request an extension, providing justification for the extension request?
- W. Were any changes made by the underwriter to a technical report's finding, conclusions and/or recommendations? If so, was it documented fully and supported by data.
- X. Credit reports on businesses and individuals.
  - a. Determine whether the loan file contains business and individual credit report(s) on the appropriate principals, sponsor, mortgagor, and general contractor, if applicable.
  - b. Determine if more than one credit report was ordered on the same principal/company; and if so, whether the most current credit reports were submitted with the loan package to HUD-FHA.
  - c. Determine whether any outstanding judgments shown on the credit report(s) were accompanied by an explanation and supporting documentation. If delinquent Federal debt existed, the Lender must have included a letter from the Federal agency in accordance with Section 8.3G of the MAP Guide.
- Y. Determine whether verifications of deposit and trade references were sent, received and considered in the project underwriting.
- Z. Determine whether all conflicting information or discrepancies were reconciled and properly documented in writing.
- AA. Determine that the loan file contains a financial statement(s) on the principals, sponsor, and on the mortgagor. If the project involved new construction or substantial rehabilitation, determine if a financial statement was obtained from the general contractor.
- BB. Determine that the financial statements were analyzed following generally accepted business practices to determine financial capability.
- CC. Verify that the MAP underwriter determined that the sponsor and/or general contractor had a sufficient level of experience for the type and/or size of project that was approved.

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- DD. Determine if all negative information about the project and individuals or entities involved in the transaction was disclosed to HUD in the underwriter's written summary.
  
- EE. Determine if the underwriter performed due diligence quality control over the work of the MAP Lender's staff and/or third party contractors used in underwriting the project.
  - a. Determine if the preparers of the forms/reports/reviews are qualified as required by the MAP guide, and have insurance, if the MAP Guide requires any.
  - b. Determine if the forms/reports/reviews were prepared in the manner required by the MAP Guide and that the forms/reports/reviews are complete and accurate.
  - c. Determine if the proposed loan represents an acceptable risk based on the underwriters review and analysis.
  - d. Determine if the required reports and documentation flowed in a timely manner from one discipline to another.
  
- FF. Determine that the underwriter analyzed the project's proposed management program. This includes a review of the management agent's past experience and performance to determine the agent's capacity and track record to assure that the development should be managed in a prudent, efficient and cost effective manner.
  
- GG. Determine if the underwriter verified the professional used in the environmental review and selected by the sponsor/developer was qualified for the assigned responsibilities.
  
- HH. Determine if the underwriter provided HUD with a narrative report and supporting documentation plus the Phase I Environmental Site Assessment (ESA) or Phase II ESA.

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**QC Reviews - Appraisal Review**

**2H 1**

For the appraisal review portion of the QC Review:

- A. Determine if the appraiser was properly certified in the appropriate jurisdiction. (Temporary certifications may be

acceptable so long as the appraiser meets all competency requirements).

- B. Provide the review appraiser's opinion as to the completeness of the material under review.
- C. For Section 220, 221(d) or 231 appraisal processing:
  - 1. Does the appraiser meet the qualification and competence requirements outlined in the MAP Guide?
  - 2. Is the appraisal a narrative self-contained report that is inclusive of and supportive of all required HUD Form Documentation (HUD-92264, HUD-92264-A, HUD-92273 and HUD-92274)?
  - 3. Does the appraisal have an effective date within 120 days before the date of firm commitment?
  - 4. Does the appraisal include the appraiser's USPAP required certification?
  - 5. Did the primary appraiser designated by the lender and approved by HUD perform the property inspection and sign the appraisal report and supporting form documentation?
  - 6. Did the appraisal include photographs of the subject, the comparable sales and comparable rentals?
  - 7. Does the appraisal adequately describe and analyze the geographic area, neighborhood, rental competition, sales comparables, the site and the subject improvements?
  - 8.** Does the appraisal establish the project's "Replacement Cost" in accordance with Chapter 7, Section 7.4 of the MAP Guide, and Form HUD-92264 instructions?
  - 9.** Substantial Rehabilitation - Does the appraisal include a supplemental HUD 92264 that identifies the "As Is" Value of the improvements, supported by the income and direct sales comparison approaches, as defined in HUD Handbook 4465.1 and the MAP Guide?

- 10.** New Construction - Does the appraisal identify the "Warranted Price of Land" as defined in HUD Handbook 4465.1 and the MAP Guide?
- 11.** Does the appraisal identify the "Estimate of Market Rent by Comparison," as of the appraisal date, arrayed in the included HUD-92273 and as defined in the Form's instructions?
- 12.** Does the appraisals identify the project's estimated potential gross income and stabilized occupancy ratio in the included HUD-92264 and defined in the Form's instructions?
- 13.** If commercial facilities are located within the project, does the appraisal include a separate analysis of the effect the commercial space will have on the project, as outlined in the MAP Guide; and does the commercial space meet the income and floor area limitations outlined in the MAP Guide?
- 14.** If any comparables have rent concessions, did the appraisal account for them in the market rental analysis as defined in the MAP Guide?
- 15.** Does the appraisal identify the project's estimated operating expenses, based upon at least three expenses comparables arrayed in the included HUD-92274, and as defined in the Form's instructions?
- 16.** Does the appraisal properly update the expense comparables, meet disclosure requirements for the comparables, and has the subject property's expenses been updated to the date of the appraisal per Form HUD 92274 instructions?
- 17.** Does the appraisal identify the estimated operating deficit and replacement reserve requirements, as defined and outlined in the MAP Guide?
- 18.** Does the appraisal provide an estimation of the maximum insurable mortgage by completing a Trial Form HUD-92264-A?

- D. For Section 223(f) appraisal processing:
1. Does the appraiser meet the qualification and competence requirements outlined in the MAP Guide?
  2. Is the appraisal a narrative self-contained report that is inclusive of and supportive of all required HUD Form Documentation (HUD-92264, HUD-92264-A, HUD-92273 and HUD-92274)?
  3. Does the appraisal have an effective date within 120 days before the date of the submission of the application for a firm commitment?
  4. Does the appraisal include the appraiser's USPAP certification?
  5. Did the primary appraiser designated by the lender and approved by HUD perform the property inspection and sign the appraisal report and supporting form documentation?
  6. Did the appraisal include photographs of the subject, the comparable sales and comparable rentals?
  7. Does the appraisal adequately describe and analyze the geographic area, neighborhood, rental competition, sales comparables, the site and the subject improvements?
  8. Does the appraisal establish the project's fair market value supported by reconciliation of the cost, income and sales comparison approaches in accordance with Chapter 7, Section 7.4 of the MAP Guide and Form HUD-92264 instructions?
  9. Does the appraisal establish a total estimated replacement cost and apply all applicable forms of depreciation for use in the final reconciliation process?
  10. Does the appraisal identify the "Warranted Price of Land" as defined in HUD Handbook 4465.1 and the MAP Guide?

11. Does the appraisal identify the “Estimate of Market Rent by Comparison,” as of the appraisal date, arrayed in the included HUD-92273 and as defined in the Form’s instructions?
12. Does the appraisal include the current rent roll, a statement of current occupancy and does it identify the project’s estimated potential gross income and stabilized occupancy ratio in the included HUD-92264 and defined in the Form’s instructions?
13. If commercial facilities are located within the project, does the appraisal include a separate analysis of the effect the commercial space will have on the project, as outlined in the MAP Guide; and does the commercial space meet the income and floor area limitations outlined in the MAP Guide?
14. If any comparables have rent concessions, did the appraisal account for them in the market rental analysis as defined in the MAP Guide?
15. Does the appraisal present at least three years of historic expenses, and have the forecasted expenses been based upon the historic operation of the property supported by at least three expense comparables arrayed in the included HUD-92274, and as defined in the Form’s instructions?
16. Does the appraisal properly update the expense comparables, meet disclosure requirements for the comparables, and has the subject property’s expenses been updated to the date of the appraisal per Form HUD-92274 instructions?
17. If it is applicable, does the appraisal identify the estimated operating deficit and replacement reserve requirements, as defined and outlined in the MAP Guide.
18. Does the appraisal provide an estimation of the maximum insurable mortgage by completing a Trial Form HUD-92264-A?

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## QC Reviews - Market Study Review

**2H 2**

For the Market Study review, the review appraiser should provide his opinion as to the completeness of the material under review, and determination of overall compliance with market study processing requirements:

- A. Does the market analyst meet the qualification and competence requirements outlined in the MAP Guide?
- B. Is the market study a narrative self-contained report?
- C. Does the market study have an effective date within 120 days before the date of submission of the pre-application, or, with refinancing, within 120 days of submission of the application for a firm commitment?
- D. Does the market study adequately describe and analyze the geographic boundaries and general characteristics of the market area, specific market conditions, characteristics of projects under construction and in the planning stages, and contain a supply and demand estimate and analysis and estimated absorption time (if applicable)?
- E. Is the market study prepared in accordance with the information supplied by the MAP lender described in Appendix 4 of the MAP Guide?
- F. Is the market study prepared in accordance with the format prescribed in the appropriate MAP Guide Appendix?
- G. Does the market study include the market analyst's certification?
- H. Review appraiser's opinion as to the adequacy and relevance of the data and the propriety of any adjustments to the data.
- I. Review appraiser's opinion as to the appropriateness of the analysis methods and techniques used.

- J. Review appraiser's opinion as to the analyses, opinions, and conclusions.

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## QC Reviews - Architectural Review

**2H 3**

- A. For the Architectural portion of the QC Review of audits of Sections 220, 221(d) or 231, Lender's Architectural Analyst Review Report:
  1. Has the Architectural Analyst determined that the Mortgagor's Architect (or other persons or organizations providing architectural services) is qualified to provide the design services to the project and to administer the construction contract?
  2. Owner-Architect Agreement (AIA Document B108). (Indicate if separate Agreements are required for design and construction services.)
    - a. Are all necessary services included without deletion?
    - b. Is compensation other than fixed fee?
  3. Architectural Standards. Does the Lender's Architectural Analyst review report address:
    - a. HUD Minimum Property Standards
    - b. Applicable Building Codes
    - c. Accessibility Laws:
      - Fair Housing Act
      - UFAS (if Part 504 is applicable)
    - d. Energy Efficiency
  4. Does the report address the mortgagor's A&E exhibits?
    - a. Are drawings and specs complete and correct?
    - b. Is utility service available?
  5. Experience and qualifications of general contractor:
    - a. Did the Lender's architectural analyst prepare a written review of the general contractor?
    - b. Does the review indicate acceptance?



6. Identity of Interest review: Did the Lender's architectural analyst perform an Identity of Interest review as described here below?
  - a. Is there a description of any and all identities of interests that exist between the owner's architect or engineer, the owner, and the general contractor?
  - b. Is there a description of any and all identities of interest that exist between the general contractor, subcontractor(s) and material supplier(s)?
  - c. If no identities of interest exist, is this stated?
7. Site visit: Does report address:
  - a. Physical features (existing construction, topography, drainage, etc).
  - b. Unusual site conditions, demolition, offsite construction.
  - c. Environmental conditions/hazards.
8. Establish an Architectural Liaison with the mortgagor's Architect:
  - a. Is there a processing record of architectural/engineering actions?
  - b. Is there an acceptable journal of architectural actions?
  - c. Is there an organized file of HUD applications, forms, and documents?
  - d. Is there a record of meetings and contacts with the mortgagor's Architect?
  - e. Is there clear documentation?
9. Liaison with HUD labor relation staff:  
Did the liaison verify the applicable Davis-Bacon wage rates?
10. Establish a liaison with Lender's cost analyst:
11. Review of Firm Commitment architectural/engineering exhibits:

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- a. Is there a clear and complete exhibit review list?
- b. Is there a statement indicating that:
- (i). Firm Commitment architectural exhibits are acceptable without condition, and
  - (ii) All deficiencies have been acceptably corrected?
- c. Does report address:
- (i) Completeness of contract documents
  - (ii) Conformance to local building codes and HUD standards
  - (iii) Accessibility for persons with disabilities
  - (iv) Site design
  - (v) Building design
12. Preparation of architectural portions of Form HUD-92264:
- a. Is there a Form HUD-92264 with all architectural portions complete?
    - Section A - Architectural portions
    - Section B - Architectural portions
    - Section C - Unit breakdown with net areas
    - Section D - Architectural portions
  - b. Has the architectural analyst signed the form?
13. Report to the Lender's Underwriter:
- a. Has the architectural analyst submitted a report on the project to the Lender's underwriter?
  - b. Does the report contain an analysis of the project?
  - c. Does the report recommend:
    - Acceptance
    - Negotiated changes with the mortgagor
    - Rejection
14. Standard Certification:
- Did the Lender's architectural analyst submit a Standard Certification (MAP Section 11.2.M)?
15. Mortgagor's Architect's Certification:

Is there a Design Architect's Certification (MAP Appendix 5N)?

16. Substantial Rehabilitation projects:
  - a. Has the Lender's architectural analyst submitted a report of the Joint Inspection?
  - b. Does the report indicate that a complete and thorough inspection was conducted?
    - On all features of the project site
    - On sufficient living units
  - c. Has the Lender's architectural analyst prepared a report on the mortgagor's Architect's Detail Work Write-up?
  - d. Does the report address:
    - All general work requirements?
    - Specific work requirements?
    - Clarity or vagueness of work requirements?
    - Historic requirements?
  - e. Has the Lender's architectural analyst indicated whether there are engineering Reports?
  - f. Has mortgagor been notified of requirements?
  - g. Has exact nature of engineering report been covered?
  - h. Any special tests?
  - i. Seismic resistance in applicable seismic zones?

B. Sections 223(f) - Lender's Architectural Analyst review report:

1. Liaison with Lender's cost analyst:

Is there documentation of contacts regarding:

  - Nature and cost of repairs?
  - Replacement reserve items?
2. Lender review of Project Capital Needs Assessment (PCNA):
  - a. Does Physical Inspection Report (PIR) address:
    - Adequacy of number of dwelling units inspected
    - Condition of project
    - Repair Work Write-up
      - o Critical repairs
      - o Non-critical repairs
    - Expected component replacement and major maintenance needs
      - o Near Term

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- o Long Term
      - o Remainder
    - Compliance with accessibility laws (for projects built after 3/13/1991)?
  - b. Does Statement of Resources and Needs address:
    - Review and possible adjustment to the PIR
    - Identification of Critical and Non-Critical Repairs
  - c. Is there evidence that all Critical Repairs have been adequately completed and inspected?
3. Review of mortgagor's exhibits:
- Has Lender's architectural analyst prepared a review report of mortgagor's exhibits?
  - Does report indicate whether exhibits are complete and correct?
4. Preparation of architectural portions of Form HUD-92264:
- a. Is there a Form HUD-92264 with all architectural portions complete?:
    - Section A - Architectural portions
    - Section B - Architectural portions
    - Section C - Unit breakdown with net areas
    - Section D - Architectural portions
  - b. Has the architectural analyst signed the form?
5. Report to the Lender's Underwriter:
- a. Has the architectural analyst submitted a report on the project to the Lender's underwriter?
  - b. Does the report contain an analysis of the project?
  - c. Does the report recommend:
    - Acceptance
    - Negotiated changes with the mortgagor
    - Rejection
6. Standard Certification:

Has the Lender's architectural analyst submitted a Standard Certification (MAP Section 11.2. M)?

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## QC Reviews – Cost Review

**2H 4**

- A. For the Cost Review of Sections 220, 221(d) or 231 - Lender's Cost Analyst review report:
1. Did the Lender hire a qualified construction cost estimator with experience in multifamily cost estimating?
  2. A detailed independent cost estimate must provide:
    - a. Documentation of the method of estimation and data source.
    - b. To be summarized on Form HUD-92326:
      - Detailed structure(s) and land improvement cost estimates, and costs of unusual site development
      - Contractor's General Requirements
      - Contractor's General Overhead
      - Contractor's Profit (for non-BSPRA cases)
      - Architect's Design and Supervision fees
      - Bond Premium and Mortgagor's and Contractor's
      - Other Fees
      - Onsite demolition costs
      - Offsite improvements costs
      - Project's Cost Not Attributable (CNA) to dwelling use
      - For sub rehab projects, complete Rehab CNA Worksheet (MAP Appendix 6C).
  3. Preparation of cost portions of Form HUD-92264:
    - a. Is there a Form HUD-92264 with all cost portions completed?
      - Section G – Cost portions
      - Section M
    - b. Has the cost analyst signed the form?
  4. Review of Form HUD-2328, Contractor's and/or Mortgagor's Cost Breakdown:
    - a. Is HUD-2328 complete and signed by all parties?
    - b. Has Lender's cost reviewer prepared a comparison of Form HUD-2328 and the independent cost estimate on Form HUD-92326?
      - Line item comparison on Form FHA-2331-B

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- Written documentation of resolution of significant differences in
  - Lender's HUD-92326 and contractor's HUD-2328 cost estimates.
  - Has Lender's cost reviewer prepared a written recommendation of approval or disapproval of contractor's HUD-2328?
5. Property Insurance Schedule, Form HUD-92329:
- a. Has the Lender's cost analyst prepared and signed Form HUD-92329?
  - b. Is there a backup worksheet indicating how the Insurable Value(s) of the project structure(s) were determined?
6. Identity of Interest Review:
- a. Has Lender's cost reviewer been supplied with Identity of Interest information by Lender's architectural reviewer?
  - b. For an identified general contractor:
    - Does the cost estimate indicate "BSPRA" under Builder's Profit?
    - Has the 50-75% rule been applied to determine whether the contractor qualifies for general overhead and profit or BSPRA, or should it be replaced by the dominant subcontractor?
  - c. For Identified subcontractors and/or material suppliers:
    - Is there documentation that the Identity of Interest subcontract(s) were submitted for prior approval of overhead and profit?
    - If any subcontract(s) were not submitted, has overhead and profit been deleted from the accepted contract amount?
    - Have letter(s) of approval/disapproval been prepared for the mortgagor and general contractor?
7. Report to Lender's underwriter:
- a. Has the cost analyst submitted a report on the project to the Lender's underwriter?
  - b. Did the report contain an analysis of the project costs?
  - c. Did the report recommend?
    - Acceptance
    - Negotiated changes with the mortgagor
    - Rejection
8. Standard Certification:
- a. Did the Lender's cost analyst submit a Standard Certification (MAP Section 11.2.M)?
9. Substantial Rehabilitation projects:

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- a. Joint Inspection Report and Architect's Detail Work Write-up:
    - Does the Lender's cost analyst have a copy of the Joint Inspection report?
    - Does the Lender's cost analyst have a copy of the mortgagor's Architect's Detail Work Write-up?
    - Do the Joint Inspection Report and Architect's Detail Work Write-up include Reserve for Replacement (R4R) items?
      - o Is there an itemized breakdown of R4R items?
      - o Does the breakdown indicate the age and remaining useful life of the R4R items?
  - b. Detailed Cost Estimate:

Does the Lender's cost analyst's detail cost estimate clearly reflect all the scope of work items in the Detail Work Write-up?
  - c. Reserve for Replacement estimate:
    - Has the Lender's cost analyst provided an R4R cost estimate?
    - Is the R4R cost estimate itemized and incorporate the remaining useful life for the R4R items?
    - Is there a replacement schedule for the R4R items?
- B. Sections 223(f):
- 1. Qualifications of Lender's Cost Analyst and Needs Assessor are acceptable?
  - 2. Liaison with Lender's architectural analyst:

Is there documentation of contacts regarding the PCNA?
  - 3. Summary of cost estimate for hypothetical "as new" building:
    - a. Documentation of method of estimation and data source.
    - b. Summary "bottom-line" cost estimate:
      - Structure(s) and land improvement cost estimates, for hypothetical "as new" building:
      - Contractor's General Requirements
      - Contractor's General Overhead
      - Contractor's Profit
      - Architect's Design and Supervision fees
      - Bond Premium and Mortgagor's and Contractor's Other Fees
  - 4. Preparation of cost portions of Form HUD-92264:
    - a. Is there a Form HUD-92264 with all cost portions complete?
      - Section G – Cost portions (hypothetical "as new" costs)
      - Section M must be blank.

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- Are Critical Repair costs and Non-Critical Repair costs summarized in Section O?
  - b. Has the cost analyst signed the form?
5. Review of Project Capital Needs Assessment (PCNA). Did the Lender's cost analyst prepare a written report reviewing:
- a. Cost portions of Project Inspection Report (PIR):
    - Cost of Critical repairs
    - Cost of Non-critical repairsFor all deferred non-critical repairs, estimate the required escrow amount.
  - b. Expected cost of expected component replacement and major maintenance needs for:
    - Near term
    - Long term
    - Remainder
  - c. Statement of Resources and Needs recommending:
    - Initial Deposit to the Reserve for Replacement, if any
    - Annual (or monthly) deposit to the Reserve for Replacement
    - Near Term replacement schedule indicating annual deposits, itemized expenditures, and remaining funds at the end of each year.
6. Documented advice to Lender concerning the PCNA:  
Lender's cost analyst must provide opinions and recommendations for acceptance or change to PCNA regarding cost items:
- Critical and Non-critical repairs
  - Funding schedules in Near Term, Long Term and Remainder items in the Reserve for Replacement account
7. Property Insurance Schedule, Form HUD-92329:
- a. Has the Lender's cost analyst prepared and signed Form HUD-92329?
  - c. Is there a backup worksheet indicating how the Insurable Value(s) of the project structure(s) were determined?
8. Report to Lender's underwriter:
- a. Did the cost analyst submit a report on the project to the Lender's underwriter?
  - b. Does the report contain an analysis of the PCNA?
  - c. Does the report recommend?
    - Acceptance
    - Negotiated changes with the mortgagor
    - Rejection
9. Standard Certification:



Has the Lender's cost analyst submitted a Standard Certification (MAP Section 11.2. M)?

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## Quality Control Review Requirements for Construction Loan Administration

2I

The QC Review of construction loan administration must, at a minimum, meet the following requirements.

- A. Analyze loans for general compliance with HUD-FHA construction loan administration requirements found in the MAP Guide, the MAP Forms Book, and MAP Frequently Asked Questions.
- B. Analyze escrow administration to assure that the escrows are properly funded and that the funds are only used for their intended purposes.
- C. Analyze procedures for collection and recordation of payment receipts; escrow bills; disbursements from escrow; and claim submissions.
- D. Analyze procedures that were use for handling letters-of credit.
- E. Analyze procedures that were use for handling the investment of construction loan escrows.
- F. Analyze the procedures for processing construction loan advances, change orders and notification of surety, cost certifications, and post endorsement escrows.
- G. Analyze delinquent loans and loans in foreclosure to determine compliance with HUD-FHA fiscal requirements and procedures such as timely assignments and extension requests, property preservation requirements and inspections.
- H. Review claim submissions on projects that have not reached final endorsement to assure that all efforts have been exhausted to "work-out" the loan and that all claims are properly documented, supported, and filed in accordance with HUD-FHA requirements.

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## Independence of Quality Control Reviews

2J

- A. The Quality Control function must be independent of the origination and servicing functions. This independence may be accomplished in a number of ways. Quality control functions may be performed by using:
  - 1. **In-house staff.** Lenders may establish a unit that is dedicated solely to Quality Control. Staff performing Quality Control must not be involved in the day-to-day Processes that they are reviewing.
  - 2. **Outside firms.** MAP Lenders may use knowledgeable outside independent firms to assist in the performance of the QC Reviews.

**Appendix 2**

**Lender Guidelines for Quality Control Plan**

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- B. The outside source must use the MAP Lender's QC Plan in completion of the annual QC review..
- C. Services provided by an outside firm must comply with the Department's quality control requirements, and must provide written reports to the MAP Lender's senior management. The MAP Lender will be responsible for ensuring these requirements are met.
- D. The firm working on the QC Reviews cannot be used in underwriting MAP loans.
- E. Certified Public Accounting (CPA) firms may work on the QC Review. This would be considered non-audit services. However, the same CPA firm cannot provide auditing services for that MAP Lender based on Government Auditing Standards, issued by the U.S. General Accounting Office, since the CPA firm will be reviewing its own work in part, which is a violation of the Independence standard of the Auditing Standards.
- F. Any agreement with the outside firm must be in writing, state the roles and responsibilities of each party, and be available for review by HUD staff.

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**Events Leading to Change in MAP Participation Status**

**2K**

- A. To maintain its MAP eligibility, the Lender must comply with its QC Plan and the underwriting, monitoring and servicing requirements of MAP on a continuous basis.
- B. Failure to comply with these requirements may result in revocation of MAP privileges and/or other administrative sanctions.

## Appendix 4

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# Application Requirements Checklist

## Table of Contents

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	Title
4A	Sections 220, 221(d)(3), 221(d)(4) and 231 New Construction and Substantial Rehabilitation
4B	Section 223(f) for Refinance or Purchase of Existing Apartments

**THE FOLLOWING APPENDIX 4 APPLICANT REQUIREMENTS CHECKLISTS INCLUDES FORMS AND DOCUMENTATION THAT ARE CUSTOMARILY SUBMITTED. OTHER EXHIBITS WHICH ARE LESS FREQUENT SUBMISSION REQUIREMENTS OR ARE TOO DETAILED FOR INCLUSION ON THESE EXHIBITS LISTS ARE REFERENCED IN THE MAP GUIDE CHAPTERS. IN SUCH CASES, DOCUMENTS REQUIRED BY THE GUIDE TEXT THAT MAY IN SOME CASES NOT BE MENTIONED ON THESE EXHIBIT LISTS ARE STILL SUBMISSION REQUIREMENTS.**

**New Construction and Substantial Rehabilitation - Sections 220, 221(d)(3), 221(d)(4), and 231**

**4A**

**I. PRE-APPLICATION**

**A. Exhibits Required for the Pre-application Review**

1. Narrative Description of Proposed Project.
2. Form HUD-92013, "Application for Multifamily Housing Project," including the developer's summary cost figures.
3. Résumés showing experience of owners/sponsor and key principals.
4. Résumés of Lender's underwriter, appraiser, and/or market analyst if not submitted prior to the pre-application.
5. If Sponsor is nonprofit, Form HUD-3433, "Request for Preliminary Determination as a Nonprofit Sponsor and/or Mortgage" and supporting documents.
6. If Sponsor is non-profit, Developer's Agreement or another document showing relationships and work responsibilities of all parties associated with the transaction.
7. Active Partner Performance System Participate Certification – Electronic or Paper 2530 are acceptable. Also applies to lessees.
8. Preliminary sketch plans, consisting of:
  - a. Site plan.
  - b. Typical unit and building layouts.
  - c. Ground floor and typical floor plans.
  - d. Wall section plan.
9. Market Study with comparables (See Chapter 7 and Appendix 7A)
10. Appraisal Exhibits. Forms HUD-92273 and HUD-92274, dated no more than 120 days prior to the date of submission of the pre-application package. See Chapter 7 and Appendix 7. If the processing calls for tax credit and/or bond financed applications, a HUD-92264T must also be included.
11. Photograph(s) of the property and immediate area.
12. Evidence of site control.
13. Location map or maps.
14. If commercial space involved, show estimated percentage of total square feet and estimated total income.
15. If pre-application is under Section 220, evidence that property is in eligible area (See Chapter 3, Section 3.7)
16. Copy of ground lease, if any.
17. If state or local grants or loans are anticipated as part of the project, evidence that such funds will be available. If tax credit are anticipated provide a certification.
18. Phase I Environmental Site Assessment.
19. Environmental Report.

B. Additional Exhibits at Pre-Application for Substantial Rehabilitation.

1. "As is" sketch plans in addition to preliminary sketch plans listed in 9, above.
2. Mortgagor's architect's basic work write-up, including summary cost estimates of major trade item groups if a partial (non-gut) rehabilitation.
3. LBP and asbestos test reports for projects constructed prior to 1978. (See Chapter 5 and Chapter 9)
4. Plans for relocation of existing residents affected by work.
5. Financial statements for the property for the past three years.

II. APPLICATION FOR FIRM COMMITMENT

A. Exhibits Required for Application for Firm Commitment for Sections 220 and 221(d)

Make any changes necessary in the pre-application exhibits and resubmit any exhibit that is changed. In addition:

1. Transmittal letter.
2. Application for Multifamily Housing Project (Form HUD-92013) with fee of \$3 per \$1000 of mortgage.
3. Narrative Summary and Underwriter's Recommendation.
4. Intergovernmental review. See HUD Processing Office to determine State Single Point of Contact and whether review is required for state where property is located.
5. Byrd Amendment (Lobbying Certification and disclosure). See 24 CFR Part 87.
6. Form HUD-92013 - Supplement for Sponsor, mortgagor, each principal of the mortgagor and general contractor and disclosure of prior legal action relevant to mortgage financing, outstanding delinquent Federal Debt.
7. Completed Form HUD-92264 Multifamily Summary Appraisal Report with technical analysis and standard certifications (see Section 11.2.M.) by all Lender third party analysts, and Form HUD 92264-A Supplement to Project Analysis.
8. Active Partner Performance System Participate Certification - Electronic or Paper 2530 are acceptable, if not submitted at Pre-Application.
9. Verification of social security or employer identification number.
10. Organizational documents creating mortgagor entity, if applicable.
11. If Sponsor is nonprofit, Developer's Agreement (if not submitted at pre-application).
12. Form HUD-3434, Certificate of Relationships and nonprofit motives, and Form HUD-3435, Certificate of Contractual Relationship.
13. Site control document (sales contract).
14. Affirmative Fair Housing Marketing Plan, Form HUD-935.2A. (See Handbook 4350.3 REV-1)
15. Equal Employment Opportunity Certification.
16. Certification from Mortgagor's Architect. (See Chapters 5.5 and 5.6)
17. Report prepared by Lender's architectural analyst. (See Chapter 5.6))

**Appendix 4**

**Applications Requirements Checklist**

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18. Résumés of Lender’s architectural reviewer and cost reviewer, if not submitted prior to the application.
  19. Owner-Architect Agreement on AIA Document B108 and HUD Amendment.
  20. Legal Survey Form HUD-92457, Surveyors Report. (Initial Endorsement)
  21. Engineering and specialty reports, if not covered under environmental report.
  22. Contract drawings and specifications. (See Appendix 5-L)
  23. Municipal services and other utilities’ assurance letters.
  24. Off-site improvements/construction (description). (See Appendix 5I)
  25. Cost estimate package (listed in Section 6.2).
  26. Identity of Interest disclosure (see Chapter 6, Sections 6.2 and 6.5) and the 50-75 percent rule disclosure (see Section 14.15M).
  27. Résumé of the general contractor and Schedule of jobs (work) in progress (See Chapter 8.4).
  28. Soils report and foundation analysis.
  29. Appraisal with all supporting documents:
    - a. Rental Housing Income Analysis and Appraisal, Form HUD-92264,
    - b. Estimates of Market Rent by Comparison Form HUD-92273,
    - c. Operating Expense Analysis Worksheet Form HUD-92274
  30. If relevant, tax credit certification
  31. If supplemental grants and/or loans are part of project financing, provide commitment letter.
  32. Certification approving release of banking and credit information.
  33. Evidence of last arms-length transaction and price.
  34. Personal Financial and Credit Statement, Form HUD-92417 (See Section 8.4)
  35. Credit reports current within 30 days of the application date.
  36. Requests for verification of deposits for each bank reference included on Form HUD-92013 Supp.
  37. HUD-92264A Supplement to Project Analysis.
  38. Financing plan (sources and uses statement for tax credit projects).
  39. HUD-2238, Financial Requirements for Closing.
  40. Environmental report if updated from report submitted at pre-application.
  41. Résumé of management agent.
  42. Form HUD-9839 A, B, or C, Management Certification.
  43. Form HUD-9832 Management Entity.
  44. Management Plan and Sample Lease.
  45. Management Agreement, if any.
- B. Additional Exhibits for Substantial Rehabilitation
1. Detailed scope of rehabilitation work resulting from joint inspection by Lender and mortgagor (See Section 5.16).
  2. Lead-based paint reports and asbestos test reports for projects built before 1978.
  3. Cost estimate package (see supplemental instructions in Section 6.6.)

## Section 223(f) for Refinance or Purchase of Existing Apartments

4B

### A. Exhibits Required for Application for Firm Commitment

No pre-application exhibits are required, but the Lender is advised to make preliminary inquiries to determine whether or not its reviewers will be acceptable to HUD. The firm application exhibits are:

1. Transmittal letter.
2. Narrative Summary and Underwriting Recommendation
3. Form HUD-92013 “Application for Multifamily Housing Project” with application fee.
4. Form HUD-92013 – Supplement with information on the Sponsor and Mortgagor entity.
5. Completed Form HUD-92264, Multifamily Summary Appraisal Report and Form HUD-92264A, Supplement to Project Analysis.
6. Active Partner Performance System Participate Certification – Electronic or Paper 2530 are acceptable. Also applies to Lessees.
7. Disclosure of any identity of interest between Sponsor and Lender.
8. Byrd Amendment (lobbying certification and disclosure). See 24 CFR Part 87.
9. List of principals of Sponsor, Mortgagor Entity and business concerns.
10. Current Résumé for the Sponsor, and each principal of the Sponsor.
11. Organizational documents creating Mortgagor Entity, if applicable.
12. Verification of Social Security Number or Employer Identification Number.
13. Property Capital Needs Assessment: Physical Inspection Report, detailed list and cost estimates for critical and non-critical repairs and improvements, and estimate for Replacement Reserve Deposits.
14. A report from appropriate officials, such as Fire Marshal or Building Inspector, identifying any code violation(s) of record.
15. Lenders Review of PCNA Report.
16. Plans and specifications for repairs and improvements, if required.
17. Copy of Certificate of Occupancy or Final Inspection Report.
18. Property Insurance Schedule, Form HUD-92329.
19. Complete appraisal with supporting documents:
  - a. Rental Housing Income Analysis and Appraisal, Form HUD-92264,
  - b. Estimates of Market Rent By Comparison Form HUD-92273, and
  - c. Operating Expenses Analysis Worksheet Form HUD-92274.
20. Evidence of site control (deed, purchase agreement, option).
21. Evidence of last arms-length transaction price.

**Appendix 4**

**Applications Requirements Checklist**

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22. Description of condition of property, list of repairs and improvements made in last two years and their estimated cost.
23. A current Phase I Environmental Site Assessment.
24. If part of the project is devoted to commercial space, copy of lease or leases. Show of total square feet and amount, and percentage of total income used for commercial.
25. Evidence of permissive zoning.
26. Area map showing location.
27. Photographs of building.
28. Legal description of property and title report.
29. Balance sheets and operating statements (see Section 7.7).
30. As-Built” Survey and Form HUD-2457, Surveyor’s Report.
31. Environmental report (to include lead-based paint and asbestos if project built in 1978 or earlier).
32. If private water supply or private sewage system is in use, report from City/County Health Officer stating that health standards are met.
33. List and conditions for supplemental grants or loans, if any. Grant and/or commitment letter if applicable.
34. If low-income housing tax credits are part of financing, provide copy of certification.
35. Certification approving release of banking and credit information.
36. Financial statements (last 3 years) and credit reports.
37. Certified statement by mortgagor listing all outstanding obligations on project.
38. Current rent roll.
39. Occupancy history, by quarter for last three years.
40. Report on experience of management agent.
41. Management Entity Profile (Form HUD-9832).
42. Management Certification (Form HUD-9839A, B, or C).
43. Management Plan and Sample Lease.
44. Management Agreement, if applicable.



## Appendix 5

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# Architectural Analysis

## Table of Contents

	Title
5A	Common HUD Standards and Other Criteria for Sections 220, 221(d) , and 231
5A.1	Common HUD Standards and Other Criteria for Section 207 - Manufactured Home Parks
5B	Additional HUD Standards and Other Criteria for Sections 220, 221(d), and 231 - Substantial Rehabilitation
5B.1	Additional HUD Standards and Other Criteria for Section 207 - Manufactured Home Parks - Substantial Rehabilitation
5C	Additional HUD Standards and Other Criteria for Projects Insured Pursuant to Section 223(f)
5D	Seismic Resistance and Fire Protection Standards for Substantial Rehabilitation and Projects Pursuant to Section 223(f)
5E	Firm Commitment Drawings and Specifications to be Submitted by the Mortgagor's Architect
5F	Construction Specification Institute Master Format 2004
5G	HUD Architectural Review Report for Pre-Application Exhibits
5G.1	HUD Architectural Review of Lender's Architectural Analyst's Report for Firm Exhibits - New Construction and Substantial Rehabilitation
5G.2	HUD Architectural Review of Lender's Architectural Analyst's Report for Firm Exhibits - Section 223(f)
5H	PCNA Instructions – Section 223(f)
5I	Design Architect's Certification
5I.1	Certificate of Professional Liability Insurance

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## Common HUD Standards and Other Criteria for Sections 220, 221(d), and 231

5A

### A. Minimum Property Standards.

1. Design must meet HUD Handbook 4910.1, Minimum Property Standards for Housing (MPS).
  - a. Local Building codes or nationally recognized building codes accepted or designated by the local HUD Office are part of the MPS.
  - b. The Field Office enforces and interprets accepted local building codes for HUD.
  - c. The Field Office does not enforce local building codes for the local Government.
2. For community sewerage systems, use HUD Handbook 4940.3, Minimum Design Standards for Community Sewerage Systems.

### B. Accessibility for Persons with Disabilities.

1. Uniform Federal Accessibility Standards (UFAS) apply when compliance with Section 504 or specific program criteria is required.
2. Title VIII of the Civil Rights Act of 1968, as amended, commonly known as The Fair Housing Act (the Act) directs the Secretary of HUD to provide technical assistance to States, local governments, and other persons in implementing the accessibility requirements of the Act. Section 804(f)(3)(c) requires that all residential buildings which have four or more units and which are built for first occupancy after March 13, 1991 (referred to in the Act as “covered multifamily dwellings”), be designed and constructed to have at least one building entrance on an accessible route, unless it is impracticable to do so because of terrain or unusual site characteristics. Such dwellings must provide for accessibility in all common and public areas. In addition, certain accessibility requirements must be included in all of the dwelling units in buildings with elevators, and in all of the ground floor dwelling units in buildings without elevators. They are:
  - a. Public and common use areas must be readily accessible to and usable by persons with disabilities;

- b. All doors designed to allow passage into and within all premises are wide enough to allow passage by persons in wheelchairs;
- c. All premises contain the following:
  - (1) An accessible route into and through the dwelling unit;
  - (2) Light switches, electrical outlets, thermostats, and other environmental controls in accessible locations;
  - (3) Reinforcements in bathroom walls to allow later installation of grab bars; and
  - (4) Usable kitchens and bathrooms such that an individual in a wheelchair can maneuver about the space.

As a part of processing and commitment, the Lender's analyst will review construction documents for covered multifamily dwellings pursuant to the MPS (HUD Handbook 4910.1), and the Fair Housing Accessibility Guidelines (the Guidelines). The Guidelines provide minimum accessibility standards. The Guidelines are found in the Federal Register, Vol. 56, No. 44, Wednesday, March 6, 1991. Additional material may be found in the Fair Housing Act Design Manual.

- C. Commercial Facilities. The term "Commercial" is applied to any space or facility permitted and acceptable for "Nonresidential Use" from which income is derived or anticipated. However, facilities such as swimming pools and garages to be use solely by occupants are not considered commercial even though fees may be collected.
  - 1. The nature and extent of nonresidential use are important for underwriting determinations. Basis of determinations are suitability, market demand, economic feasibility in the utilization of space, and Regulatory or Statutory limitations.
  - 2. The aggregate commercial floor area may not exceed 10 percent of the gross building floor area and includes corridors, stairs, elevators, lobbies, and other service areas for commercial use, but excludes laundry space, project storage space, and interior tenant parking.
  - 3. Design of commercial facilities must be harmonious with the project and conform to standards of design and construction, and local zoning and building codes.
  - 4. Do not include fixtures, equipment, furnishings or finish for commercial spaces in the mortgage unless customarily provided in competitive projects.

- D. Day Care Facilities. Space for day care facilities must be adequate, appropriate to the market need, and conform to local and State requirements. In processing, it is considered as "Commercial" space except that the area of space for day care facilities may be provided over and above the maximum area allowed for commercial uses as stated in paragraph C above.
- E. Carpet and Cushion. Wall-to-wall carpet and cushion may be included as part of the mortgage security. Carpet and cushion selected by the architect must comply with current applicable Use of Materials Bulletins.
1. Carpet is acceptable in all public spaces except laundry rooms, storage rooms, boiler rooms, and similar service areas.
  2. Carpet is acceptable in living units except in kitchens and bathrooms.
- F. Blinds and Draperies. Operable draperies, track and hardware, venetian blinds or shades are acceptable as part of the mortgage security when:
1. Appropriate to the property, considering types of windows, rental range, and occupants.
  2. Primary uses are to control the intensity of natural light and to provide privacy.
  3. The quality and type of materials, appearance, manufacture, manner of fastening and operations are suitable and sufficiently durable to avoid excessive replacement or maintenance expense.
- G. Air Conditioning. Where air conditioning is required to provide year-round indoor comfort, assure continued marketability, and prevent premature obsolescence, projects should be air-conditioned. In projects acceptable without air conditioning, assure air movement for summer comfort by adequate mechanical or cross ventilation. Particular attention should be given to the need for air conditioning in elevator structures, especially for senior citizens.
- H. Eligible Equipment.
1. Equipment included as part of the mortgage security must be acknowledged by the mortgagor and Lender to be part of the real estate and:
    - a. Be essential for successful operation and market acceptance.
    - b. Have qualities in design, construction, materials and finishes which are not subject to early deterioration or obsolescence.

- c. Be appropriate to the location, the design of the building, and the anticipated occupants.
  2. Equipment needed for operation and market acceptance, such as ranges and refrigerators, should be included. The equipment should have a relatively long useful life.
    - a. Replacement is paid for from a reserve for replacements account that is funded from project income.
    - b. Many items formerly considered chattels by custom and legal precedent now have status as part of the real estate.
    - c. Customs change and if doubts arise as to legal precedent concerning whether an item is chattel or real estate, essential and required items may be covered by a security agreement or chattel mortgage, as well as being covered by the mortgage on the real estate if deemed necessary by the Lender and its attorneys.
  3. Equipment that may not be included:
    - a. Supply items, utensils, tools, vehicles, portable equipment, furniture, furnishings, or accessories normally provided by tenants or management
    - b. Built-in or attached furniture.
- I. Water and Sewerage. Public water and sewerage facilities are generally required for multifamily projects. If the extension of public facilities is infeasible, construct a water and/or sewerage system as part of the project or provide services from existing offsite privately owned systems with continuing service at reasonable rates.
  1. Water and/or sewerage facilities must:
    - a. Provide a sufficient supply of water with adequate pressure, and satisfactory bacterial and chemical qualities.
    - b. Provide a sewerage system with adequate collection, treatment and final disposal of domestic waste, which requires minimum maintenance and will not endanger the public health.
  2. Duplicate water and sewerage systems are not acceptable except where it is determined that the construction of a single system will be infeasible due to the topography of the site.

3. Individual septic systems or sewerage systems designed to dispose of effluent by subsurface soil absorption methods are generally not suited for multifamily construction because of maintenance problems. Satisfactory operation can be expected only under unusually favorable soil conditions. When these methods of sewerage disposal are proposed, an environmental (sanitary) engineer, with no other interest in the project, should be hired by the mortgagor to investigate soil and site conditions and make recommendations. A copy of the report must be available to the mortgagor's Architect and be included in the exhibits submitted for review by the Lender's analyst.
  4. Privately Owned Offsite Water and Sewerage Systems.
    - a. Evidences of acceptable control are:
      - (1) Certificate of Convenience and Necessity from the State Utility Regulatory Commission.
      - (2) Franchise from local unit of Government
      - (3) Trust Deed
      - (4) Third Party Beneficiary Agreement
      - (5) An incorporated nonprofit owners association.
    - b. If control of continuity of service and the equitability of the service rate schedule is other than (1) above, all legal documents and other appropriate exhibits must be acceptable to HUD's Counsel.
  5. All community systems and privately owned systems must meet local health authority or EPA MCL standards.
- J. High Pressure Gas and Liquid Petroleum Transportation Pipelines.
1. All parts of a residential structure must be at least 10 feet from the outer boundary of the pipeline easement for pipeline maintenance access.
  2. The Surveyor must still identify all easements and pipelines that cross or are adjacent to the project, as otherwise prescribed by the Minimum Standard Detail Requirements and Classifications for ALTA/ACSM Land Title Surveys dated 2005, and Form HUD-92457, Surveyor Instructions and Report.
  3. Modify the surveyor's certificate to read as follows:

"I made an on the ground survey per record description of the land shown hereon located in (*insert city or town, county, township. etc.*), on (*insert date*); and that it and this (these) map(s) was (were) made in accordance with the HUD Survey Instructions and Certificate, Form HUD-92457, and meet the requirements for a Land Title Survey, as defined in the 'Minimum Standard Detail Requirements for ALTA/ACSM Land Title Survey,' dated for the most recent year."

"To the best of my knowledge, belief and information, except as shown hereon: There are no encroachments either way across property lines; title lines and lines of actual possession are the same; and the premises are free of any (subject to a) 100/500 year return frequency flood hazard, and such flood free (flood) condition is shown on the Federal Flood Insurance Rate Map, Community Panel No. \_\_\_\_\_(state, if none)."

- K. Reports. The Lender's analyst must assure that the environmental and/or valuation required reports and requirements, such as seismic, flooding (Executive Order 11988), underground storage tanks, etc., contained in the application are properly evaluated and are adhered to in the project design.
- L. Subsurface Exploration. Before foundation design and application for Firm commitment, reliable information, i.e., soils reports, test boring logs, test pit data, soil bearing values, geotechnical study, etc., must be made available to the Lender's analyst by the mortgagor's Architect.
1. The Architect must advise the owner of the scope and type of soils information and/or subsurface investigation required for structural design.
  2. The mortgagor must provide the services of a soils engineer or other consultant for determining subsurface conditions. These services shall be provided in accordance with the Owner-Architect Agreement.
  3. The Lender's architectural analyst will assure that the architect has comprehensive, well-documented soils information and that project foundation design follows the report recommendations. When necessary, the Lender's architectural analyst may request engineering help in reviewing soil reports and related designs.
  4. Minimum soils reports requirements.
    - a. Soils must be identified and described by the nomenclature of the Unified Soils Classification System ASTM D2487 and/or Description of Soils, Visual Manual Procedures, ASTM D2488.
    - b. Borings must be in or adjacent to the proposed foundation area.

- c. At least one boring must be made for every 2500 sq. ft. of foundation area. For buildings supported on piling, one boring must be made for every 1600 sq. ft. of foundation area.
  - d. Borings must be at least to the bottom of proposed footings and deep enough to locate bearing strata that will support the proposed structure. When rock is encountered, depth of drilling into rock shall be at least 5 feet or enough to establish rock quality regarding voids, fissures and strength, or whether it is a boulder.
  - e. Borings and sizes and types of samples for standard tests must be according to ASTM D1586 and D1587. Alternate methods must be justified by soils engineer.
  - f. When ground water conditions influence the building design, observation of ground water levels must be recorded at the time of boring and at least 48 hours later.
5. Load tests must be required when the allowable safe load on the soil is in doubt. A structural engineer must supervise the test and certify the results.
6. Additional information must be required when unusual soil conditions may affect foundation design:
- a. Presence of alkali or other deleterious materials in quantities harmful to concrete, steel or masonry.
  - b. History or evidence of seismic activity, subsidence, or earth slides and rock movement.
  - c. Presence of stray electrical currents harmful to foundations.
  - d. History of any type of problem in project area.
- M. Noise Abatement and Control. The Lender's architectural analyst in collaboration with the mortgagor's Architect and the Lender's appraiser must identify existing and potential sources of noise which represent a threat to the serenity and quality of life in, and the economic soundness of, HUD-insured multifamily housing projects.
- 1. The mortgagor's Architect will recommend to the Lender's architectural analyst and to HUD, the appropriate means of separating uncontrollable noise sources from residential areas.
  - 2. External and interior noise exposure standards should be complied with.



N. Other Tests. Other exploration or tests may be required for environmentally hazardous materials such as asbestos, radon, PCB, gasoline, methane, etc, if:

1. History indicates possible problems in project area.
2. Previous usage of the site indicates possible contamination.
3. There is evidence of possible contamination or presence of hazardous material.

O. Energy Efficiency. The project design must achieve HUD energy efficiency standards for new construction, which shall meet or exceed the requirements of the 2006 International Energy Conservation Code (IECC), or in the case of multifamily high rises (defined as residential structures of 4 or more stories), the requirements of the American Society of Heating, Refrigerating, and Air-Conditioning Engineers (ASHRAE) Standard 90.1 - 2004 (or later versions as adopted by the Secretary of HUD), and shall be cost-effective with respect to construction and operating costs on a life-cycle cost basis. The Department, in cooperation with the Environmental Protection Agency and the Department of Energy, has adopted a wide ranging energy action plan for improving energy efficiency in all housing programs, which includes encouraging program participants to use Energy Star products.

For guidance on the life-cycle cost analysis, see 1999 ASHRAE Application Handbook, 35.8, and NIST “Building Life-Cycle Cost” Program, Version 4.3 User’s Guide and Reference Manual.

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## Common HUD Standards and Other Criteria for Section 207 – Manufactured Home Parks

### 5A.1

As indicated in Section 5.28 of the MAP Guide, the individual manufactured homes are excluded from the mortgage of a Manufactured Home Park, leaving the infrastructure (roads, walks, utilities, parking, site work), the permanent foundations for the manufactured homes, and modest community facilities for inclusion in the mortgage.

The standards from Section 5A apply to Section 207 Manufactured Home Parks, with the following modifications:

- A. Minimum Property Standards, but excluding the individual manufactured homes;
- B. Accessibility for Persons with Disabilities, but only for public and common use areas;
- C. Commercial Facilities;
- D. Day Care Facilities;

- E. Carpet and Cushion, but only for public and common use areas;
- F. Blinds and Draperies, but only for public and common use areas;
- G. Air Conditioning, but only for public and common use areas;
- H. Eligible Equipment, but only for public and common use areas;
- I. Water and Sewerage;
- J. High Pressure Gas and Liquid Petroleum Transportation Pipelines;
- K. Reports;
- L. Subsurface Exploration. Includes permanent foundations for the manufactured homes and public and common use areas;
- M. Noise Abatement and Control;
- N. Other Tests;
- O. Energy Efficiency, but only for public and common use areas.

In addition, the following standard is required for permanent foundations for the manufactured homes:

Permanent Foundations Guide for Manufactured Housing, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, September 1996.

## **Additional HUD Standards and Other Criteria for Sections 220, 221(d), and 231 - Substantial Rehabilitation**

**5B**

STANDARDS. Substantial rehabilitation must comply with common HUD standards in Appendix 5A, except as modified herein and applicable local codes, ordinances, and guidelines.

- A. All new construction or additions that enlarge existing buildings are not rehabilitation and must meet applicable codes and standards for new construction.
- B. Rehabilitation projects are subject to environmental requirements in:
  - 1. Title 24 of the Code of Federal Regulations (CFR), Parts 50 and 55, and
  - 2. The statutes, Executive Orders, and HUD Standards and criteria (24 CFR Part 51) cited in 24 CFR Part 50.4. Compliance shall be documented on Form HUD 4128.
- C. Historic Structures and/or Districts: Projects that include historic structures or affect historic structures or districts are subject to 24 CFR Part 50.4 and must comply with:
  - 1. Section 106 of the National Historic Preservation Act and
  - 2. Secretary of the Interior, Standards for Rehabilitating Historic Buildings.
- D. A full Environmental Assessment, Form HUD-4128, is required for the following activities which are not categorically excluded pursuant to 24 CFR 50.20 and involve or include:
  - 1. Additions (new construction);
  - 2. Rehabilitation with estimated costs that are more than 75 percent of the total estimated cost of replacement after rehabilitation;
  - 3. Conversion of non-residential use (hotels, offices, stores, lofts, etc.) to residential occupancy; or
  - 4. Change of unit density by more than 20 percent.
- E. Seismic Resistance. See Appendix 5D, paragraph A.
- F. Fire Protection. See Appendix 5D, paragraph B.
- G. Accessibility for Persons with Disabilities. Only if required by program or for properties built after March 13, 1991 containing Fair Housing Act violations. See Appendix 5A, paragraph B.

H. Lead-Based Paint Hazard Elimination.

Refer to Part 35 of Title 24 of the code of Federal Regulations (24 CFR Part 35)

I. Asbestos Hazard Elimination.

Refer to Environmental Protection Agency regulations in Title 40, Part 61 of the Code of Federal Regulations (40 CFR Part 61).

J. Energy Savings.

HUD has published an informational booklet entitled “HUD Rehabilitation Energy Guidelines for multifamily Dwellings.”

## **Additional HUD Standards and Other Criteria for Section 207 – Manufactured Home Parks – Substantial Rehabilitation**

### **5B.1**

As indicated in Section 5.28 of the MAP Guide, the individual manufactured homes are excluded from the mortgage of a Manufactured Home Park, leaving the infrastructure (roads, walks, utilities, parking, and site work), the permanent foundations for the manufactured homes, and modest community facilities for inclusion in the mortgage. Only these included items are eligible for substantial rehabilitation.

The standards from Section 5B apply to Section 207 Manufactured Home Parks, with the following modifications:

- A. Additions apply only to public and common use areas;
- B. Environmental requirements apply to all infrastructure, permanent foundations, and public and common use areas;
- C. Not applicable;
- D. 1. Only applicable to public and common use areas;  
2. Applies to infrastructure, permanent foundations, and public and common use areas;  
3. Not applicable;  
4. Not applicable.
- E. Applicable to permanent foundations and public and common use structures;
- F. Applicable to public and common use structures;
- G. Applicable to public and common use structures;
- H. Applicable to public and common use structures;
- I. Applicable to public and common use structures;
- J. HUD has published a Report to Congress titled “Promoting Energy Efficiency in a Time of Change.”

In addition, the following standard is required for permanent foundations for the manufactured homes:

Permanent Foundations Guide for Manufactured Housing, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, September 1996.

## Additional HUD Standards and Other Criteria for Projects Insured Pursuant to Section 223(f)

5C

In general, all the instructions in Appendix 5A for Sections 220 and 221(d) of the National Housing Act apply to projects insured pursuant to Section 223(f), except as modified herein.

**STANDARDS.** Eligible properties are existing construction. The criteria for acceptance are not the same as for proposed construction. The property in its present condition, must meet the general criterion for livability without the necessity of substantial rehabilitation in order to be eligible for consideration under the Section 223(f) program. The objective is to assure an acceptable risk through only repair requirements. The Minimum Property Standards (MPS) apply in the following manner:

- A. The General Acceptability Criteria shall be met with the exception of the requirement for a primary entrance readily accessible to the physically handicapped.
- B. The property shall comply with the general intent of all other chapters of the MPS.
- C. Compliance with Statutory and Regulatory Requirements is mandatory. These include:
  1. Lead-based paint hazard elimination. See 24 CFR Part 35
  2. Asbestos hazard elimination. See 40 CFR Part 61.
  3. Flood hazard limitations.
  4. Smoke detector(s):
    - a. Smoke detector(s) must be installed:
      - In all bedrooms;
      - Outside each sleeping area in the immediate vicinity of the bedrooms;
      - On all levels of the dwelling unit, including basements.
    - b. Installation of required smoke detectors is a Critical Repair.
    - c. Battery powered smoke detectors are permitted. See Appendix 5D, paragraph B for requirements.
- D. Seismic Resistance. See Appendix 5D, Paragraph A.
- E. Accessibility for Persons with Disabilities. Only if required by regulation and/or program, or for properties built after March 13, 1991 containing Fair Housing Act violations.
  1. Regulation and/or Program requirements. If an existing property was built before the

enactment of accessibility requirements, there is no requirement for upgrading the property to current accessibility standards, with the following exceptions:

- a. The property has a feature that triggers a regulation requiring an upgrade to current accessibility standards;
- b. The program requires an accessibility upgrade for any individual room or space, whenever the room or space is substantially altered. This would apply even when the overall scope of repair work for the entire project does not qualify as substantial rehabilitation.

2. Meeting Fair Housing Act Requirements.

- a. If a project built after March 13, 1991 is submitted for 223(f) refinancing and the PCNA (See Appendix 5M) inspection reveals that it does not meet all of the design and construction requirements of the Fair Housing Act, the Department requires the owner to modify/retrofit the project to meet these requirements as a condition of mortgage insurance. In no case may the Department insure such a project without a modification/retrofit plan. The extent and cost of the modifications/retrofits will determine whether the project is feasible as a 223(f) or whether to resubmit it as substantial rehabilitation. See Appendix 5A, Paragraph B.2 for an outline of Fair Housing Act standards.
- b. The modifications/retrofits may commence after Initial/Final Closing, but must be completed no later than one year after the Initial/Final Closing date (See Section 5.24.A).
  - (1) Correction of Fair Housing Act violations may be either Critical or Non-Critical repairs. It is the responsibility of the Needs Assessor to determine the status of each and every correction.
  - (2) Any Fair Housing Act correction that poses a direct threat to life and safety (example: the apartment entry door is too narrow for wheelchair passage) must be treated as a Critical Repair and corrected before closing, along with all other Critical Repairs. However, any Fair Housing Act correction that is not a direct threat to life and safety (example: a turning radius in the bathroom that is a fraction too small for a single turn to get to the bathtub, requiring the wheelchair user to use extra motions to maneuver the wheelchair into position) may be treated as a Non-Critical Repair, which can be corrected up to one year after Initial/Final Closing.
- c. Except in extraordinary circumstances, modifications/retrofits of the public and common areas of the project must commence within thirty days of the Initial/Final Closing date.
- d. Individual units.
  - (1) Modifications/retrofits for individual units in the project must be scheduled to commence within sixty days after the Initial/Final Closing date.
  - (2) Advance notice to tenants. Immediately after the issuance of the Firm Commitment, tenants must receive written notification indicating the

modifications/retrofits to be performed, the anticipated start date and work schedule, and, if necessary, the schedule of temporary relocation for each unit.

- e. In all cases, once these structural modifications/retrofits are begun, the work should be completed without unreasonable delay. All structural modifications/retrofits must be completed within one year after the Initial/Final Closing date.
- f. All such modifications/retrofits must conform to the escrow and inspection requirements contained in Chapter 12.

F. Survey Requirements:

1. An “as built” survey, signed by a registered surveyor, showing all improvements on the site, on or before the date of the application submission. The survey submitted with the application may be a copy of one several years old. However, a current “as built” survey, showing all improvements on the site after all repairs are complete, will be required. If deferral of non-critical repairs is approved, the “as built” survey must be submitted after all such repairs are completed, and the submission of the survey will be a condition for the release of the remainder of withheld repair escrow funds. The survey must include:
  - a. If the proposed repairs include site grading, provide existing contours at one-or two-foot intervals, except that for steeply sloping sites, the intervals may be five feet. If the repairs do not involve site grading, contours are not required.
  - b. City, county, state, and lot and block numbers of the property and adjacent sites.
  - c. Distance to the nearest street, dimensioned length of each boundary, such as monuments, markers, fences, etc., and all encroachments or deviations from description of the subject property or conflicts with descriptions of adjacent properties.
  - d. Easements, rights-of-way, setback lines, and other restrictions.
  - e. Existing streets, alleys, and drives, street names, and other pertinent data. Include any surfacing and curbs that are being repaired.
  - f. If the proposed repairs include utility lines, provide location and sizes of all such lines included in the repairs. If repairs include sewer lines, provide invert sewer elevations and direction of flow. If repairs do not include utilities, this information is not required.
  - g. If the proposed repairs include arbor work on preservable trees, provide location of all such trees undergoing preservation.



- h. Location and description of all existing structures.
  - i. Legal description of the property, with total square footage and acreage.
2. Certification language. Form HUD-2457, HUD Survey Instructions and Report, has mandatory certification language that the surveyor must put on the survey map/plat. The American Land Title Association/American Congress on Surveying and Mapping (ALTA/ACSM) has its own mandatory certification language that differs from HUD's language. HUD's Office of General Counsel has reviewed the HUD and ALTA/ACSM certifications, and finds no conflict and has no legal objection to the required ALTA/ACSM certification appearing on the survey map/plat along with the required HUD certification. Accordingly, both certifications may appear on the survey map/plat.

## Seismic Resistance and Fire Protection Standards for Substantial Rehabilitation and Projects Pursuant to Section 223(f)

5  
D

Projects must comply with the provisions of each referenced standard, and the following:

- A. Seismic Resistance for Substantial Rehabilitation and Existing Projects pursuant to Section 223(f). Structures in seismic zones 3 and 4 must meet three fourths (3/4) of the seismic force level resistance contained in ASCE 31-02: Seismic Evaluation of Existing Buildings, American Society of Civil Engineers, FEMA-356, Pre-standard and Commentary for the Seismic Rehabilitation of Buildings, and FEMA-274, NEHRP Commentary on the Guidelines for Seismic Rehabilitation of Buildings.
  1. A seismic hazard analysis of the building(s) must be made by a registered engineer familiar with lateral force design, where applicable code requirements at the time of construction did not equal or exceed the referenced seismic standards.
  2. The evaluation must include an examination of the structure for continuity, ductility, and resistance to lateral forces.
  3. Structural elements and connections between elements must be strengthened and new elements installed as required, if the existing structure does not provide three fourths (3/4) of the seismic force level resistance required by paragraph A above.
- B. Fire Protection.
  1. Fire/smoke detection, alarm and communication systems must comply with the Life Safety Code, NFPA 101, for the entire project.
    - a. The 2006 NFPA 101, paragraph 31.3.4.5.1, states that "...approved single station smoke alarms shall be installed ... outside every sleeping area in the immediate vicinity of the bedrooms and on all levels of the dwelling unit, including basements", and the regulation in 24 CFR 200.76 requires that smoke detectors must also be installed inside each sleeping area.

Accordingly, smoke detectors must be installed:

      - Inside all bedrooms
      - Outside every sleeping area in the immediate vicinity of the bedrooms, and
      - On all levels of the dwelling unit, including basements.
    - b. For Section 223(f) projects, installation of required smoke detectors is a Critical Repair.
    - c. The regulation does not specify whether the required smoke detectors must be hard wired or battery powered. However, Section 3.3.9.1 of NFPA 101 permits a battery-operated device.
      - (1) For substantial rehabilitation projects, regardless of the scope of work, hard wired smoke detectors are required.

(2) Considering the difficulty, time and expense of feeding electrical wiring through the walls of existing buildings, battery-operated smoke detectors are acceptable in Section 223(f) projects, under the following condition:

- o The smoke detectors must be powered by power cells having the following characteristics:
- o The cells must have a ten-year life.
- o The cells must be tamper-resistant;
- o The cells cannot be used in any other toy or appliance;
- o The smoke detector may have a manual (but not automatic) silencing device to clear unwanted alarms such as cooking smoke.

Smoke detectors as described above appear to meet the intent of the smoke alarm requirements in Section 9.6.2.10 of NFPA 101.

2. Any new construction must have a sprinkler system as required by NFPA 101.
3. Substantial rehabilitation of the fully repaired structure (or floors/wing(s) to which work is limited) must comply with NFPA 101 fire protection provisions for new construction.
4. New additions must be separated from existing structures, even if the entire facility is included under one mortgage. Separation must equal or exceed:
  - a. Two-hour rated firewall;
  - b. One and one half (1 ½) hour protected openings;
  - c. Class B labeled fire doors;
5. New work on substantial rehabilitation projects must comply with standards for new construction.

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## Firm Commitment Drawings and Specifications to be Submitted by the Mortgagor's Architect

5E

A. Cover sheet:

1. Project name and identification number.
2. Spaces for signatures of design Architect, Architect administering contract, owner, contractor, Lender, and bonding company.
3. Tabulation of living units:
  - a. Number of units for each type.
  - b. Number of units and type in each building.
  - c. Non-rental living unit.
  - d. Number of parking spaces, open and covered.

B. Index of drawings by name, numbered consecutively, with date of preparation and latest revision date. Consecutive numbering is required for each drawing category (Architectural, Land Improvements, Structural, Plumbing, HVAC, Electrical, etc., shown as A-1, A-2, A-3... L-1, L-2, L-3, etc.), but absolute consecutive numbering of the entire set is optional, and would appear only in addition to the categorical numbering.

C. Topographic survey, that is, a “transit survey” at a minimum scale 1” = 40’-0”, recent, dated, and signed by a registered surveyor, and including:

1. Contours at one-or two foot intervals, except that for steeply sloping sites, the intervals may be five feet.
2. City, county, state, and lot and block numbers of the property and adjacent sites.
3. Distance to the nearest street, dimensioned length of each boundary, such as monuments, markers, fences, etc., and all encroachments or deviations from description of the subject property or conflicts with descriptions of adjacent properties.
4. Easements, rights-of-way, setback lines, and other restrictions.
5. Existing streets, alleys, and drives as well as surfacing, curbs, street names, and other data.

**Appendix 5**

**Architectural Analysis**

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6. Location and sizes of public utilities with invert sewer elevations and direction of flow.
  7. Preservable trees.
  8. Location and description of all existing structures.
  9. Legal description of the property, with total square footage and acreage.
- D. Plot plan at a scale not less than 1"= 40' - 0" showing:
1. Land boundaries, dimensions, and North Point.
  2. Streets, alleys, or roads adjacent or within the property boundaries, together with walks, curbs, pavements, steps, ramps, play areas, parking areas, and drying yards, and utilities such as gas, water, electric, and sewer lines.
    - a. Dimension or size with distance from location points, material indication for such items as walks and pavements, and extent of each.
    - b. Indications of "new" or "existing" and public dedication of any streets or alleys in the project.
  3. Buildings, building designations, location dimensions, and overall dimensions.
  4. Elevations of first floor, elevations of finish and existing grade at building corners and entrances, elevations of curbs and streets, and invert elevations of main sewer and direction of flow.
  5. Utilities servicing the property, or distance to point of connection and utility lead-ins of service connections; yard lighting; lawn hydrants and lawn sprinkler systems with the pipe sizes and controls; drains; and fire hydrants.
  6. Retaining and garden walls, fences, guard rails, garages and accessory structures, with dimensions.
  7. Existing trees and other natural features and whether to be removed or preserved.
- E. Grading and drainage plan at a scale not less than 1"= 40' - 0" when essential information cannot be clearly shown entirely on the plot plan.
1. Grade elevations at all building corners and at entrances, walks, drives, parking areas, terraces, yards, walls and steps, and first floor elevations. Existing and proposed grading contours at appropriate intervals.

- a. Yard and roof drainage with controlling grades and dimensions of drainage lines, culverts, catch basins, drainage inlets, gutters, curbs, drainage disposals, and any existing facilities.
- F. Planting plan at a scale not less than 1"= 20' - 0" indicating:
1. Outline of buildings and other improvements with physical features of the site to establish the location and relationship of planting and landscape construction.
  2. Distribution of plant material, location, quantity and key number of each general species in each group; outline of planting beds, primary lawn areas, secondary lawn areas and existing trees to be preserved or transplanted.
  3. List of plant material using English and Latin names, key number for each variety for reference to plan, and the size, quality or other description.
- G. Basement plans for each building type at a scale not less than 1/8"= 1' - 0." (Foundation plans when there are no basements.)
1. Dimensions and names indicating use of spaces, with the layout of permanent equipment.
  2. Location of structural elements with dimensions or notes as to: thickness and size; windows; vents; areaways; doors; lights and switches; drains; sumps; etc. Unless there is a separate foundation plan, show locations and size of footings, piling and other substructure work.
  3. Large-scale drawings or details of spaces not clearly shown.
- H. Floor plans:
1. Unit floor plans at a scale not less than 1/4"= 1' - 0" for each basic type living unit and any major variation. Separate unit plans are not required when the general floor plans are provided at 1/4-inch scale and contain all essential information.
    - a. Partitions to scale; rooms, closets and hall dimensions; over-all dimensions; window locations and type designations referring to schedule showing design, thickness, and size; dimensioned stair locations, runs and width, landings and handrails.
    - b. Plumbing fixtures; soil and vent stacks; kitchen cabinets and equipment; electric lights; switches, receptacles, and special power outlets; closet shelving and clothes rods; radiators or other heating devices, chimneys, and all other such items.

- c. Location of structural elements such as columns, lintels, joists, beams, girders, and bearing partitions. Show sizes, spacing and direction of members. Separate structural drawings are required where the structural information would obscure other information.
    - d. All conditions where units are to join other units; end-unit conditions.
    - e. Identification of living unit types by a number or letter.
  2. General floor plans at a scale not less than  $1/8'' = 1' - 0''$ .
    - a. Dimensional relation of living and building units with over-all dimensions of building units and buildings, partition arrangement and fenestration of end units, units at corners and units at offsets; other partitions as necessary to show variations from the typical unit plans and relation of rooms in adjacent living units, wall separating building units, and their material and thickness.
    - b. Buildings and those units identified by numbers or letters.
- I. Roof plans at a scale not less than  $1/8'' = 1' - 0''$ .
  1. Relation of intersection of the various building unit roofs; direction of slopes; parapets, chimneys, vents, and other projections; downspout locations and sizes.
  2. Omit where the essential information can be shown clearly on the plot plan or other drawings.
- J. Elevations:
  1. General elevations at a scale not less than  $1/8'' = 1' - 0''$ . Exterior design of all sides of buildings with existing and proposed grades at buildings, floor lines and elevations, floor height dimensions, roofs, attic vents, parapets, cornices, downspouts, openings, material notes, and other essential features.
  2. Typical elevations at a scale not less than  $1/4'' = 1' - 0''$  to show portions of facade with a special exterior design. Show materials, jointing, special features, windows, doorways, cornices, parapets, and details.
- K. Sections:
  1. Outline sections - scale not less than  $1/4'' = 1' - 0''$ . Show various height conditions, cross sectional characteristics, and floor level relations, when other drawing information is not adequate.

2. Detail sections - scale not less than 3/8"=1' - 0". Show each type of exterior wall and bearing wall or partition, from footings to roof.
  3. Exterior wall sections - scale not less than 3/8"=1' - 0". Show complete construction of walls with thickness at various stories, floors, furring, waterproofing, ceilings, roofs, including pitch and flashings, room heights, anchorage and bearings, cornice and gutter, insulation, vapor barrier, foundation walls and footings, conditions at various basement depths, basement floors or access space, roof space, attic and foundation vents.
- L. Details at a scale not less than 3/8"=1' - 0". Provide the following except where such features do not occur:
1. Front and rear entrances, plan of each with elevations and sections.
  2. Stair plans and sections showing stringers, treads, risers, newels, balusters, handrails, rise, run, and headroom.
  3. Kitchen cabinet plans, elevations and sections.
  4. Bathroom plans with elevations showing accessories and cabinets.
  5. Entrance lobbies.
  6. Platforms and areaways.
  7. Special exterior and interior details, such as bay windows, dormers, cupolas, vents, fireplaces, and built-in furniture.
- M. Schedules:
1. Door schedules - size, thickness, material and design of each door, with plan identification. Fire doors, show rating.
  2. Window schedule - size, thickness, materials and design of each window, with plan identification.
  3. Finish schedule - material and type finish of floors, base or wainscot (with height), walls, ceilings and trim for various rooms or spaces.
- N. Structural: Drawings and details as appropriate, with complete structural information, must be provided when such information cannot be shown on general drawings without obscuring other information.



- O. Mechanical: Heating, cooling, plumbing and electrical layouts on separate drawings unless the systems are simple enough to be shown on other drawings. Include all pertinent design data. Show special mechanical installations separately.
1. Heating drawings for each system (information in specification should not be on drawings).
    - a. Location and size of boilers, furnaces, or heaters; the make, model number or type and net output of each.
    - b. Layout, location, and sizes of supply and return piping, ducts, risers, and branches, and insulation locations.
    - c. Location, sizes and output in BTU of radiators, registers, grille and panel surfaces, valves, vents, traps, dampers and other accessories; make, model number or type of each.
    - d. Make, model number, and firing rate of all firing equipment, and similar detailed data on other components of each system, such as, controls, pumps, blowers, and filters.
    - e. Location, type, manufacturer's name, and model number of domestic water heating and related equipment including: storage, arrangement and sizes of connecting piping; make and model number and other pertinent information for control equipment and safety devices.
    - f. Design data for the system, including outside design temperature, boiler operating temperature, BTU output, pressure or temperature drops, air temperatures at registers, pump or fan capacities, volumes, and velocities, heat loss of each building and total calculated heat load connected to each heating system; net output in BTU of each boiler and system.
    - g. Design data for each domestic hot water system and, when connected to a heating system, the additional heat load included in the total for the connected system.
  2. Plumbing drawings:
    - a. Horizontal sewer and drain systems with soil, waste, and vent stacks; branch wastes and vents; drains, cleanouts, traps, sump pumps, etc., connections to sewer, sizes of lines and stacks. Diagram of typical stack including soil, waste, and vents.
    - b. Cold water distribution system, size of mains and branches, location of hose bibs, valves and drains.
    - c. Hot water distribution system together with circulating lines and pumps, valves, sizes of mains and branches.

- d. Gas distribution system, size of mains and branches, meters, etc.
3. Electrical drawings:
- a. Service lines, primary distribution and secondary distribution, service characteristics and wire sizes.
  - b. Meter and panel locations and manner of mounting.
  - c. Interior distribution and wiring of typical units.
  - d. Lights, receptacles, switches, special purpose outlets, and connections to equipment if not on the architectural plans.
  - e. Yard and grounds lighting and lighting of all public and common spaces and controls.
  - f. Power riser diagram and switchboard schedule.
  - g. Fire detection and alarm system riser diagram and schedule.
  - h. Symbol list.
4. Air conditioning drawings:
- a. Locations, cooling capacity, and horsepower of compressor; cooling tower condensing units; and individual cooling units. Make, model number, and rating.
  - b. Layout of system including ducts, grilles, registers, diffusers, pipe sizes, and location of valves, vents, dampers and controls.
  - c. BTU load for each space, size and rating of equipment.
  - d. Design data for the system, including: CFM space requirements; blower ratings, type condenser cooling; inlet and outlet water temperature; and GPM water-flow rate.
  - e. Electric wiring layout, location of motors, fans, pumps, switches, and their load requirements.
- P. Any other drawings required by lender.

- Q. Appropriate general and supplementary conditions and Davis-Bacon wage rates (where applicable).
- R. Contract specifications: Use the CSI Master Format 2004 of the Construction Specifications Institute (CSI).
1. Describe all materials, equipment, and construction and include two, and preferably three, comparable products where practicable, or specify by performance characteristics.
  2. Include the latest edition of the “General Conditions of the Contract for Construction,” AIA Document A201.
  3. Fully describe all materials, including alternates, and do not use general references to HUD’s Minimum Property Standards. Do not include the words “or equal”.
  4. Divide into sections separately describing the work to be done by each trade essential to project completion. Consecutive page numbering is required for each trade category (Concrete, Masonry, Metals, etc.), but absolute consecutive numbering of the entire specification is optional, and would appear only in addition to the trade numbering. Include the following items:
    - a. A cover sheet: Must include Title of project, the lender project number, project location, and a signature block setting forth:

IDENTIFICATION

Architect (Print Name) by (Signature)  
Owner (Print Name) by (Signature and Title)  
Contractor (Print Name) by (Signature and Title)  
Lender (Print Name) by (Signature and Title)  
Bonding Co.(Print Name) by (Signature and Title)  
Date\_\_\_\_\_

- b. Index.
  - (1) Divisions with name.
    - (a) Trade, name and page number.
    - (b) Trade section, name and page number.
  - (2) Pages numbered consecutively

- c. Conditions.
  - (1) General Conditions of the Contract for Construction; AIA Document A201, latest edition.
  - (2) Supplementary Conditions of the Construction Contract, Form HUD-2554, latest edition.
  - (3) Architect's Supplementary Conditions, if any.
- d. Trade sections. Include:
  - (1) Complete description of all work to be performed. This will include scope of work, materials and workmanship.
  - (2) Necessary specific instructions for coordinating the work with other trades.
- e. Methods of Specifying.
  - (1) Performance. List required qualities of products and assemblies and end result.
  - (2) Reference Standards. Incorporate references to nationally recognized standards published by industry associations, testing organizations and government, such as American National Standards Institute (ANSI), Underwriters' Laboratories (UL), and Department of Commerce (DOC).
  - (3) Proprietary. List products and assemblies by manufacturer or brand name; and grade or model.
    - (a) Include at least two comparables.
    - (b) Use a single brand only if there is no comparable.
- f. Unacceptable.
  - (1) Use of the words "or equal".
  - (2) Reference to HUD or HUD publications, such as:
    - (a) Minimum Property Standards (MPS),
    - (b) Materials Bulleting (UM),
    - (c) Materials Releases (MR), and

(d) Structural Engineering Bulleting (SEB).

(3) Cash or lump sum allowances.

S. Offsite Drawings and Specifications.

1. Offsite improvements are those required to service the project but outside of the property boundary lines.
  - a. Include utilities, walks, curbs, gutters, streets, drainage structures, landscaping, and similar improvements beyond the property lines.
  - b. Do not include short extensions of utilities, walks, drives, drainage structures and similar improvements beyond the property lines which connect with those next to the property lines.
2. Offsite improvements may be included in the contract drawings and specifications but the extent must be clearly defined on the plot plan and in the specifications.
3. Complete, separate offsite drawings and specifications are preferred.

T. Utility Analysis. If required by the Hub Director, the mortgagor's Architect will prepare a utility analysis. For HUD energy efficiency standards see Appendix 5A, Paragraph O. For guidance on the life-cycle cost analysis, see 1999 ASHRAE Applications Handbook, 35.8, and NIST "Building Life-Cycle Cost" Program, Version 4.3 User's Guide and Reference Manual.

## Specification Guide

5F

The former sixteen division specifications are now replaced by the *CSI MasterFormat 2004*, Construction Specifications Institute.

[http://www.csinet.org/s\\_csi/docs/9400/9361.pdf](http://www.csinet.org/s_csi/docs/9400/9361.pdf)

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# HUD Architectural Review Report for Pre-Application Exhibits

5G

HUD Office Name \_\_\_\_\_  
Pre-Application Submission Date \_\_\_\_\_  
Project Name \_\_\_\_\_  
Project Location (City, State) \_\_\_\_\_, \_\_\_\_\_  
MAP Lender Name \_\_\_\_\_

## Summary of HUD Architectural Review

A. Architectural/Engineering exhibits (including Mortgagor's Architect's Basic Work Write-up for Substantial Rehabilitation projects)

If incomplete, specify:

B. Conformance to HUD Standards

If unacceptable, indicate reasons:

C. Site conditions:

1. New construction projects:

- a. Placement of residential building(s)
- b. Unusual site conditions

If unacceptable, indicate reasons:

2. Substantial rehabilitation projects:

- a. Mortgagor's Architect's Basic Work Write-up

If unacceptable, indicate reasons:

D. Residential building(s):

1. Lobby floor:

- a. Circulation
- b. Mortgagor's Architect's Basic Work Write-up (for substantial rehabilitation projects)

If unacceptable, indicate reasons:

2. Typical floor:

- a. Circulation
- b. Mortgagor's Architect's Basic Work Write-up (for substantial rehabilitation projects)
- c. Acceptability of design

If unacceptable, indicate reasons:

3. Typical apartment layout(s):

- a. Circulation

- b. Mortgagor’s Architect’s Basic Work Write-up (for substantial rehabilitation projects)
- c. Size and marketability (determined by appraiser)
- d. Acceptability of design

If unacceptable, indicate reasons:

- 4. Structural system (Include Mortgagor’s Architect’s Basic Work Write-up for substantial rehabilitation projects)

If unacceptable, indicate reasons:

- 5. Exterior finish (Include Mortgagor’s Architect’s Basic Work Write-up for exterior doors, windows and building finish for substantial rehabilitation projects)

If unacceptable, indicate reasons:

- 6. Rehabilitation of roof(s) (substantial rehabilitation projects)
  - a. Mortgagor’s Architect’s Basic Work Write-up

If unacceptable, indicate reasons:

I have reviewed the subject project and hereby make the following recommendation(s):

**Reviewer:**

Name of Reviewer \_\_\_\_\_  
Signature and Date of Review \_\_\_\_\_ Date \_\_\_\_\_

**Concurrence:**

Name of Team Leader \_\_\_\_\_  
Signature and Date of Concurrence \_\_\_\_\_ Date \_\_\_\_\_



**HUD Architectural Review of Lender's Architectural Analyst's Report**

**for Firm Exhibits - New Construction & Substantial Rehabilitation**

**5G.  
1**

HUD Office Name \_\_\_\_\_

Firm Commitment Submission Date \_\_\_\_\_

Project Name \_\_\_\_\_

Project Location (City,State) \_\_\_\_\_ , \_\_\_\_\_

MAP Lender Name \_\_\_\_\_

**Summary of HUD Architectural Review**

A. Firm Commitment deliverables:

If incomplete, specify:

B. Lender's Architectural Analyst's Review Report:

1. Site design and conditions:

a. New construction:

- (1) Placement of buildings and parking
- (2) Erosion containment and drainage

b. Substantial Rehabilitation: Work Write-up regarding:

- (1) Site utilities
- (2) Roads, walks, parking
- (3) Site improvements
- (4) Erosion containment and drainage

c. Accessibility for persons with disabilities (For Substantial Rehabilitation projects only if required by program or local code):

- (1) From street to residential and non-residential building(s)
- (2) From parking lot(s) to residential and non-residential building(s)
- (3) Throughout site
- (4) Any violation of Fair Housing Act requirements for Substantial Rehabilitation projects constructed after March 13, 1991.

If unacceptable, indicate reasons:

2. Building design and conditions (include Work Write-up for Substantial Rehabilitation):

a. Fire safety

b. Accessibility for persons with disabilities - residential and non-residential structures for common use (For Substantial Rehabilitation projects only if required by program or local code):

- (1) Circulation and community spaces
- (2) Offices and other public spaces
- (3) Typical residential units

If unacceptable, indicate reasons:

C. Review of A/E portion of completed Form HUD- for accuracy with respect to A/E exhibits (Include Detail Work Write-up for Substantial Rehabilitation projects):

If unacceptable, indicate reasons:

D. Review of A/E exhibits for consistency with Lender's Review Report (Include Detail Work Write-up for Substantial Rehabilitation projects):

1. Sitework (and site elevations for new construction):

If unacceptable, indicate reasons:

2. Foundation design and placement (new construction):

If unacceptable, indicate reasons:

3. Residential and non-residential structures:

If unacceptable, indicate reasons:

4. Accessibility for persons with disabilities (For Substantial Rehabilitation projects only if required by program or local code):

a. From street and parking lots to residential and non-residential buildings

b. Throughout site

c. Throughout residential and common non-residential structures and spaces.

If unacceptable, indicate reasons:

5. Design features unusual for the particular structure type and/or system.

If unacceptable, indicate reasons:

E. Other A/E exhibits (indicate):

If unacceptable, indicate reasons:

I have reviewed the subject project and hereby make the following recommendation(s):

**Reviewer:**

Name of Reviewer \_\_\_\_\_

Signature and Date of Review \_\_\_\_\_ Date \_\_\_\_\_

**Concurrence:**

Name of Team Leader \_\_\_\_\_

Signature and Date of Concurrence \_\_\_\_\_ Date \_\_\_\_\_

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**HUD Architectural Review of Lender's  
Architectural Analyst's Report for Firm Exhibits -  
Section 223(f)**

**5G.2**

HUD Office Name \_\_\_\_\_  
Firm Commitment Submission Date \_\_\_\_\_

Project Name \_\_\_\_\_  
Project Location (City,State) \_\_\_\_\_ , \_\_\_\_\_  
MAP Lender Name \_\_\_\_\_

NOTE: The following instructions apply to any housing receiving direct Federal assistance, such as Project-Based Section 8

**Uniform Federal Accessibility Standards (UFAS) Requirements:**

Although UFAS requirements technically apply only to new construction and alterations to existing buildings, the Department still requires addressing UFAS requirements on refinance transactions. This is true even though most repairs under Section 223(f) would not meet the definition of "alteration" as indicated in UFAS.

**Summary of HUD Architectural Review**

**A. Firm Commitment deliverables:**

1. Lender's Project Capital Needs Assessment and Replacement Reserve Escrow (PCNA) Report
2. Lender's review of PCNA Report
3. Completed Form HUD-92264 with signatures

If incomplete, specify:

**B. Lender's Review of PCNA Report:**

1. Physical Inspection Report (PIR):
  - a. Condition of project
  - b. Project's:
    - (1) Immediate repair needs
    - (2) Expected repair, replacement, and major maintenance needs

If unacceptable, indicate reasons:

2. Statement of Resources and Needs
  - a. Lender review/adjustment to PIR
  - b. Critical repairs and non-critical repairs to be completed before endorsement
  - c. Non-critical repairs to be completed after endorsement

If unacceptable, indicate reasons:

3. Accessibility for persons with disabilities (for projects constructed after March 13, 1991):
  - a. From streets and parking lots to residential and non-residential building(s)
  - b. Throughout site
  - c. Residential and non-residential structures for common use:
    - (1) Circulation and community spaces
    - (2) Offices and other public spaces
    - (3) Typical residential units
  - d. Any violation of Fair Housing Act requirements for projects constructed after March 13, 1991.

If unacceptable, indicate reasons:

- C. Review of A/E portion of completed Form HUD-92264 for accuracy with respect to Lender's PCNA Report:

If unacceptable, indicate reasons:

- D. Review of A/E exhibits for consistency with Lender's PCNA Report:
  1. Critical repairs

If unacceptable, indicate reasons:

2. Accessibility for persons with disabilities (for projects constructed after March 13, 1991):
  - a. From street and parking lots to residential and non-residential buildings
  - b. Throughout site
  - c. Throughout residential and common non-residential structures and spaces.

If unacceptable, indicate reasons:

I have reviewed the subject project and hereby make the following recommendation(s):

**Reviewer:**

Name of Reviewer \_\_\_\_\_

Signature and Date of Review \_\_\_\_\_ Date \_\_\_\_\_

**Concurrence:**

Name of Team Leader \_\_\_\_\_

Signature and Date of Concurrence \_\_\_\_\_ Date \_\_\_\_\_

**I. WHAT IS A PROJECT CAPITAL NEEDS ASSESSMENT?**

A Project Capital Needs Assessment (PCNA) defines what a Project's immediate and long term capital needs are and provides a plan for financing the capital needs. It consists of several components:

- The Physical Inspection Report;
- Lender Review of Physical Inspection Report;
- Lender Computation of Replacement Reserve Account; and
- Lender Statement of Resources and Needs.

These are described separately below as well as HUD's Review.

**II. THE PHYSICAL INSPECTION REPORT (PIR)****A. The Lender hires a "Needs Assessor" to prepare a PIR on the Project.**

1. A Needs Assessor is any firm or individuals, including the Lender's architectural and cost analysts, qualified by training and experience to evaluate building systems and site conditions and to provide cost estimates.
2. The Needs Assessor and its Subcontractors participating in the preparation of the PIR may not have an Identity of Interest with the Mortgagor, sponsor, and managing agent (if any) of the proposed Project. An arms-length relationship is essential.

**B. The PIR describes the current and future physical needs of the proposed multifamily Project. The PIR supplies the Lender and HUD with detailed information regarding:**

1. The condition of the Project.
2. An identification of the Project's:
  - a. Immediate critical and non-critical repair needs;
  - b. Expected component replacement and major maintenance needs;
  - c. Compliance with accessibility laws for persons with disabilities (for projects built after March 13, 1991).
3. The total estimated cost, adjusted for inflation, for all repair, component replacement and major maintenance items.

**C. PIR Format:**

1. Cover Sheet must include:
  - a. The Project name, number and location.
  - b. Name, address, and telephone number of the preparer(s).
2. Table of Contents.
3. Project description.
4. Project Inspection Report(s) indicating existing conditions.

NOTE: For multiple building projects, the Project Inspection Report must be itemized for each building. This is necessary to allow HUD to conduct backup inspections.

5. Repair Work Write-Up indicating scope of repairs:

NOTE: For multiple building projects, the Repair Work Write-Up must be itemized for each building. This is necessary to permit the HUD inspector to conduct efficient and accurate inspections of the completed repair work.

- a. “Critical” (health and safety) repairs to be completed by initial/final endorsement of the mortgage;
- b. “Non-critical” repairs which may be deferred (subject to approval by the Hub or HUD Program Center Office) until after endorsement, but which must be completed within 12 months thereafter.
- c. Fair Housing Act compliance-related modifications and retrofits.

This applies to all properties available for first occupancy after March 13, 1991, that does not fully comply with the Fair Housing Act design and construction standards. These properties must be brought into compliance with the Fair Housing Act as a condition of insurance. This includes the scope of all modifications/retrofits needed to ensure that a property fully meets the design and construction requirements of the Fair Housing Act.

- d. Owner-proposed repairs and/or improvements. Such repairs and/or improvements must enhance the competitive value of the property in the marketplace to be acceptable. The cost of such repairs and/or improvements must not propel the total repair and improvement costs into the threshold of substantial rehabilitation. Examples are improvements to exterior and interior finishes and small additions to the structure, such as a covered entry or a small public sunroom. Such repairs and/or improvements shall be categorized as Non-Critical repairs.

6. Component replacement and major maintenance schedule(s). Prepare all schedules according to the following format:

- a. “Near Term” from the initial/final endorsement through the tenth year of the mortgage.
- b. “Long Term” from the eleventh through the twentieth year of the mortgage.
- c. “Remainder” from the twenty-first year until about two years beyond the maturity date of the Note and Mortgage.

7. Cost Estimate(s):

- a. The cost of “critical” (health and safety) and “non-critical” repairs.
- b. The cost of all modifications/retrofits needed to ensure that a property fully meets the design and construction requirements of the Fair Housing Act.
  1. Hard costs. Include the cost of all construction items for “critical” and “non-critical” repairs, and Fair Housing Act compliance-related modifications/retrofits. When estimating the cost of construction items that will require temporary relocation of tenants, the Needs Assessor must develop a work schedule for these items that will efficiently utilize labor crews and provide for smooth turnover of temporary accommodations for each tenant or tenants in turn.

2. Relocation costs. In the process of developing a scope of work for repairs and modifications/retrofits, the Needs Assessor must consider whether the proposed work will require the temporary relocation of residents while certain work items are being done. If temporary relocation is determined to be necessary, the Needs Assessor, using the work schedule, must estimate a relocation schedule and an overall relocation time, and develop a separate cost estimate for relocation to appropriate housing. The estimated relocation costs should be listed separately from the construction repair and modification/retrofit costs when developing the cost estimate for “critical” and “non-critical” repairs and Fair Housing Act compliance-related modifications/retrofits.
  - c. Owner-proposed improvements. The cost of such improvements must not propel the total repair and improvement costs into the threshold of substantial rehabilitation.
  - d. The Initial Deposit to the Reserve for Replacement Account and the Annual Deposit to the Reserve for Replacement Account based on the cost of “Near Term” replacement and major maintenance needs of the Project.
  - e. The cost of “Long Term” replacement and major maintenance needs of the Project.
  - f. The cost of “Remaining Term” replacement and major maintenance needs of the Project.
8. Engineering and Specialty Reports.
  9. Standard size color photographs necessary to illustrate the conditions discussed in the report and a narrative describing each photograph.
- D. Conducting the Inspections.
1. The Needs Assessor may find it desirable to subcontract with other entities or persons for portions of the Project’s physical inspection. For example, the Needs Assessor may wish to engage the services of a roofing subcontractor to furnish a roof inspection, a paving subcontractor to inspect the parking lots and sidewalks, a plumbing subcontractor to inspect the plumbing system, etc.
  2. The Department is leaving the working details of these arrangements to the Lender and the Needs Assessor hired by the Lender.
  3. The Needs Assessor must inspect enough dwelling units to be able to formulate an accurate estimate of repair, replacement and major maintenance needs.
    - a. In some cases, depending on the size and condition of the Project, all or nearly all units will need to be inspected by the Needs Assessor.
    - b. In other cases, a lesser number of units may need to be inspected by the Needs Assessor.
    - c. The Department expects that appropriate statistical sampling methods and techniques will be used by the Needs Assessors to reach their conclusions about repair needs.
- E. Estimating Repair, Replacement and Major Maintenance Needs Costs.

Regardless of the inspection procedures used, the final cost estimates of repairs, replacements and major maintenance items should be as accurate as practical in terms of present dollar values. The present dollar values will then be trended for future scheduled work using a reasonable inflation factor supplied by the Lender.

1. The Needs Assessor should assume that the Project will be in a better than “Satisfactory” condition when the Project’s Note and Mortgage is paid off.
    - a. This assumption is made explicit only for the purpose of standardizing or normalizing the data that will be furnished by the Department.
    - b. Assume the Project to be in such a financial and physical condition that no unfunded major capital repairs would be anticipated for a period ending about two years after the maturity date of the Note. In other words, the PIR should not anticipate that the buildings would be run down or in need of the unfunded major repairs as of the maturity dates of their Notes and Mortgages.
  2. The Department realizes that these long term estimates are projections that are subject to change.
- F. Projections of Repairs, Replacements and Major Maintenance Costs. The Needs Assessor itemizes repairs, replacements, and major maintenance needs and breaks out the estimated dates by year that repairs, replacements and major maintenance needs will be needed according to the following format:
1. “Critical” [health and safety] repairs (to be completed before initial/final endorsement of the mortgage), “non-critical” repairs (which may be completed after initial/final endorsement of the mortgage), and Fair Housing Act compliance-related modifications and retrofits. In addition to all other Critical Repairs, the following items must be addressed:
    - a. Accessibility for persons with disabilities (for properties constructed after March 13, 1991). The report must state whether the project appears to be in compliance with the Fair Housing Act and any other applicable accessibility laws. All violations discovered must be reported in detail. Properties with Fair Housing Act violations must be modified/retrofitted. See II.C.7.
    - b. Abatement of lead-based paint (LBP) and asbestos. This applies to all existing properties constructed prior to 1978 which have not been demonstrated to be LBP- and/or asbestos-free. For projects that contain LBP and/or asbestos, the Needs Assessor is responsible for engaging the services of a qualified LBP and/or asbestos abatement contractor(s) to prepare a scope of work for the abatement of LBP and/or asbestos. Where the scope of abatement work consists of permanent enclosure or encapsulation, but not removal, of LBP and/or asbestos, the qualified abatement contractor(s) must also prepare, separate from the scope of abatement work, an Operations and Maintenance (O&M) Plan for LBP and/or asbestos. The O&M Plan contains ongoing maintenance activities for LBP and/or asbestos, to be followed for as long as the LBP and/or asbestos remains in place. All abatement work and ongoing maintenance activities for LBP and/or asbestos shall conform to the following Regulatory requirements:
      - (1) For LBP, 24 CFR Part 35;
      - (2) For asbestos, 40 CFR Part 61.



For Lender certification requirements, see Section III.C below.

- c. Items of deferred maintenance: Defined as “Postponed, infrequent or inadequate maintenance practices on a building or property, often resulting in physical depreciation and loss of value.” Conditions that should have been prevented or repaired as part of a previous year’s (or multiple years’) project maintenance program are considered deferred maintenance. Items that coincidentally become necessary at the time of underwriting are not considered deferred maintenance.
    - (1) Where such items bring about a condition(s) that requires a Critical Repair(s), all such repairs must be completed before initial/final endorsement.
    - (2) Where the condition(s) requires Non-Critical Repairs, if the project is being processed as:
      - (a) A refinance transaction, the items must be completed before initial/final endorsement of the mortgage.
      - (b) A purchase transaction, the items may be included in the non-critical repairs list to be completed after initial/final endorsement.
  - d. Seismic repairs: Seismic repairs under the 223(f) program should be treated as non-critical unless there are circumstances that warrant otherwise.
2. Replacements and Major Maintenance Schedule:
- The Needs Assessor will prepare a schedule to estimate the remaining useful life of all short-lived building components and equipment included in the Project. The Remaining Useful Life estimate must come from a nationally recognized source such as "Marshall and Swift." . The schedule will be itemized according to the three main categories defined above:
- a. “Near Term”,
  - b. “Long Term”, and
  - c. “Remainder”.

### III. LENDER REVIEW OF THE PHYSICAL INSPECTION REPORT

The Lender reviews the PIR and makes any appropriate adjustments as indicated below.

A. The Lender’s review is to determine whether:

1. The PIR covers the appropriate mortgage term;
2. All items requiring action during the mortgage term are included in the PIR;
3. An adequate sampling of units was made, and management reported replacements have been verified and considered;
4. Appropriate ages are given for individual elements and whether any deviations from the expected useful lives are adequately justified; and
5. The PIR contains any material mathematical errors.

B. Some items identified in the PIR may be part of the current operating budget for the Project.

1. If these items (such as replacement of garbage disposals or smoke detectors) are included in the normal operating budget for the Project, funds for their maintenance or

- replacement should not be included in the Replacement Reserve.
2. The Lender should only remove such items from the Needs Assessor's estimate if there is clear evidence that the operating budget for the Project includes these items and the items are of relatively nominal cost.
  3. The Lender should also ensure, in the review of prior operating statements for the Project, that any "capital" items deleted from the maintenance line items are addressed in the calculation of reserves if they are likely to recur during the term covered by the PCNA.
- C. The Lender should review the PIR to assure that all items indicated below are appropriately listed, and the Needs Assessor's cost estimates and projected dates of completion are reasonable.
1. Review all repair, replacement or major maintenance items that could potentially impact the health or safety of tenants (e.g., installation of exit lighting at a basement exit), or that violate applicable codes; these should be listed as Critical Repairs to be completed before initial/final endorsement.
    - a. For projects that contain Lead Based Paint (LBP) and/or asbestos where the LBP and/or asbestos abatement does not involve removal:
      - (1) The Lender must certify that the Needs Assessor has prepared an Operations and Maintenance (O&M) Plan and that the Plan will remain in effect for the life of the mortgage.
      - (2) A certification from the Lender to this effect is a mandatory condition for Firm Commitment and a required exhibit at Initial/Final Closing.
  2. Review all other repair, replacement or major maintenance items not included in the operating budget. Included in this category are any items that are necessary to:
    - a. Correct any deferred maintenance;
    - b. Prevent physical deterioration of the Project; and
    - c. Correct conditions that decrease the marketability of the Project (e.g., items of functional obsolescence).
  3. The Lender must determine the dates for the completion of all work.
    - a. These completion dates must be appropriate for the significance of the work being done.
    - b. However, in all events, the critical repairs must be completed before, and non-critical repairs no later than 12 months after, initial/final endorsement.
- D. The Lender should review the PIR to ascertain that the number of years over which replacements and major maintenance items are expected to occur represents a reasonable conclusion and that the Needs Assessor's cost estimate is reasonable and adequate to address the Project's needs. The Lender should ensure that the Needs Assessor has not:
1. Estimated costs based on the worst case (e.g., replacement of all aging refrigerators in a single year).
  2. Been unduly optimistic in determining the schedule or costs (e.g., replacement of only a small percentage of refrigerators per year such that replacements exceed life expectancy or are stretched beyond the term of the Mortgage without justification).

E. Completion of Repairs:

The Lender is expected to exercise independent judgment when recommending which items must be completed before initial/final endorsement and which items are non-critical items that may be completed after initial/final endorsement.

1. At initial/final endorsement of the mortgage, the Project shall not have any conditions that threaten the health or safety of tenants.
2. Non-critical repairs may be completed after initial/final endorsement (with concurrence of the Department).

IV. COMPUTATION OF THE REPLACEMENT RESERVE ACCOUNT BY THE LENDER.

The Needs Assessor prepares an analysis of the remaining useful life of short-lived building components and systems, and other Project features. Lender uses this to evaluate the adequacy of the replacement reserve account and any necessary initial deposit to that account.

A. Ineligible items.

1. Items generally considered routine maintenance shall not be included in the calculation of the Replacement Reserve Account.
2. Items involving any repairs, rehabilitation or construction shall **not** be included in the Replacement Reserve Account.

B. Remaining useful life:

1. To derive the remaining useful life of an item, subtract the actual age of the item from the estimated economic life of the item.
2. The schedule shall provide a description of the item, actual age and estimated economic life of the item.

C. Reserve for Replacement Account for Near Term items:

The Lender must, in the Statement of Resources and Needs, determine and recommend to HUD the Total near Term Reserve for Replacement Account for the Project.

To provide for anticipated Near Term replacements and major maintenance needs, prepare a 100 percent replacement cost estimate (less salvage) for each item in the group whose estimated remaining useful life is expected to expire in the first 10 years.

1. Include the sum of the costs of labor/installation, materials, and appropriate fees, when applicable. Using a cost adjustment factor for inflation, project the cost of each item from the date (month and year) of the estimate to the expected expiration date. The sum of the estimated cost is the Total Near Term Reserve for Replacement Account, which includes the initial deposit and the annual deposits required from the Mortgagor.
  - a. The Total Near Term Reserve for Replacement Account must be at least equal to the total estimated cost (adjusted for inflation) of completing the items shown in the Near Term replacement and major maintenance needs schedule of the Project.
  - b. The total deposits by the Mortgagor in the Near Term Reserve for Replacement

Account should equal the Total Near Term Reserve for Replacement amount.

- c. If the Mortgagor is required to make an initial deposit into the Reserve for Replacement, the Lender may subtract the amount of the initial deposit from the Total Near Term Reserve for Replacement amount in determining the amount of the monthly deposits to the Reserve for Replacements to be made by the Mortgagor.
  2. Davis-Bacon Requirements do not apply and, therefore, the costs of labor shall not include the provisions of Davis-Bacon.
  3. Identify the location of items, if required for clarification.
  4. The Total Near Term Reserve for Replacement Account must be at least equal to \$150 per unit, per annum.
- D. Evaluation of the Reserve Account for Long Term and Remainder items:
1. An additional evaluation must be made by the Lender every ten years to determine whether annual deposits to the reserve account are sufficient (See VI.C).
  2. The Lender must address how later adjustments in the annual deposit will be made and the financial risk to HUD.
- E. Funding Schedules for Near Term, Long Term, and Remainder items in the Reserve for Replacement Account.

The Lender's Statement of Resources and Needs must set forth a funding schedule for the entire mortgage term, and demonstrate that the funding schedule shows that money will be there yearly to meet the physical needs of the Project and the overall underwriting of the loan.

The Lender recommends to HUD the appropriate funding structure for Near Term, Long Term, and Remainder items in the Reserve for Replacement, based on the timing of the expected replacements, and/or whether the Mortgagor will receive cash upon closing the Mortgage. If HUD accepts the Lender's recommendation, the funding schedule (along with the requirement for a re-evaluation every ten years) will be inserted into the Regulatory Agreement by HUD.

The following are examples of alternative funding schedules:

1. No initial deposit and large monthly deposits because the repairs and replacements are concentrated in the later years of the Mortgage term.
2. Monthly deposits that increase over the term of the Mortgage (e.g., payments which increase 5 percent per year over the term of the Mortgage) to match the estimated timing of repairs and replacements may be appropriate in some instances.

**Note: If there is no initial deposit, a disproportionately small monthly deposit in the first year, designed to reduce the impact on underwriting, is unacceptable.**

## V. STATEMENT OF RESOURCES AND NEEDS.

The Lender's statement must:

- A. Address the quality of the PIR; and

- B. Discuss any adjustment made to the PIR by the Lender.
- C. Identify the replacement and major maintenance items for which the owner may be reimbursed from the Replacement Reserve.

**Note:** HUD will only disburse funds for those replacement or major maintenance items specifically listed in the Statement.

- D. Recommend to HUD the dollar amount of:
  - 1. The cost of repairs to be completed before initial/final endorsement of the mortgage.
  - 2. The cost of and the amount to escrow for, non-critical repairs to be completed within one year of date of initial/final endorsement of the mortgage.
  - 3. Initial deposit, if any, and the amount of the monthly deposits and the funding schedule of such deposits into the Replacement Reserve based on “Near Term” projections of replacement and major maintenance costs.
- E. Describe:
  - 1. Current financial or other assistance needs and resources of the Project.
  - 2. Future financial or other assistance needs and resources. Specifically how “Long Term” and “Remainder” projected replacement and major maintenance costs will be covered.

## VI. HUD REVIEW.

- A. The HUD Office should:
  - 1. Review the PCNA for completeness and adequacy. The review should include a careful examination of the Department’s long-term risk associated with non-traditional calculation of annual deposits to the replacement reserve.
  - 2. Discuss all weaknesses or inadequacies of the PCNA with the Lender in an effort to reach consensus about the needs and resources of the project. The results of these discussions and agreements reached must be incorporated into the firm commitment and loan closing documents.
- B. If the HUD Office determines that a PCNA is substantially incomplete or inadequate:
  - 1. Notify the Lender of the portion(s) of the PCNA that require completion or revision and require the Lender to submit an amended PCNA within thirty (30) days from receipt of the Field Office’s notification.
  - 2. If HUD and the Lender fail to reach closure, HUD will impose its own methodology for computation of annual deposit to the replacement reserve.
- C. The Lender will recommend and HUD may set up the Total Near Term Replacement Reserve Account.
  - 1. HUD will reevaluate the Project’s Replacement Reserve needs and, if appropriate, adjust the Mortgagor’s required deposits to the Replacement Reserve every ten years.
    - a. To assist in completing this evaluation, the **Lender** must obtain a new PCNA every 10 years which covers the next ten years [or the remaining term of the Mortgage] **plus two years.** Projects must obtain a new PCNA every 10 years with the reserve

for replacement deposit adjusted based on the results of the PCNA. HUD Asset Management staff must review and concur or non-concur on the deposit requirements. Development staff will consider this determination and make a final determination of the reserve requirements. The reserve schedule and deposit requirements required by the Firm Commitment will be applicable during the first ten year term of the mortgage.

- b. Replacement Reserve funds may be used to pay for the additional PCNAs.
2. The Hub or Program Center at the time of initial/final endorsement will have a rider signed by the Lender and HUD and attached to the Lender's Certificate which will require the Lender to comply with the requirements of C.1 above.

HUD Project Name

HUD Project Number

Mortgagor

I, the undersigned Design Architect, to the best of my knowledge, belief and professional judgment, hereby certify that the proposed construction in accordance with the working drawings and specifications prepared for the subject Project (a) is permissible under the applicable zoning, building, housing, and other codes, ordinances and/or regulations, as modified by any waivers obtained from appropriate officials, and (b) complies with the HUD Minimum Property Standards, applicable accessibility laws for persons with disabilities, and other applicable HUD Standards, guidelines and criteria.

Waiver of codes, etc., were obtained as listed in attachment (identify):

Signed

Date

Architect's Name

Business Address

License Number

Warning: Title 18 U.S.C. 1001, provides in part that whoever knowingly and willfully makes or uses a document containing any false, fictitious, or fraudulent statement or entry, in any manner in the jurisdiction of any department or agency of the United States, shall be fined not more than \$10,000 or imprisoned not more than five years or both.

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# Certificate of Professional Liability Insurance

51.1

HUD Project Name \_\_\_\_\_

HUD Project Number \_\_\_\_\_

Mortgagor \_\_\_\_\_

To: Mortgagee and Secretary of Housing and Urban Development

I certify that \_\_\_\_\_ (Name of Architect/  
Engineer/ Design Professional) is insured in the amount of  
\$ \_\_\_\_\_

under \_\_\_\_\_ (Name of Insurer)  
Policy No. \_\_\_\_\_ of Architect and/or Engineers Professional Liability  
Insurance.

This Policy shall be maintained up through acceptance of the 12-month warrantee inspection for  
the subject HUD Project.

Signed \_\_\_\_\_  
\_\_\_\_\_ (Title)

\_\_\_\_\_ Date

Insurer's Name \_\_\_\_\_

Business Address \_\_\_\_\_  
\_\_\_\_\_

Warning: Title 18 U.S.C. 1001, provides in part that whoever knowingly and willfully makes or  
uses a document containing any false, fictitious, or fraudulent statement or entry, in any manner in  
the jurisdiction of any department or agency of the United States, shall be fined not more than  
\$10,000 or imprisoned not more than five years or both.



## Appendix 6

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# Cost Analysis

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	Cost Processing
	<b>Title</b>
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6A.2	HUD Cost Review of Lender’s Cost Analyst’s Report for Firm Exhibits – New Construction and Substantial Rehabilitation
6A.3	HUD Cost Review of Lender’s Report for Firm Exhibits - Section 223(f)
6B	Amendment to the Construction Contract to Identify Identities of Interest Between Owner/Contractor/Subcontractors/Architect
6C	Rehabilitation Cost Not Attributable to Residential Use
6D	Examples of Calculating Cost Not Attributable for New Construction and Substantial Rehabilitation

## HUD Cost Review Report for Pre-Application Exhibits

6A.1

HUD Office Name \_\_\_\_\_  
Pre-Application Submission Date \_\_\_\_\_  
Project Name \_\_\_\_\_  
Project Location (City, State) \_\_\_\_\_  
MAP Lender Name \_\_\_\_\_

### Summary of HUD Cost Review

#### A. Cost exhibits:

1. Mortgagor's Architect's sketch plans
2. Form HUD-92013  
If incomplete, specify:

#### B. For Substantial Rehabilitation projects, include the following:

1. Mortgagor's Architect's Basic Work Write-up
2. Mortgagor's summary cost estimate for substantial rehabilitation (based on Basic Work Writeup)  
If incomplete, specify:

#### C. HUD Cost Estimator determination of:

1. Structure type (from sketch plans):
2. Gross floor area (from sketch plans):
3. Estimated Total Structures cost (from cost data):
4. For Substantial Rehabilitation, indicate major trade item groups (if required), and subtotals:
5. Estimated Total Land Improvements cost (from cost data):
6. Estimated General Requirements (from cost data):
7. Estimated fee items (from cost data):
  - a. General Overhead
  - b. Builder's Profit
  - c. Architectural Fees
  - d. Bond Premium
  - e. Other Fees

#### D. Review of mortgagor's Form HUD-92013:

1. Percentage difference between mortgagor's Total Structures cost (Section G, Line 8) and HUD Cost Estimator's Total Structures cost:

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**Cost Processing**

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If unacceptable, document:

2. Percentage difference between mortgagor's Total Land Improvements cost (Section G, Line 3) and HUD Cost Estimator's Total Land Improvements cost:

If unacceptable, document:

3. Percentage difference between mortgagor's General Requirements and fees (Section G, Lines 10 through 19) and HUD Cost Estimator's General Requirements and fees:

If unacceptable, document:

I have reviewed the subject project and hereby make the following recommendation(s):

**Reviewer:**

Name of Reviewer \_\_\_\_\_  
Signature and Date of Review \_\_\_\_\_ Date \_\_\_\_\_

**Concurrence:**

Name of Team Leader \_\_\_\_\_  
Signature and Date of Concurrence \_\_\_\_\_ Date \_\_\_\_\_

**HUD Cost Review of Lender's Cost Analyst's Report for Firm Exhibits – New Construction and Substantial Rehabilitation**

**6A.2**

HUD Office Name \_\_\_\_\_  
Firm Commitment Submission Date \_\_\_\_\_

Project Name \_\_\_\_\_  
Project Location (City, State) \_\_\_\_\_  
MAP Lender Name \_\_\_\_\_

Summary of HUD Cost Review

A. Firm Commitment deliverables (Review for completeness only):

1. Mortgagor's:
  - a. Detailed plans and specifications
  - b. Detail Work Write-up (For substantial rehabilitation projects)If incomplete, specify:
  
2. Lender's Cost Analyst's Review Report:
  - a. Lender's detailed cost estimate
  - b. Comparison of Lender's and general contractor's cost estimates
  - c. Prior approval of Identity of Interest subcontracts
  - d. Property Insurance schedule
  - e. For substantial rehabilitation projects, include the Lender's estimate for Annual Deposit to the Replacement Reserve.If incomplete, specify:

3. Completed Forms with signatures:
  - a. HUD-92264
  - b. HUD-92326
  - c. HUD-92331-B
  - d. HUD-92329
  - e. HUD-2328If incomplete, specify:

4. Subcontracts for Identity of Interest subcontractors  
If incomplete, specify:

B. HUD Cost Review:

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1. Comparison of Lender's cost estimate and contractor's HUD-2328 with HUD cost data:
  - a. Total Structures
  - b. Total Land Improvements
  - c. General Requirements
  - d. Fee items
  - e. Cost Not Attributable itemsIf unacceptable, document:
  
2. Examination of Lender-contractor variance report (Form HUD-2331-B)  
If unacceptable, document:
  
3. Examination of:
  - a. Identity of Interest relationships
  - b. Applications for prior approval of Identity of Interest subcontractor overhead and profitIf unacceptable, document:
  
4. Examination of Property Insurance Schedule  
If unacceptable, document:  
  
If unacceptable, document:

I have reviewed the subject project and hereby make the following recommendation(s):

**Reviewer:**

Name of Reviewer \_\_\_\_\_  
Signature and Date of Review \_\_\_\_\_ Date \_\_\_\_\_

**Concurrence:**

Name of Team Leader \_\_\_\_\_  
Signature and Date of Concurrence \_\_\_\_\_ Date \_\_\_\_\_

**HUD Cost Review of Lender's Report for Firm Exhibits -  
Section 223(f)**

**6A.3**

HUD Office Name \_\_\_\_\_

Firm Commitment Submission Date \_\_\_\_\_

Project Name \_\_\_\_\_

Project Location (City, State) \_\_\_\_\_

MAP Lender Name \_\_\_\_\_

**Summary of HUD Cost Review**

**A. Firm Commitment deliverables:**

1. Lender's Project Capital Needs Assessment and Replacement Reserve Escrow (PCNA) Report
2. Completed Form HUD-92264 with signatures
3. Completed Form HUD-92329

If incomplete, specify:

**B. HUD Cost Review:**

1. Examination of Lender's PCNA Report:

- a. Critical repairs to be completed before endorsement
- b. Non-critical repairs to be completed after endorsement and estimated repair costs
- c. Expected repair replacement and major maintenance items over a specified period of time
- d. Initial Deposit to Replacement Reserve, if any
- e. Monthly Deposit to Replacement Reserve

If unacceptable, document:

2. Lender's Property Insurance Schedule

If unacceptable, document:

I have reviewed the subject project and hereby make the following recommendation(s):

HUD Office Name \_\_\_\_\_

Project Name \_\_\_\_\_

Project Location (City, State) \_\_\_\_\_

MAP Lender Name \_\_\_\_\_

**Amendment to the Construction Contract to Identify  
Identities of Interest Between  
Owner/Contractor/Subcontractors/Architect**

**6B**

Project Name \_\_\_\_\_ Project Number \_\_\_\_\_

1. Definition of terms used in this Amendment.
  - a. Architect. Architect administering the Construction Contract.
  - b. HUD. The U.S. Department of Housing and Urban Development.
  - c. Owner. The Mortgagor/Owner.
  - d. Subcontractor. Any Project subcontractor, materials supplier, equipment lessor, or industrialized housing manufacturer/supplier.
2. The undersigned hereby certify that all identities of interest known to exist between the Owner and the Contractor, and/or between the Owner and/or the Contractor and the Architect and/or any Project subcontractor are listed herein. The Owner and the Contractor shall each inform HUD in writing within 5 working days of its knowledge of any identity of interest that develops after execution of this Contract.

List all Identities of Interest:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3. An Identity of Interest is construed to exist where:
  - a. The Contractor, Architect and/or any subcontractor take any financial interest in the Project and/or Owner as part of the consideration to be paid.
  - b. The Contractor advances any funds to the Owner or Architect; or the Architect advances any funds to the Owner, contractor and/or any subcontractor; or any subcontractor advances any funds to the Owner, Contractor and/or Architect.
  - c. The Owner has any financial interest in the Contractor, Architect and/or any subcontractor; or the contractor has any financial interest in the Owner, Architect and/or any subcontractor; or the Architect has any financial interest in the Owner, Contractor and/or any subcontractor; or any subcontractor has any financial interest in the Owner, Contractor and/or Architect.
  - d. Any officer, director, stockholder or partner of the Owner has any financial interest in the Contractor, Architect and/or any subcontractor; or any officer, director, stockholder or partner of the Contractor, has any financial interest in the Owner, Architect and/or any subcontractor; or any officer, director, stockholder or partner of the Architect has any

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- financial interest in the Owner, Contractor and/or any subcontractor; or any officer, director, stockholder or partner of any subcontractor has any financial interest in the Owner, Contractor and/or Architect.
- e. Any officer, director, stockholder or partner of the Owner is also an officer, director, stockholder or partner of the Contractor, Architect and/or any subcontractor; or any officer, director, stockholder or partner of the Contractor is also an officer, director, stockholder or partner of the Owner, Architect and/or any subcontractor; or any officer, director stockholder or partner of the Architect is also an officer, director, stockholder or partner of the Owner, Contractor, and/or any subcontractor; or any officer, director, stockholder or partner of any subcontractor is also an officer, director, stockholder or partner of the Owner, Contractor and/or Architect.
  - f. The Owner, Contractor and/or any subcontractor, or any officer, director, stockholder or partner of such Owner, Contractor and/or subcontractor provides any of the required architectural services; or where the Owner, Contractor and/or any subcontractor, or any officer, director, stockholder or partner of such Owner, Contractor and/or subcontractor, while not directly providing an architectural service, acts as a consultant to the Architect.
  - g. Any family relationships between the officers, directors, stockholders or partners of the Owner and officers, directors, stockholders or partners of the Contractor, Architect and/or any subcontractor; or between the officers, directors, stockholders or partners of the Contractor and officers, directors, stockholders or partners of the Owner, Architect and/or any subcontractor; or between any officers, directors, stockholders, or partners of the Architect and officers, directors, stockholders or partners of the Owner, Contractor and/or any subcontractor; or between any officers, directors, stockholders or partners of any subcontractor and the officers, directors, stockholders or partners of the Owner, Contractor and/or Architect which could cause or results in control or influence over prices paid and/or work accepted.
  - h. Any side deal, agreement, contract or undertaking, thereby altering, amending, or canceling any of the required closing documents, except as approved by HUD.

OWNER

\_\_\_\_\_

DATE \_\_\_\_\_

CONTRACTOR

\_\_\_\_\_

DATE \_\_\_\_\_

WARNING: Title 18 U.S.C. 1001, provides in part that whoever knowingly and willfully makes or uses a document containing any false, fictitious, or fraudulent statement or entry, in any matter in the jurisdiction of any department or agency of the United States, shall be fined not more than \$10,000 or imprisoned for not more than five years or both.



## Rehabilitation Cost Not Attributable to Residential Use

6C

Steps 1 through 8 of this Worksheet are intended for determining Rehabilitation Cost Not Attributable (CNA), and “As-Is” CNA, for building structures. If the building structure contains a parking garage within its footprint, the cost and floor area of the garage should be included in Steps 1 through 8. In addition, if the property contains a CNA use within an enclosed building that is separate from the residential structure(s), e.g. a small community building, the cost and floor area of such a CNA use should be included in Steps 1 through 8.

However, if there is no parking garage, but rather an open-air parking lot (and/or other open-air non-attributable use, such as a tennis court) separate from the building, the following procedure should be used:

1. The cost to rehabilitate the parking lot (and/or other open-air use) should be included in Total Rehab Cost (Step 1) and Rehab Cost Not Attributable (Step 2).
2. However, the area of the parking lot (and/or other open-air use) should **not** be included in the Project Structures Not Attributable Square Feet nor the Total Project Structures Gross Square Feet (Step 3).
3. The area(s) of the parking lot (and/or other open-air use) will be entered in Step 9 and multiplied by the Estimated Value of Land without Improvements and divided by the area of the project site.
4. Step 10 adds the amount in Step 9 to the subtotal in Step 8, to arrive at a total Rehabilitation Cost Not Attributable to Residential Use.

See the Example in Appendix 6D.

## Rehabilitation Cost Not Attributable to Residential Use Worksheet

### 1. Total Rehab Cost

(Without fees - Lines G 36c + G41 from HUD-92264) = \$ \_\_\_\_\_

### 2. Rehab Cost Not Attributable\*

(Dollar amounts without fees for Structures and Land Improvements) = \$ \_\_\_\_\_

\* From Cost Analyst

### 3. Ratio of Not Attributable\*

Project Structures Not Attributable Square Feet (Structure(s) only) \_\_\_\_\_ sq. ft.\*

Divided by Total Project Structures Gross Square Feet

(Structure(s) only) \_\_\_\_\_ sq. ft.\* = \_\_\_\_\_ %

\* From Cost Analyst

### 4. "As-Is" Not Attributable

Total "As-Is" Value \$ \_\_\_\_\_ (From Line G.73b of Form HUD-92264)  
X Ratio from #3 \_\_\_\_\_ % = \$ \_\_\_\_\_

### 5. Total Cost Not Attributable

"As-Is" Not Attributable (#4) \$ \_\_\_\_\_  
plus Rehab Cost Not Attributable (#2) \$ \_\_\_\_\_ = \$ \_\_\_\_\_

### 6. Total Cost Without Fees

Total Rehab Cost Without Fees \$ \_\_\_\_\_ (From #1) plus  
Total "As-Is" Value \$ \_\_\_\_\_ (From Line G.73b of Form HUD-92264) = \$ \_\_\_\_\_

### 7. The Percentage Not Attributable

Divide Total Cost Not Attributable (#5) \$ \_\_\_\_\_  
by Total Cost Without Fees (#6) \$ \_\_\_\_\_ = \_\_\_\_\_ %

### 8. Rehab Cost Not Attributable for Project Structures

Total Estimated Replacement Cost of Project (Line G.74)  
\$ \_\_\_\_\_ X Percentage Not Attributable (#7) \_\_\_\_\_ % = \$ \_\_\_\_\_

**9. “As-Is” Not Attributable for Open Air Parking Lots and Other Open Air Uses**

Total Open Air Non-Attributable Area \_\_\_\_\_ sq. ft.\* X Estimated Value of Land Without Improvements \$\_\_\_\_\_ divided by Site Area \_\_\_\_\_ sq. ft. = \$\_\_\_\_\_

\* From Cost Analyst

**10. Total Rehabilitation Cost Not Attributable to Residential Use**

Add Rehab CNA for Project Structures (#8) \$\_\_\_\_\_ and “As-Is” Not Attributable for Open Air Parking Lots and Other Open Air Uses (#9) \$\_\_\_\_\_ = \$\_\_\_\_\_

## Examples of Calculating Cost Not Attributable for New Construction and Substantial Rehabilitation

6D

### EXAMPLE OF CALCULATING COST NOT ATTRIBUTABLE FOR NEW CONSTRUCTION

A 50-unit apartment building has a gross floor area of 30,000 sq.ft. and a footprint of 7,200 sq.ft. It has a Total Structures cost of \$1,665,000, and a Total Land Improvements cost of \$250,000. It has a community room on the ground floor, a parking lot, an exterior patio with benches, tables, and ornamental shrubs, and a playground with swings and slides. Using the architectural drawings, determine the area of the community room, parking lot, patio, and playground, and the number of benches, tables, ornamental shrubs, swings and slides. Calculate the cost of each item.

#### Unit quantities:

- Community room - 650 sq.ft.
- Asphalt parking lot for 50 cars - 15,000 sq.ft.
- Concrete Patio - 400 sq.ft.
- Playground - 900 sq.ft.
- 6 ft concrete patio benches - 6
- 3 ft x 3 ft concrete patio tables - 6
- Ornamental shrubs - 12
- Playground swing sets - 2
- Playground slides - 2

#### Unit costs:

- A. The community room is part of the structure, while the rest of the non-attributable features are exterior. The unit cost for the community room will be the Total Structures cost per gross square foot of building area. In Form HUD -92264, divide \$1,665,000 (Line 41 of Section G) by 30,000 sq.ft. (Line 33 of Section C), giving a cost per gross square foot of \$55.50.
- B. Determine unit costs for exterior features from the Office benchmark data bank or a published data source. The exterior unit costs used in this example are typical.

#### Parking lot:

- Asphaltic concrete parking lot paving - \$1.25 per sq.ft.
- Concrete perimeter curbing (500 lin ft) - \$10.50 per lin. ft.
- Concrete parking bumpers - \$30 ea.
- Stormwater catch basins (4) - \$1500 ea.
- Storm drain line (350 lin ft) - \$27 per lin. ft.
- Parking lot striping - \$4 per car

#### Patio:

- Concrete patio paving - \$4 per sq.ft.
- Concrete patio benches - \$500 ea.

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Concrete patio tables - \$1000 ea.  
 Ornamental shrubs - \$100 ea.

**Playground:**

Asphalt paving - \$2 per sq.ft.  
 Rubber safety surface - \$3 per sq.ft.  
 Swing sets - \$500 ea.  
 Slides - \$1000 ea.

**C. Cost Calculations:**

**1. "B" Costs:**

These are summarized according to category in Section M of Form HUD-92264.

**M.10 - Parking**

Parking lot paving - 15,000 sq.ft. x 1.25	= 18,750
Parking lot curbing - 500 lin.ft. x 10.50	= 5,250
Parking bumpers - 50 x 30.00	= 1,500
Catch basins - 4 x 1500.00	= 6,000
Storm drain - 350 lin.ft. x 27.00	= 9,450
Striping - 50 x 4.00	= 200
Summary cost	= 41,150

**M.13 - Special Exterior Land Improvements**

Patio paving - 400 sq.ft. x 4.00	= 1,600
Patio benches - 6 x 500.00	= 3,000
Patio tables - 6 x 1000.00	= 6,000
Ornamental shrubs - 12 x 100.00	= 1,200
Playground paving - 900 sq.ft. x 2.00	= 1,800
Safety surface - 900 sq.ft. x 3.00	= 2,700
Swing sets - 2 x 500.00	= 1,000
Slides - 2 x 1000.00	= 2,000
Summary cost	= 19,300

**M.14 - Other**

Community room - 650 sq.ft. x \$55.50	= \$36,075
---------------------------------------	------------

Total Summary Costs = M.10 + M.13 + M.14 = **TOTAL "B" COSTS = \$96,525**

Enter summary costs and breakdown in Section M.

**2. "A" Costs**

Total Structures (HUD-92264, line G.41)	= \$1,665,000
<u>Total Land Improvements (line G.36c)</u>	= 250,000

**TOTAL "A" COSTS = \$1,915,000**

3. Cost Not Attributable (B over A):

“B” costs @ \$96,525 divided by “A” costs @ \$1,915,000 = 0.0504 = 5.04 per cent  
Enter the percentage in Section M of Form HUD-92264.



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A = \$1,145,000 (Rehab cost for Structures plus  
Land Improvements)

Non-commercial B over A percentage  
= \$55,000/ 1,145,000 = 4.80 percent. **Acceptable.**

Commercial space:  
Commercial B over A percentage  
= \$60,000/ 1,145,000 = 5.24 percent. **Acceptable.**

**STEP B: Rehab CNA Worksheet:**

Step 1. **Total Rehab Cost**  
Land and Structures = **\$1,145,000**

Step 2. **Rehab Cost Not Attributable**  
= \$20,000 + 60,000 + 20,000 + 15,000 = **\$115,000**

Step 3. **Ratio of Not Attributable.**

USE ONLY THE AREAS WITHIN THE RESIDENTIAL STRUCTURE AND ENCLOSED  
NON-ATTRIBUTABLE BUILDINGS FOR PROJECT NOT ATTRIBUTABLE AND PROJECT  
GROSS SQUARE FEET.

Project Structures Not Attributable Square Feet  
= 1,000 sq ft (community room)  
Plus 2,000 sq ft (commercial)  
Plus 1,000 sq ft (athletic club building)  
Total = 4,000 sq ft

Project Structures Gross Square Feet  
= 50,000 sq ft (Gross Floor Area – Residential building)  
Plus 1,000 sq ft (athletic club building)  
Total = 51,000 sq ft

Ratio = 4,000 sq ft / 51,000 sq ft = 0.0784 = **7.84 %**

Step 4. **“As-Is” Not Attributable.**

Total “As-Is” (Land + Structures) = \$500,000 + \$3,000,000 + \$50,000  
= \$3,550,000 X Ratio from Step 3 = 7.84% = **\$278,320**

Step 5. **Total Cost Not Attributable.**  
“As-Is” Not Attributable (#4) = \$278,320 plus Rehab Cost  
Not Attributable (#2) = \$115,000 = **\$393,320**

Step 6. **Cost Without Fees.**  
Total Rehab Cost (Without Fees) (#1) = \$1,145,000 +  
Total “As-Is” Value (Land + Structures) = \$3,550,000 = **\$4,695,000**





## Appendix 7

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# Valuation Processing

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	<b>Title</b>
7A	Guide for Content and Format of a Market Analysis for General Occupancy Rental Housing–Section 220, 221(d)(3) & (4), 231 Programs
7B	Value Definitions for HUD Multifamily Appraisals
7C	HUD Appraiser Review - Pre-Application: Section 207M, 220, 221(d)(3), 221(d)(4), and 231
7C.1	HUD Appraiser Review – Firm Commitment: Section 207M, 220, 221(d)(3), 221 (d)(4) and 231
7C.2	HUD Appraiser Review – Direct to Firm Commitment: Section 207M, 220, 221(d)(3), 221(d)(4) and 231
7C.3	HUD Appraiser Review – Firm Commitment: Section 223(f)

**Guide for Content and Format of a Market Analysis for General Occupancy Rental Housing – Section 220, 221(d)(3) & (4), 231 Programs**

7A

- A. Purpose and focus of the analysis. The purpose of the housing market analysis is to assure that there is enough sustainable demand for additional units without adversely impacting the existing supply (maintaining a balanced overall market). The focus of the market analysis is on the overall demand within a HMA, not just the marketability of the proposed project to capture a share of the total or incremental demand. The analysis must estimate the number of renter households with sufficient incomes to afford the type of housing at the rents proposed. In addition, the analysis must estimate the number of units that the market could reasonably absorb over a specified forecast period, typically three years, taking into consideration competitive units in the existing inventory, units currently under construction, and units in the planning pipeline, as well as the gross and contract rents of those units.

For age restricted projects, the analysis must estimate the number of elderly with sufficient incomes to afford the type of housing and services under analysis; the proportion of those income-affordable elderly that would "need" such housing and services; and the number of units that the market could reasonably absorb over the forecast period.

- B. Executive Summary. All market studies shall contain an Executive Summary with a concise summary of the data, analysis and conclusions, including the following:
1. a concise description of the site and the immediate surrounding area;
  2. a brief summary of the project, including the proposed targeted population;
  3. a precise statement of key conclusions reached by the analyst;
  4. a concise statement of the analyst's opinion of market feasibility, as determined by factors of market demand;
  5. recommendations and/or suggested modifications to the proposed project, if appropriate;
  6. a summary of positive and negative attributes and issues that will affect the property's marketability, performance and lease-up, as

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well as points that will mitigate or reduce any negative attributes.

C. Description of the proposed project. The written market analysis report must include a thorough description of the proposed project, including:

1. The number of units by type and size. Include information on the number of bedrooms, number of bathrooms, structure type, square footage, etc. Actual (paint to paint) size should be noted as well as the published size, as in how the project will be portrayed in brochures or other media.
2. The estimated shelter and gross rents by unit type. (Shelter rent is defined as the cost of renting the unit. Utilities are not included. Gross rent is defined as the cost of renting the unit, including the cost of tenant paid utilities.
3. The unit and project amenities and services.
4. The project location in terms of:
  - a. Characteristics of the neighborhood in relation to schools, transportation, shopping, employment centers, social and community services, etc., to include an analysis of the adequacy of the public facilities that will service the site. The report must include a map showing the site and important neighborhood facilities and amenities.
  - b. Any other location considerations relevant to the market and marketability of the proposed project.
5. Description of income or rent restrictions imposed on the project by the use of public financing and/or subsidies (e.g., low income housing tax credits, tax-exempt bonds, HOME funds).  
Note: The report must address, in sections E. and G., how these income and rent restrictions will affect potential demand.
6. Description of characteristics of the proposal that will have a specific bearing on its market prospects and overall marketability, such as amenities, features, or design.
7. For Age Restricted Projects.
  - a. The estimated total monthly fees for shelter and mandatory services per resident by type of occupancy or accommodation.

- b. The estimated total monthly fees for optional services provided on an as needed per resident basis.
  - c. The proportions of the project to be occupied by market rate tenants and by public pay/assisted residents-tenants, e.g. Optional State Supplement.
  - d. The amenities and special services provided by this type of housing and how they relate to the physical, mental, or social conditions of the prospective tenants.
  - e. Project location in terms of proximity to facilities and services essential to the tenants such as hospitals, medical/health care facilities, social and community services, public transportation, shopping and recreational activities; and any other location considerations relevant to the market or marketability of the proposed project. Include a map showing the site and important facilities and services.
- D. Definition of the Housing Market Area (HMA). For the purposes of HUD/FHA housing market analysis, a HMA is defined as the geographic area in which units of similar characteristics; number of bedrooms and rents, are in equal competition. This entails a discussion of where the competing projects are and where the majority of the tenants will come from. Current available evidence indicates that the size of the HMAs for general occupancy rental housing can vary significantly depending on the extent and location of comparable and competitive products within a specific area; but generally lies within commuting distance from a major economic center. Therefore, when defining the boundary of a market area, the analyst should consider the locations of comparable and competitive rental developments (existing, under construction and in planning-developments) and commuting times from major concentrations of employment. Analysis of data on place of work and place of residence of the population from the 2000 Decennial Census and local sources will aid in this determination. The written market analysis report must include the following:
- 1. A description of the geographic boundaries of the housing market area and a justification for the definition, including a discussion of the location of competitive housing, relevant services and amenities and concentrations of employment opportunities.
  - 2. A description of the qualitative sub-market for the type of housing proposed, defining the economic and demographic characteristics of

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- the target market (projected residents) in terms of income levels, household size, and age of prospective tenants.
3. A statement of the length of the specified forecast period, typically 36 months from the current date of the analysis.
  4. For Age Restricted Projects.
    - a. the locations of the prior residences of the current occupants in comparable and competitive existing projects;
    - b. location and access to relevant services and amenities;
    - c. any concentrations of elderly population.
    - d. a description of the qualitative sub-market for the type of housing and care proposed by the economic and demographic characteristics of the target market (projected residents): income levels, wealth and assets, household size, age of prospective tenants, physical and/or mental limitations, and other similar factors;
    - e. description of the Current Inventory; quantitative and qualitative characteristics of projects in the market area;
    - f. total monthly charges by unit type, type of accommodation, and level of services;
    - g. typical types of services and amenities offered, whether these are mandatory or optional fee for services, and whether services are provided by the facility (directly or by contract) or through a third-party arrangement (tenant-resident and provider and any added costs for optional services; and
    - h. absorption experience of recently completed projects on a units per month basis, discussing the level and extent of pre-sale or pre-marketing efforts.
- E. General characteristics of the housing market area. The written market analysis report must include a thorough description of the current and forecast economic and demographic characteristics and conditions of the housing market area. The description is necessary to provide background and justification for the subsequent estimates of demand for additional rental housing. The report must include the following:

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1. A discussion of current economic conditions and employment characteristics, including:
  - a. Identification of growth sectors in the economy and emerging trends. This should include a detailed discussion of the sectors in the economy that have a major impact on the local housing market such as, but not limited to military facilities, colleges and universities, federal and state government, or tourism.
  - b. An analysis of recent trends in employment; both unemployment statistics and at place employment, with a detailed discussion of:
    - (1) Any anticipated changes in at place employment as a result of expected closings, openings, expansions or cutbacks by leading employers, with a particular emphasis on how this would affect the rental market during the forecast period.
    - (2) Information on the types of new jobs being created and lost, including data on pay scales and how these wage levels relate to the affordability of the proposed rental units.
    - (3) List major employers in the HMA, the type of business and the number employed.
    - (4) In relevant markets (such as resort areas), comment on the availability of affordable housing for employees of businesses and industries that draw from the HMA.
  - c. A forecast of employment for the specified forecast period and how this forecast supports demand for additional new rental housing.
2. A thorough discussion of past and anticipated trends in the demographic character of the housing market, covering such subjects as population change, migration, net natural changes, household growth or decline, and changes in tenure. The report must include estimates of the total population and households (by tenure - owners and renters) that include the current date of the analysis, and the forecast date (two or three years from the date of the market study); and, a detailed explanation of all significant trends and changes.

F. Current housing market conditions. The written market analysis report must include a comprehensive description of the current conditions of the rental market, and the sales market if relevant, in the housing market area. This description should include a direct summary statement on the current condition of the rental market overall and in the rent levels of the market comparable to the proposed project; as well as the following:

1. An estimate of the current competitive rental inventory, single-family and multifamily, in the housing market area, with data on the number of units by structure type, by number of bedrooms, by rent levels, age, and location.
2. A thorough discussion of recent market experience which presents and analyzes the following:
  - a. Current occupancy levels and recent trends in occupancy/vacancy in existing rental projects.
  - b. Absorption experience of recently completed rental developments, including estimates at a project level of per unit per month absorption rates, with particular emphasis on comparable and competitive projects that have entered the market within the past 24 months.
  - c. Current shelter and gross rents for comparable and competitive projects, and the trend in rent increases in this inventory during the past 24 to 36 months. The description should identify any services included in base rents or offered at a premium. Where relevant, the report should include information on the extent of rent concessions or similar incentives, particularly in projects in initial occupancy. The report must address the impact of concessions on rent levels and whether the quoted rents are overstated due to concessions or other factors.
  - d. Estimated current overall rental vacancy rate, overall apartment vacancy rate, and vacancy rate for units similar to those in the proposed project. Significant seasonal variations in vacancy rates, if applicable, should be discussed.
  - e. Discussion of any vacancy or absorption problems in the market, particularly in the segments of the market most relevant to the subject project, including an analysis of the



cause if the rates are significantly higher or lower than the overall rental vacancy rate.

3. The report must include a map showing locations of existing competing rental projects, projects currently under construction, and those in the planning and development process.

**G. Characteristics of Rental Units in the Pipeline - Under Construction and in Planning.**

The written market analysis report must include separate estimates of the numbers of rental units currently under construction and the numbers in the planning and development process likely to enter the housing market during the specified forecast period. These estimates should include all rental developments known, not solely those determined by the analyst to be comparable and competitive. The description of the pipeline activity should clearly identify any significant characteristics of specific developments regarding rent restrictions or financing limits such as low-income housing tax credit financing or age-restricted occupancy. The report should contain estimates of:

1. The number of projects currently under construction, the total number of units, the numbers by bedroom size (number of bedrooms) by rent range, structure type and their locations.
2. The number of projects in planning stages that are likely to be developed, including but not limited to those with building permits or firm financial commitments, including details on the number of units by bedroom size, rents, locations, and stage of development.
3. Include a list of LIHTC projects with allocations in or near the market area that are not yet placed in service, giving as much known detail as possible on estimated placed-in-service dates, unit mix and income levels to be served.
4. For Age Restricted Projects.
  - a. Total monthly charges by unit type, type of accommodation, and level of services. Provide information on the added costs for optional services.
  - b. Typical types of services and amenities offered, whether these are mandatory or optional fee for services, and whether services are provided by the facility (directly or by contract) or through a third-party arrangement (tenant and care provider).

**H. Demand Estimate and Analysis.** The written market analysis report must include an estimate of future demand for the specified forecast period, typically 24 to 36 months. The estimate of demand and the analysis supporting that estimate must be consistent with the following guidelines:

1. The estimate of demand must be based on a calculation of incremental demand. This estimate must address the following factors:
  - a. Renter household growth during the forecast period.
  - b. Recent trends in tenure breakdown between homeownership and renting.

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- c. Replacement of existing rentals lost from the inventory due to demolition, conversion, and other means; and consideration of any current excess vacant supply. The demand estimate must reflect the number of rental units that would, if added to the inventory, would promote balanced market conditions.
    - d. Current vacancy levels in existing rental inventory
  2. The estimate of demand should be a qualitative estimate of demand by number of units by bedroom size, rent range, and other relevant characteristics, as necessary.
  3. The demand estimate should identify the "effective demand" pool of households with sufficient incomes and or the applicable household sizes that would be expected to demand such housing during the forecast period including the income levels and rent-to-income ratio(s) assumed in the analysis.
  4. The analysis must reconcile the number of units in the proposed project with the demand estimate for the housing market area, taking into consideration current housing market conditions, available vacancy, and forecast additions to the supply (under construction and in the pipeline). This analysis should also include an estimate of the absorption period needed for the project to reach sustaining occupancy.
  5. The market analysis report must include an assessment of the impact the proposed project would have on similar existing rental developments. Specifically the analysis must address the impact on competitive existing HUD insured properties.
  6. For Age Restricted Projects.
    - a. The demand estimate should reflect "effective demand" and should be based on the numbers of elderly households meeting the relevant economic and demographic criteria (sufficient incomes, age, household size, and need for the type of shelter and care) that reasonably could be expected to demand such housing during the forecast period.
    - b. The report must include a descriptive analysis of the demand estimate that addresses the primary determinants including:
      - (1) Current and forecast population of the target group(s) by age cohort and the proportion of the market each group comprises.
      - (2) Current income level/band of income of prospective households comprising demand, including cost/rent to income ratio(s) assumed in the analysis.

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- (3) Changes in the population (including migration patterns) of adult children of the potential elderly occupants. Discuss the impact of anticipated population changes on the demand for this facility. Indicate the proportion of demand expected to come from outside of the primary market area.

### **I. Additional Requirements/for Age Restricted Projects - Basic Assumptions of the Analysis.**

The technical and analytical methods used by the market analyst and all subsequent findings and conclusions must be analytically and logically consistent with the following assumptions:

1. The demand from the elderly for any type of housing (age-restricted rental apartments, congregate housing, or residential assisted care settings) is a function of the physical, mental, and social conditions of the person, the person's support service and care requirements, and the person's income and assets.
2. There is a direct relationship between the housing and care needs or requirements of an elderly person and the limitations in activities of daily living imposed by the physiological, psychological, and social changes of the elderly. Therefore different age-cohorts of elderly have different propensities to consume (likelihood of need) a particular type of housing product.
3. The demand within each age-cohort for a particular type of product will depend on the housing and services offered and how well these meet the physical, mental and social conditions and service or care needs of persons within each age-cohort.
4. In addition to their normal source of income (pensions, social security, retirement funds) the elderly demanding shelter and care will use some portion of their assets (net worth) to defray the cost of shelter and care. Elderly homeowners will sell their homes and use part of the investment income from the net equity toward the monthly housing expenses.
5. The proportion of income an elderly household is willing to pay for a particular housing product (cost-to-income ratio) will depend on the type and extent of services included in the total monthly cost. The more extensive the level of shelter and services the higher the ratio. The cost to income ratio is defined as the sum of the shelter rent, utilities, and typical service charges, divided by the total monthly household income. Cost to income ratios are a function of the type of housing product and the level of services and amenities provided. The more extensive the services and care provided, the higher the ratio. The cost to income ratio used in an analysis should also reflect what is reasonable and customary for the particular type of housing in the subject market area, taking into consideration recent market experience of comparable and competitive product. A guideline for cost-to-income ratios for age-restricted rental apartments with no services would be 30 percent or less.
6. One-person households comprise the major segment of the demand for housing and supportive services for the elderly. Therefore any estimates of demand based on data

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- for the total elderly population or for all elderly households, must be adjusted to be consistent with actual market experience and occupancy by household size in existing competitive product.
7. Household Sizes and Counts. MAP guidance does not preclude the use of data for all household sizes. However, any use of counts of all households must be adjusted to derive an accurate demand estimate, consistent with the characteristics of the target market. If an analyst makes an estimate of demand, using data for all households, without making an adjustment for household size, the subsequent estimate of potential demand will be overstated significantly.
  8. Using counts for total households substantially overstates the number of income affordable households. Evidence from both the 1990 and 2000 Census indicate that incomes of two-person households are approximately twice that of respective one-person households. Consequently any distribution of elderly households will have a greater proportion of two-person households in the upper income ranges than one-person households. Analyses shows that at most every income level, two-person households typically out-number one-person households by a factor of two or three to one, depending on age (see Table 1. which follows).
  9. Unless a factor is applied to the "all household" count to adjust for this bias the demand estimate is analytically incorrect. The method most analytically consistent with the observed facts of the target market for most seniors housing would be to measure the numbers of elderly one-person households, with incomes sufficient to afford the type of housing, and then adjust this count to take into account households of other sizes.
- J. Data, Estimates, and Forecast. The analysis should document the methods and techniques used to develop all estimates and forecasts; and provide adequate citations on the sources of all data, estimates and forecasts. The data and estimates provided should be relevant and current. Conclusions in the analysis must be consistent with the facts presented; findings and recommendations should be based on a reasonable forecast of market supply/demand conditions and sound assumptions regarding capture rates, absorption, achievable rents, income affordability and similar factors. To the extent possible the qualitative estimate of demand for additional rental units should take into account the changes in renter households by household size, not just in total. MAP guidance does not preclude the use of data for all household sizes; however, analysis of the trend of change by household size may derive a more representative and accurate demand estimate consistent with the characteristics of the target market.
- K. 223(f) Applications. Market Studies are not required for a 223(f) application.

### **Useful Information**

Distributions of renter households by size of household (1, 2, 3, 4, and 5 or more persons), in total and by age of householder (15 to 61, 62 to 74, or 75 and older) by income intervals as of the 1990 and 2000 Censuses are readily available free of charge from the Department of Housing and Urban Development's HUDUSER website:

<http://www.huduser.org/datasets/snactabs.html>

## Value Definitions for HUD Multifamily Appraisals

7B

- A. Definition of Value. HUD Handbook 4465.1 “The Valuation Analysis Handbook for Project Mortgage Insurance” defines value as:

*“The price which typical buyers would be warranted in paying for a property for long-term use or investment, if they were well informed, acted intelligently, voluntarily and without necessity.”*

The form HUD 92264 states that the definition in USPAP is generally observed but refers to this handbook definition “for qualifications.” This handbook predates both FIRREA and the issuance of the first USPAP. This definition has elements of market value but is too simplistic by itself to be used today.

According to the 2006 USPAP:

*“Value is the monetary relationship between properties and those who buy, sell, or use those properties. Value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified - for example, market value, liquidation value, or investment value.”*

The USPAP does not actually define market value, but does describe some of the elements of market value in its definition section.

- B. Definition of Market Value. When a definition of Market Value is indicated in a HUD multifamily appraisal assignment, appraisers must use the following definition published by federal regulatory agencies pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 between July 5, 1990, and August 24, 1990, by the Federal Reserve System (FRS), National Credit Union Administration (NCUA), Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the Office of Comptroller of the Currency (OCC). This definition is also referenced in regulations jointly published by the OCC, OTS, FRS, and FDIC on June 7, 1994, and in the Interagency Appraisal and Evaluation Guidelines, dated October 27, 1994:

*“Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby;*

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;

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4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. And the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.”

C. Investment Value. The Appraisal Institute, “The Appraisal of Real Estate,” 12<sup>th</sup> Edition (page 26), defines Investment Value as:

*“The specific value of a property to a particular investor or class of investors based on individual investment requirements; distinguished from market value which is impersonal and detached.”*

A definition of investment value will be required in appraisals of HUD-insured subjects when the requirements for the assignment cause the appraiser to assume conditions that are atypical of market. When this occurs the following format for the value definition must be employed: (Note- This is an example.)

Definition of Value. The requirements for the applicable section of the National Housing Act and current HUD regulations mandate an occupancy percentage of no more than 95%. Also, the subject will benefit from the Low Income Housing Tax Credit (LIHTC) program. The MAP Guide, Chapter 7.19B, specifically prohibit recognizing any value attributable to an LIHTC award for site valuation or existing improvements to be rehabilitated. The indicated occupancy for the subject is 98% and the market demonstrates that properties that are to be developed under the LIHTC program sell for higher per unit amount than conventional projects. Since the appraiser must assume conditions that are atypical of market, the following definition of Investment Value is employed in this assignment:

“Investment value in this assignment means the most probable price which a property should bring in the market as further described in the appraisal, under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. the buyer and seller are motivated in a manner comparable to other parties in similar transactions;
2. both parties are well informed and are knowledgeable about the requirements and restrictions associated with the transaction, and are acting in what they consider to be their own best interests;
3. a reasonable time is allowed for exposure in the described market;
4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto,
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale, and
6. after considering all of the restrictions that influence the subject’s value required by the applicable HUD program(s) and any associated federal, state and local programs.”

D. Choosing the Definition of Value. According to Chapter 7.1, value

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determinations for HUD's multifamily programs generally involve either Market Value or a form of Investment Value. If the market conditions for the subject are consistent with the requirements off the particular section of the act and other applicable requirements, then the definition of value will be that of Market Value. If the requirements for the assignment cause the appraiser to assume conditions that are atypical of market, then the definition of value will be that of Investment Value.

Chapter 7 provides an example of a Section 223(f) case where the market conditions of the subject fall within the current requirements of the section of the act (SOA). Making this distinction may not always be so simple. UPAP Advisory Opinion AO-22, "Scope of Work in Market Value Appraisal Assignments, Real Property," *USPAP 2006*; the General Comment on Market Value Definitions section discusses important characteristics that distinguish market from non-market.

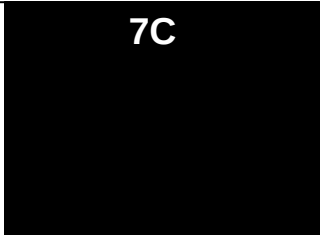
In deciding on the type of value that is applicable to the assignment, the following factors should be considered:

1. The vast majority of occupancy rates observed in HUD appraisal assignments is below 95% and is frequently below 93%.
2. Site value or "As Is" Value of proposed substantial rehabilitation project attributable to the presence of tax credits is some times absent or inconclusive.
3. The effect on value attributable to HUD mandated bed mixes is often immeasurable and consequently not material in deciding that the value conclusion will be market versus non-market.

Ultimately, the appraiser's scope of work decision must support conclusions regarding the value definition used in the appraisal. Determining the type of definition requires a high degree of knowledge, competency, and judgment. If there is uncertainty, the appraiser, in conjunction with his client is advised to consult with local HUD processing office.



**HUD Appraiser Review  
HUD Valuation Report - Technical Review of  
Multifamily Accelerated Processing - Pre-  
Application Section 207M, 220, 221(d)(3), 221(d)  
(4) and 231**



This review of appraisal/consulting work product is to be completed in accordance with Standard 3 of the Uniform Standards of Professional Appraisal Practice (USPAP) currently in effect. The reviewer’s client and intended user is the U. S. Department of Housing and Urban Development. The purpose of the review is to ascertain if the appraisal/consulting work product under review meets the applicable requirements of the USPAP and HUD, and that the work product has produced well-supported conclusions that can be relied on for the purpose of making a recommendation to issue, or not issue an invitation to apply for a Firm Commitment for HUD mortgage insurance.

HUD Multifamily Hub: \_\_\_\_\_

Team Leader: \_\_\_\_\_

Reviewer: \_\_\_\_\_

Date Received for Review: \_\_\_\_\_

Date of Reviewer Site Visit: \_\_\_\_\_

Review Report Completion Date: \_\_\_\_\_

SOA: \_\_\_\_\_ 207M \_\_\_\_\_ 220 \_\_\_\_\_ 221(d)(3) \_\_\_\_\_ 221(d)(4) \_\_\_\_\_ 231

Activity: (check all that apply) \_\_\_\_\_ New Construction \_\_\_\_\_ Sub-rehab \_\_\_\_\_ Acquisition \_\_\_\_\_ Refinance

Project Name: \_\_\_\_\_

Case #: \_\_\_\_\_

Mortgagee: \_\_\_\_\_

Mortgagor: \_\_\_\_\_

Appraiser: \_\_\_\_\_

Market Analyst: \_\_\_\_\_

Date of Report under Review: \_\_\_\_\_

Property and Ownership Interest Appraised:  
\_\_\_\_\_

Effective Date of Review:  
\_\_\_\_\_

**Appendix 7**

**Valuation Processing**

**A. Standard 3 Compliance:**

1. The Reviewer was able to adequately identify the property that is the subject of this review.  
 Yes  
 No (Document)
  
2. The Reviewer inspected the exterior of the subject and the following units (if applicable, list)  
 Yes  
 No (Document)
  
3. The Reviewer inspected the exterior of all of the comparables (rental and expense).  
 Yes  
 No (Document):
  
4. Indicate Resources and Data utilized to research and verify information in the report under review:
  
5. Describe the analyses employed and any additional work required to complete the review.
  
6. Describe any extraordinary assumptions that were necessary to complete the review.
  
7. Is the appraisal/consulting work product under review complete, within the context of the requirements applicable to the assignment?  
 Yes  
 No (Document):
  
8. Is the data used in the development of the appraisal/consulting work product under review adequate and relevant to the assignment?  
 Yes  
 No (Document):
  
9. Are the adjustments made to the data presented, appropriate and supported?  
 Yes  
 No (Document):

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**Valuation Processing**

10. Are the methods and techniques employed by the appraiser relevant to the assignment and consistent with the appraiser's stated Scope of Work?

- Yes  
 No (Document):

11. Are the appraiser's analyses, opinions and conclusions appropriate and reasonable

- Yes  
 No (Document):

**B. Review of the Market Analysis: (Refer to Appendix 7A of the MAP Guide)**

1. Does the Description of the Proposed Project comply with Section B.?

- Yes  
 No (Document):

2. Is the Market Area defined and characterized in compliance with Sections C and D?

- Yes  
 No (Document):

3. Is there adequate discussion of Current Market Conditions including projects under construction and in planning? (Sections E and F)

- Yes  
 No (Document):

4. Has the Demand Estimate and Analysis been completed in accordance with Section G?

- Yes  
 No (Document):

5. (For Age Restricted Projects) Have the relevant requirements been included in this market study?

- Yes  
 No (Document):  
 N/A

**Appendix 7**

**Valuation Processing**

6. Are the conclusions presented in the Market Study consistent with the facts presented; with the findings and recommendations based on a reasonable forecast of market supply/demand conditions and sound assumptions regarding capture rates, absorption, achievable rents, income affordability and similar factors? (Section H)
- Yes  
 No (Document):
7. Does Market Analysis assure that there is enough sustainable demand for additional units at the proposed rents without adversely impacting the existing supply?
- Yes  
 No (Document):

**C. HUD-92273 analysis:**

1. One HUD-92273 analysis was completed by the Lender's appraiser for each unit breakdown?
- Yes  
 No (Document)
2. A minimum of three appropriate and competitive comparables were used in each of the HUD-92273 analysis?
- Yes  
 No (Document)
- 3 All amenities were identified and properly adjusted in the analysis?
- Yes  
 No (Document)
4. Narrative explanations were given for amenity adjustments?
- Yes  
 No
5. The HUD-92273 analysis completed by the Lender's appraiser conforms to the instructions listed in the MAP Guidebook?
- Yes (Document)  
 No (Document)

**Appendix 7**

**Valuation Processing**

**D. HUD-92274 analysis:**

1. A minimum of three market comparables were used in the HUD-92274 analysis?  
 Yes  
 No (Document)
  
2. The MAP Lender's appraiser used a HUD Insured project as an expense comparable?  
 Yes  
 No (Document)
  
3. The HUD Insured Project data was confirmed by the FASS System? (see MAP Guide 7.7.E.4)  
 Yes  
 No (Document)
  
4. The HUD-92274 analysis conforms to the instructions as stated in the MAP Guidebook?  
 Yes (Document)  
 No (Document)

**E. The narrative explanation supporting the \_\_\_\_\_ % occupancy percentage estimated from the market for the project is:**

- Acceptable  
 Unacceptable (Document)

**F. Pre-application Environmental Processing. The project's site is found acceptable, having no environmental or legal issues according to standards listed in the MAP Guidebook?**

- Yes  
 No (Document):

**G. Other Technical Requirements:**

1. The appraiser(s) and market analyst(s) employed by the lender met the qualifications and licensure requirements in accordance with Section 7.3 of the MAP Guide.  
 Yes  
 No (Document):
  
2. The appraiser complied with the Department's inspection requirements according to Section 7.4.A.13 of the MAP Guide.  
 Yes

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**Valuation Processing**

No (Document):

**H. From a review of appraisal/consulting exhibits the following conclusions are made:**

1. The report reviewed supports the proposed rents and estimated rental income in compliance with the requirements found in Section 7.6 of the Guide: (Attach the rent schedule to this report.)

Acceptable  
 Unacceptable

2. The report reviewed supports the proposed total operating expenses in compliance with the requirements found in Sections 7.4 and 7.7 of the Guide: (Attach the schedule of expenses to this report)

\$ \_\_\_\_\_/unit    Expense Ratio \_\_\_\_\_ % (of effective gross)

Acceptable  
 Unacceptable

3. There has been an acceptable level of due diligence by the lender in the appraisal underwriting process as evidenced by the facts, analyses and conclusions presented in the underwriting summary and associated exhibits.

Yes (Document)  
 No (Document and prepare a referral to the Lender Quality Monitoring Division.)

Comments/Recommendations: (Attach additional pages as necessary.)

**Review Appraiser's Certification:**

I certify that, to the best of my knowledge and belief: The facts and data reported by the reviewer and used in the review process are true and correct.

1. The analysis, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
2. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
3. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

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4. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
5. My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use.
6. My analyses, opinions, and conclusions were developed and this review report was prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
7. I did personally inspect the subject property of the work under review.
8. The following persons provided significant real, business, or personal property appraisal, appraisal review or consulting assistance to the person signing this certification:

HUD Appraiser's

Signature \_\_\_\_\_ Date \_\_\_\_\_

License

Number/State \_\_\_\_\_

**Team Leader:**                     **Concurrence**                     **Non-concurrence**

Team Leader's

Signature/Date \_\_\_\_\_ Date \_\_\_\_\_

Reasons for Non-Concurrence: (Attach additional pages as necessary.)

**HUD Appraiser Review  
HUD Valuation Report - Technical Review of  
Multifamily Accelerated Processing – Firm  
Commitment Section 207M, 220, 221(d)(3),  
221(d)(4) and 231**

**7C.1**

This review of appraisal/consulting work product is to be completed in accordance with Standard 3 of the Uniform Standards of Professional Appraisal Practice (USPAP) currently in effect. The reviewer’s client and intended user is the U. S. Department of Housing and Urban Development. The purpose of the review is to ascertain if the appraisal/consulting work product under review meets the applicable requirements of the USPAP and HUD, and that the work product has well-supported conclusions that can be used in making a recommendation to issue, or not issue a Firm Commitment for HUD mortgage insurance.

HUD Multifamily Hub: \_\_\_\_\_

Team Leader: \_\_\_\_\_

Reviewer: \_\_\_\_\_

Date Received for Review: \_\_\_\_\_ Pre-app. \_\_\_\_\_ Firm

Date of Pre-application Reviewer Site Visit: \_\_\_\_\_

Pre-application Review Report Completion Date: \_\_\_\_\_

Firm Review Report Completion Date: \_\_\_\_\_

SOA: \_\_\_\_\_ 207M \_\_\_\_\_ 220 \_\_\_\_\_ 221(d)(3) \_\_\_\_\_ 221(d)(4) \_\_\_\_\_ 231

Activity: (check all that apply) \_\_\_\_\_ New Construction \_\_\_\_\_ Sub-rehab \_\_\_\_\_ Acquisition \_\_\_\_\_

Refinance

Project Name: \_\_\_\_\_

Case #: \_\_\_\_\_

Mortgagee: \_\_\_\_\_

Mortgagor: \_\_\_\_\_

Appraiser: \_\_\_\_\_

Market Analyst: \_\_\_\_\_

Date of Appraisal under Review: \_\_\_\_\_



**Appendix 7**

**Valuation Processing**

Property and  
Ownership Interest Appraised: \_\_\_\_\_

Effective Date of Review: \_\_\_\_\_

**A. Standard 3 Compliance:**

1. The Reviewer was able to adequately identify the property that is the subject of this review.

- Yes
- No (Document)

2. If applicable, the Reviewer has re- inspected the exterior of the subject and the following units (if applicable, list)

- Yes
- No (Document)
- Not Applicable

3. If applicable, the Reviewer has re-inspected the exterior of all of the original comparables and/or inspected any new comparables (rental and expense).

- Yes
- No (Document)
- Not Applicable

4. Indicate Resources and Data utilized to research and verify information in the report under review:

5. Describe the analyses employed and any additional work required to complete the review:

6. Describe any extraordinary assumptions that were necessary to complete the review:

7. Is the appraisal/consulting work product under review complete, within the context of the requirements applicable to the assignment?

- Yes
- No (Document):

8. Is the data used in the development of the appraisal/consulting work product under review adequate and relevant to the assignment?

- Yes
- No (Document):

**Appendix 7**

**Valuation Processing**

9. Are the adjustments made to the data presented, appropriate and supported?

- Yes
- No (Document):

10. Are the methods and techniques employed by the appraiser relevant to the assignment and consistent with the appraiser's stated Scope of Work?

- Yes
- No (Document):

11. Are the appraiser's analyses, opinions and conclusions appropriate and reasonable

- Yes
- No (Document):

**B. Review of additional Market Study submissions since Pre-application: (Refer to Appendix 7A of the MAP Guide)**

1. Was there any new information submitted to update the Market Study that was reviewed at Pre-application?

- Yes
- No

2. Is the new information consistent with the facts presented; with the findings and recommendations based on a reasonable forecast of market supply/demand conditions and sound assumptions regarding capture rates, absorption, achievable rents, income affordability and similar factors? (Section H)

- Yes
- No (Document)
- Not Applicable

3. Does the updated Market Analysis assure that there is enough sustainable demand for additional units at the proposed rents without adversely impacting the existing supply?

- Yes
- No (Document)
- Not Applicable

**C. HUD-92273 analysis, if different from Pre-application**

1. One HUD-92273 analysis was completed by the Lender’s appraiser for each unit breakdown, a minimum of three appropriate and competitive comparables were used in each of the HUD-92273 analysis and analysis completed by the Lender’s appraiser conforms to the instructions listed in the MAP Guidebook?  
 Yes  
 No (Document)  
 Not Applicable
  
2. All amenities were identified and properly adjusted in the analysis?  
 Yes  
 No (Document)  
 Not Applicable
  
3. Narrative explanations were given for amenity adjustments?  
 Yes  
 No (Document)  
 Not Applicable

**D. HUD-92274 analysis, if different from Pre-application:**

1. A minimum of three market comparables were used in the HUD-92274 analysis, and the analysis conforms to the instructions as stated in the MAP Guidebook.?  
 Yes  
 No (Document)  
 Not Applicable
  
2. The MAP Lender’s appraiser used a HUD Insured project as an expense comparable?  
 Yes  
 No (Document)  
 Not Applicable
  
3. The HUD Insured Project data was confirmed by the FASS System? (see MAP Guide 7.7.E.4)  
 Yes  
 No (Document)  
 Not Applicable

**E. The narrative explanation supporting the \_\_\_\_\_ % occupancy percentage estimated from the market for the project is:**

- Acceptable

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**Valuation Processing**

Unacceptable (Document)

**F. Environmental Processing:**

1. The lender's Phase I Environmental Report, Phase II Report, if applicable, and any additional studies, as noted below, have been reviewed and are consistent with the conclusions contained on the completed HUD-4128.  
 Yes  
 No (Document)
2. The subject meets the Department's Environmental requirements in accordance with Chapter 9 of the MAP Guide:  
 Yes  
 No (Document):
3. All third party environmental reports identify the U.S. Department of Housing and Urban Development as an authorized user of the report:  
 Yes  
 No (Document):

**G. HUD-92264 Analysis:**

1. A HUD-92264 was properly completed and signed by the underwriter.  
 Yes  
 No (Document):
2. The analyses and conclusions contained in the HUD-92264 are consistent with the narrative report and all other supporting forms and documents  
 Yes  
 No (Document):

**H. Other Technical Requirements:**

1. The appraiser(s) and market analyst(s) employed by the lender met the qualifications and licensure requirements in accordance with Section 7.3 of the MAP Guide.  
 Yes  
 No (Document):
2. The appraiser complied with the Department's inspection requirements according to Section 7.4.A of the MAP Guide.  
 Yes  
 No (Document):

**Appendix 7**

**Valuation Processing**

3. A HUD-92264-T, as appropriate, is completed (if required), according to Chapter 7 and HN 92-97
- N/A
  - Yes
  - No (Document):
4. For Subjects that have LIHTCs or Section 8 project based subsidies; the appraiser has not attributed any benefit for the LIHTC award or Section 8 subsidies in the estimate of Warranted Price of Land in new construction or the As Is value in substantial rehabilitation cases. (A “Yes” response means that no benefit was attributed.)
- N/A
  - Yes
  - No (Document):
5. The Operating Deficit estimate of \$ \_\_\_\_\_ covering a period of \_\_\_\_\_ months as entered on the lender’s HUD-92264 form was properly calculated in accordance with the requirements in Section 7.15 of the Guide. (Note: If an Operating Deficit Escrow is not being required, there must be adequate documentation to support that the escrow is not needed.)
- Yes
  - No (Document):
  - Not Required (Document):
6. The lender’s HUD-92264-A shows that there is a Tax Abatement that increases the Net Operating Income by \$ \_\_\_\_\_. This amount has been properly calculated according to the requirements in Section 7.19 of the Guide.
- N/A
  - Yes
  - No (Document):

**I. From a review of appraisal/consulting exhibits the following conclusions are made:**

1. The report reviewed supports the proposed rents and estimated rental income in compliance with the requirements found in Section 7.6 of the Guide: (Attach the rent schedule to this report.)
- Yes
  - No (Document)
2. The report reviewed supports the proposed total operating expenses in compliance with the requirements found in Sections 7.4 and 7.7 of the Guide: (Attach the schedule of expenses to this report)

**Appendix 7**

**Valuation Processing**

\$ \_\_\_\_\_/unit Expense Ratio \_\_\_\_\_ % (of effective gross)

- Yes
- No (Document)

3. The resulting Net Operating Income is: \$ \_\_\_\_\_.

4. The report reviewed supports the Warranted Price of the Land of \$ \_\_\_\_\_

or the As Is Value of \$ \_\_\_\_\_, as applicable, as noted on the lender's HUD-92264, in compliance with the requirements of Section 7.8 of the Guide.

- Yes
- No (Document)

5. For Section 220, 221(d)(3) or 221(d)(4) Substantial Rehabilitation, the As Is Value determination reconciled the values from these applicable approaches:

Value by Cost Approach: \_\_\_\_\_

Value By Sales Comparison Approach: \_\_\_\_\_

Value by Income Approach: \_\_\_\_\_ Cap. % \_\_\_\_\_  
GIM or EGIM: \_\_\_\_\_

6. The Total Replacement Cost of the project as shown in Section G on the lender's

HUD-92264 is \$ \_\_\_\_\_. Section G has been properly completed and is consistent with the lender submitted replacement cost by formula.

- Yes
- No (Document)

7. The report reviewed contains thorough documentation supporting the Remaining Economic Life Estimate of \_\_\_\_\_ years, in accordance with the requirements of Section 7.4. of the MAP Guide.

- Yes
- No (Document)

8. The Trial HUD-92264-A submitted by the lender was properly completed and indicates a

Criterion # \_\_\_\_\_ limited mortgage of \$ \_\_\_\_\_.

- Yes
- No (Document)

**Appendix 7**

**Valuation Processing**

9. For Substantial Rehabilitation of Sections 207M or 231, the report reviewed indicates an

**As Is Value of \$** \_\_\_\_\_, reconciled from the values of these applicable approaches;

Value by Cost Approach: \_\_\_\_\_  
Value By Sales Comparison Approach: \_\_\_\_\_  
Value by Income Approach: \_\_\_\_\_ Cap. % \_\_\_\_\_,  
GIM or EGIM \_\_\_\_\_

and the **Value After Rehabilitation of \$** \_\_\_\_\_, reconciled from the values of these applicable approaches;

Value by Cost Approach: \_\_\_\_\_  
Value By Sales Comparison Approach: \_\_\_\_\_  
Value by Income Approach: \_\_\_\_\_ Cap. % \_\_\_\_\_,  
GIM or EGIM \_\_\_\_\_

as noted on the lender's HUD-92264.

10. The reconciliation provides an adequate discussion relating to the quality and quantity of the information presented in the applicable approaches to value and the final value estimated is credible and can be relied upon to make underwriting decisions:

- Yes
- No (Document)

11. There has been an acceptable level of due diligence by the lender in the appraisal underwriting process as evidenced by the facts, analyses and conclusions presented in the underwriting summary and associated exhibits.

- Yes (Document)
- No (Document and prepare a referral to the Lender Quality Monitoring Division.)

**Comments/Recommendations:** (Attach additional pages as necessary.)

Review Appraiser's Certification:

I certify that, to the best of my knowledge and belief:

1. The facts and data reported by the reviewer and used in the review process are true and correct.

**Appendix 7**

**Valuation Processing**

2. The analysis, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use.
7. My analyses, opinions, and conclusions were developed and this review report was prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
8. I did personally inspect the subject property of the work under review.
9. The following persons provided significant real, business, or personal property appraisal, appraisal review or consulting assistance to the person signing this certification:

HUD Appraiser's  
Signature \_\_\_\_\_ Date \_\_\_\_\_  
License  
Number/State \_\_\_\_\_

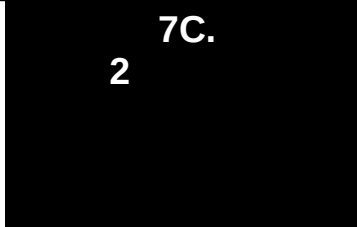
**Team Leader:**                    \_\_\_ **Concurrence**    \_\_\_ **Non-concurrence:**

Team Leader's  
Signature/Date \_\_\_\_\_ Date \_\_\_\_\_

Reasons for Non-concurrence: (Attach additional pages as necessary)



**HUD Appraiser Review  
HUD Valuation Report - Technical Review of  
Multifamily Accelerated Processing – Direct to  
Firm Commitment Section 207M, 220, 221(d)(3),  
221(d)(4) and 231**



This review of appraisal/consulting work product is to be completed in accordance with Standard 3 of the Uniform Standards of Professional Appraisal Practice (USPAP) currently in effect. The reviewer’s client and intended user is the U. S. Department of Housing and Urban Development. The purpose of the review is to ascertain if the appraisal/consulting work product under review meets the applicable requirements of the USPAP and HUD, and that the work product has well-supported conclusions that can be used in making a recommendation to issue, or not issue a Firm Commitment for HUD mortgage insurance.

HUD Multifamily Hub: \_\_\_\_\_

Team Leader: \_\_\_\_\_

Reviewer: \_\_\_\_\_

Date Received for Review: \_\_\_\_\_

Date of Reviewer Site Visit: \_\_\_\_\_

Review Report Completion Date: \_\_\_\_\_

SOA:        \_\_\_\_\_ 207M    \_\_\_\_\_ 220    \_\_\_\_\_ 221(d)(3)    \_\_\_\_\_ 221(d)(4)    \_\_\_\_\_ 231

Activity: (check all that apply)    \_\_\_\_\_ New Construction    \_\_\_\_\_ Sub-rehab    \_\_\_\_\_ Acquisition    \_\_\_\_\_ Refinance

Project Name: \_\_\_\_\_

Case #: \_\_\_\_\_

Mortgagee: \_\_\_\_\_

Mortgagor: \_\_\_\_\_

Appraiser: \_\_\_\_\_

Market Analyst: \_\_\_\_\_

Date of Appraisal under Review: \_\_\_\_\_

Property and Ownership Interest Appraised:

\_\_\_\_\_ Effective Date of Review:

**Appendix 7**

**Valuation Processing**

**A. Standard 3 Compliance:**

1. The Reviewer was able to adequately identify the property that is the subject of this review.  
 Yes  
 No (Document)
  
2. The Reviewer inspected the exterior of the subject and the following units (if applicable, list)  
 Yes  
 No (Document)
  
3. The Reviewer inspected the exterior of all of the comparables (rental and expense).  
 Yes  
 No (Document):
  
4. Indicate Resources and Data utilized to research and verify information in the report under review:
  
5. Describe the analyses employed and any additional work required to complete the review:
  
6. Describe any extraordinary assumptions that were necessary to complete the review:
  
7. Is the appraisal/consulting work product under review complete, within the context of the requirements applicable to the assignment?  
 Yes  
 No (Document):
  
8. Is the data used in the development of the appraisal/consulting work product under review adequate and relevant to the assignment?  
 Yes  
 No (Document):
  
9. Are the adjustments made to the data presented, appropriate and supported?  
 Yes  
 No (Document):
  
10. Are the methods and techniques employed by the appraiser relevant to the assignment and consistent with the appraiser's stated Scope of Work?

**Appendix 7**

**Valuation Processing**

- Yes
- No (Document):

11. Are the appraiser's analyses, opinions and conclusions appropriate and reasonable

- Yes
- No (Document):

**B. Review of the Market Analysis: (Refer to Appendix 7A)**

1. Does the Description of the Proposed Project comply with Section B.?

- Yes
- No (Document):

2. Is the Market Area defined and characterized in compliance with Sections C and D?

- Yes
- No (Document):

3. Is there adequate discussion of Current Market Conditions including projects under construction and in planning? (Sections E and F)

- Yes
- No (Document):

4. Has the Demand Estimate and Analysis been completed in accordance with Section G?

- Yes
- No (Document):

5. (For Age Restricted Projects) Have the relevant requirements from Appendix 7B been included in this market study?

- Yes
- No (Document):
- N/A

6. Are the conclusions presented in the Market Study consistent with the facts presented; with the findings and recommendations based on a reasonable forecast of market supply/demand conditions and sound assumptions regarding capture rates, absorption, achievable rents, income affordability and similar factors? (Section H)

- Yes
- No (Document):

7. Does Market Analysis assure that there is enough sustainable demand for additional units at the proposed rents without adversely impacting the existing supply?

**Appendix 7**

**Valuation Processing**

- Yes
- No (Document):

**C. HUD-92273 analysis:**

1. One HUD-92273 analyses was completed by the Lender's appraiser for each unit breakdown?
  - Yes
  - No (Document)
  
2. A minimum of three appropriate and competitive comparables were used in each of the HUD- 92273 analysis?
  - Yes
  - No (Document)
  
3. All amenities were identified and properly adjusted in the analysis?
  - Yes
  - No (Document)
  
4. Narrative explanations were given for amenity adjustments?
  - Yes
  - No
  
5. The HUD-92273 analysis completed by the Lender's appraiser conforms to the instructions listed in the MAP Guidebook?
  - Yes (Document)
  - No (Document)

**D. HUD-92274 analysis:**

1. A minimum of three market comparables were used in the HUD-92274 analysis?
  - Yes
  - No (Document)
  
2. The MAP Lender's appraiser used a HUD Insured project as an expense comparable?
  - Yes
  - No (Document)
  
3. The HUD Insured Project data was confirmed by the FASS System? (see MAP Guide 7.7.)

**Appendix 7**

**Valuation Processing**

- Yes
- No (Document)

4. The HUD-92274 analysis conforms to the instructions as stated in the MAP Guidebook?

- Yes (Document)
- No (Document)

E. The narrative explanation supporting the \_\_\_\_\_ % occupancy percentage estimated from the market for the project is:

- Acceptable
- Unacceptable (Document)

**F. Environmental Processing:**

1. The lender's Phase I Environmental Report, Phase II Report, if applicable, and any additional studies, as noted below, have been reviewed and are consistent with the conclusions contained on the completed HUD-4128.

- Yes
- No (Document)

2. The subject meets the Department's Environmental requirements in accordance with Chapter 9 of the MAP Guide:

- Yes
- No (Document):

3. All third party environmental reports identify the U.S. Department of Housing and Urban Development as an authorized user of the report:

- Yes
- No (Document):

**G. HUD-92264 Analysis:**

1. A HUD-92264 was properly completed and signed by the underwriter.

- Yes
- No (Document):

2. The analyses and conclusions contained in the HUD-92264 are consistent with the narrative report and all other supporting forms and documents.

- Yes
- No (Document):

**H. Other Technical Requirements:**

1. The appraiser(s) and market analyst(s) employed by the lender met the qualifications and licensure requirements in accordance with Section 7.3 of the MAP Guide.  
 Yes  
 No (Document):
  
2. The appraiser complied with the Department's inspection requirements according to Section 7.4. of the MAP Guide.  
 Yes  
 No (Document):
  
3. A HUD-92264-T, as appropriate, were completed (if required) according to Chapter 7 of the Guide and HN 92-97.  
 N/A  
 Yes  
 No (Document):
  
4. For Subjects that have LIHTC's or Section 8 project based subsidies; the appraiser has not attributed any benefit for the LIHTC award or Section 8 subsidies in the estimate of Warranted Price of Land in new construction or the As Is value in substantial rehabilitation cases. (A "Yes" response means that no benefit was attributed.)  
 N/A  
 Yes  
 No (Document):
  
5. The Operating Deficit estimate of \$ \_\_\_\_\_ covering a period of \_\_\_\_\_ months as entered on the lender's HUD-92264 form was properly calculated in accordance with the requirements in Section 7.14 of the Guide. (Note: If an Operating Deficit Escrow is not being required, there must be adequate documentation to support that the escrow is not needed.)  
 Yes  
 No (Document):  
 Not Required (Document):
  
6. The lender's HUD-92264-A shows that there is a Tax Abatement that increases the Net Operating Income by \$ \_\_\_\_\_. This amount has been properly calculated according to the requirements in Section 7.17 of the Guide.

**Appendix 7**

**Valuation Processing**

- N/A
- Yes
- No (Document):

**I. From a review of appraisal/consulting exhibits the following conclusions are made:**

1. The report reviewed supports the proposed rents and estimated rental income in compliance with the requirements found in Section 7.6 of the Guide: (Attach the rent schedule to this report.)

- Yes
- No (Document)

2. The report reviewed supports the proposed total operating expenses in compliance with the requirements found in Section 7.7 of the Guide: (Attach the schedule of expenses to this report)

\$ \_\_\_\_\_/unit Expense Ratio \_\_\_\_\_ % (of effective gross)

- Yes
- No (Document)

J. The resulting Net Operating Income is: \$ \_\_\_\_\_.

K. The report reviewed supports the Warranted Price of the Land of \$ \_\_\_\_\_

or the As Is Value of \$ \_\_\_\_\_, as applicable, as noted on the lender's HUD-92264, in compliance with the requirements of Section 7.8 of the Guide.

- Yes
- No (Document)

**L. For Section 220, 221(d)(3) or 221(d)(4) Substantial Rehabilitation:**

1. The As Is Value determination reconciled the values from these applicable approaches:

Value by Cost Approach: \_\_\_\_\_

Value By Sales Comparison Approach: \_\_\_\_\_

Value by Income Approach: \_\_\_\_\_ Cap. % \_\_\_\_\_

GIM or EGIM: \_\_\_\_\_

2. The Total Replacement Cost of the project as shown in Section G on the lender's

HUD-92264 is \$ \_\_\_\_\_. Section G has been properly completed and is consistent with the lender submitted replacement cost by formula.

- Yes
- No (Document)

3. The report reviewed contains thorough documentation supporting the Remaining Economic Life Estimate of \_\_\_\_\_ years, in accordance with the requirements of Section 7.4 of the Guide.

- Yes
- No (Document)

**Appendix 7**

**Valuation Processing**

4. The Trial HUD-92264-A submitted by the lender was properly completed and indicates a Criterion # \_\_\_\_\_ limited mortgage of \$ \_\_\_\_\_.

- Yes
- No (Document)

5. For Substantial Rehabilitation of Sections 207M or 231, the report reviewed indicates an **As Is Value of \$** \_\_\_\_\_, reconciled from the values of these applicable approaches;

Value by Cost Approach: \_\_\_\_\_

Value By Sales Comparison Approach: \_\_\_\_\_

Value by Income Approach: \_\_\_\_\_ Cap. % \_\_\_\_\_,  
GIM or EGIM \_\_\_\_\_

and the **Value After Rehabilitation of \$** \_\_\_\_\_, reconciled from the values of these applicable approaches;

Value by Cost Approach: \_\_\_\_\_

Value By Sales Comparison Approach: \_\_\_\_\_

Value by Income Approach: \_\_\_\_\_ Cap. % \_\_\_\_\_,  
GIM or EGIM \_\_\_\_\_

as noted on the lender's HUD-92264.

6. The reconciliation provides an adequate discussion relating to the quality and quantity of the information presented in the applicable approaches to value and the final value estimated is credible and can be relied upon to make underwriting decisions:

- Yes
- No (Document)

7. There has been an acceptable level of due diligence by the lender in the appraisal underwriting process as evidenced by the facts, analyses and conclusions presented in the underwriting summary and associated exhibits.

- Yes (Document)
- No (Document and prepare a referral to the Lender Quality Monitoring Division.)

**Comments/Recommendations:** (Attach additional pages as necessary.)

**Review Appraiser's Certification:**

I certify that, to the best of my knowledge and belief:

1. The facts and data reported by the reviewer and used in the review process are true and correct.



**Appendix 7**

**Valuation Processing**

2. The analysis, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use.
7. My analyses, opinions, and conclusions were developed and this review report was prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
8. I did personally inspect the subject property of the work under review.
9. The following persons provided significant real, business, or personal property appraisal, appraisal review or consulting assistance to the person signing this certification:

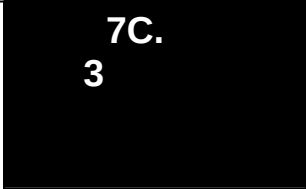
HUD Appraiser's  
Signature \_\_\_\_\_ Date \_\_\_\_\_  
License  
Number/State \_\_\_\_\_

**Team Leader :**                     **Concurrence**     **Non-concurrence:**

Team Leader's  
Signature/Date \_\_\_\_\_ Date \_\_\_\_\_

Reasons for Non-concurrence: (Attach additional pages as necessary)

**HUD Appraiser Review  
HUD Valuation Report - Technical Review of  
Multifamily Accelerated Processing – Firm  
Commitment Section 223(f)**



This review of appraisal/consulting work product is to be completed in accordance with Standard 3 of the Uniform Standards of Professional Appraisal Practice (USPAP) currently in effect. The reviewer’s client and intended user is the U. S. Department of Housing and Urban Development. The purpose of the review is to ascertain if the appraisal/consulting work product under review meets the applicable requirements of the USPAP and HUD, and that the work product has well-supported conclusions that can be used in making a recommendation to issue, or not issue a Firm Commitment for HUD mortgage insurance.

HUD Multifamily Hub: \_\_\_\_\_

Team Leader: \_\_\_\_\_

Reviewer: \_\_\_\_\_

Date Received for Review: \_\_\_\_\_

Date of Reviewer Site Visit: \_\_\_\_\_

Review Report Completion Date: \_\_\_\_\_

Activity: (check all that apply) \_\_\_\_\_ Acquisition \_\_\_\_\_ Refinance

Project Name: \_\_\_\_\_

Case #: \_\_\_\_\_

Mortgagee: \_\_\_\_\_

Mortgagor: \_\_\_\_\_

Appraiser: \_\_\_\_\_

Date of Appraisal under Review: \_\_\_\_\_

Property and  
Ownership Interest Appraised:

\_\_\_\_\_ Effective Date of

Review: \_\_\_\_\_

**Appendix 7**

**Valuation Processing**

**A. Standard 3 Compliance:**

1. The Reviewer was able to adequately identify the property that is the subject of this review.  
 Yes  
 No (Document)
  
2. The Reviewer inspected the exterior of the subject and the following units (if applicable, list)  
 Yes  
 No (Document)
  
3. The Reviewer inspected the exterior of all of the comparables (rental and expense).  
 Yes  
 No (Document):
  
4. Indicate Resources and Data utilized to research and verify information in the report under review:
  
5. Describe the analyses employed and any additional work required to complete the review:
  
6. Describe any extraordinary assumptions that were necessary to complete the review:
  
7. Is the appraisal/consulting work product under review complete, within the context of the requirements applicable to the assignment?  
 Yes  
 No (Document):
  
8. Is the data used in the development of the appraisal/consulting work product under review adequate and relevant to the assignment?  
 Yes  
 No (Document):
  
9. Are the adjustments made to the data presented, appropriate and supported?  
 Yes

**Appendix 7**

**Valuation Processing**

No (Document):

10. Are the methods and techniques employed by the appraiser relevant to the assignment and consistent with the appraiser's stated Scope of Work?

Yes

No (Document):

11. Are the appraiser's analyses, opinions and conclusions appropriate and reasonable

Yes

No (Document):

**B. Review of the Appraiser's Analysis of the Current Market for the Subject:**

1. Is the Market Area specifically defined and characterized?

Yes

No (Document):

2. Is there adequate discussion of Current Market Conditions including projects under construction and in planning?

Yes

No (Document):

3 (For Age Restricted Projects). Has this sub-market been adequately defined and characterized?

Yes

No (Document):

N/A

4. Are the conclusions presented in the Appraiser's Market Analysis consistent with the facts presented; with the findings and recommendations based on a reasonable forecast of market supply/demand conditions and sound assumptions regarding capture rates, absorption, achievable rents, income affordability and similar factors?

Yes

No (Document):

5. Does Market Analysis assure that there is enough sustainable demand for the long term use of the property as an apartment project?

Yes

**Appendix 7**

**Valuation Processing**

No (Document):

**C. HUD-92273 analysis:**

1. One HUD-92273 analysis was completed by the Lender's appraiser for each unit breakdown?  
 Yes  
 No (Document)
  
2. A minimum of three appropriate and competitive comparables were used in each of the HUD- 92273 analysis?  
 Yes  
 No (Document)
  
3. All amenities were identified and properly adjusted in the analysis?  
 Yes  
 No (Document)
  
4. Narrative explanations were given for amenity adjustments?  
 Yes  
 No
  
5. The HUD-92273 analysis completed by the Lender's appraiser conforms to the instructions listed in the MAP Guidebook?  
 Yes (Document)  
 No (Document)

**D. HUD-92274 analysis:**

1. A minimum of three market comparables were used in the HUD-92274 analysis?  
 Yes  
 No (Document)
  
2. The MAP Lender's appraiser used a HUD Insured project as an expense comparable?  
 Yes  
 No (Document)
  
3. The HUD Insured Project data was confirmed by the FASS System? (see MAP Guide Chapter7)  
 Yes  
 No (Document)

**Appendix 7**

**Valuation Processing**

4. The HUD-92274 analysis conforms to the instructions as stated in the MAP Guidebook?
- Yes (Document)
  - No (Document)

**E. The narrative explanation supporting the \_\_\_\_\_ % occupancy percentage estimated from**

**the market for the project is:**

- Acceptable
- Unacceptable (Document)

**F. Environmental Processing:**

1. The lender's Phase I Environmental Report, Phase II Report, if applicable, and any additional studies, as noted below, have been reviewed and are consistent with the conclusions contained on the completed HUD-4128.

- Yes
- No (Document)

2. The subject meets the Department's Environmental requirements in accordance with Chapter 9 of the MAP Guide:

- Yes
- No (Document):

3. All third party environmental reports identify the U.S. Department of Housing and Urban Development as an authorized user of the report:

- Yes
- No (Document):

**G. HUD-92264 Analysis:**

1. A HUD-92264 was properly completed and signed by the underwriter.

- Yes
- No (Document):

2. The analyses and conclusions contained in the HUD-92264 are consistent with the narrative report and all other supporting forms and documents

- Yes
- No (Document):

**H. Other Technical Requirements:**

**Appendix 7**

**Valuation Processing**

1. The appraiser(s) and market analyst(s) employed by the lender met the qualifications and licensure requirements in accordance with Section 7.3 of the MAP Guide.  
 Yes  
 No (Document):
2. The appraiser complied with the Department’s inspection requirements according to Section 7.4. of the MAP Guide.  
 Yes  
 No (Document):
3. A HUD-92264-T and Subsidy Layering Review, as appropriate, were completed as required according to Chapter 7 and HN 92-97.  
 N/A  
 Yes  
 No (Document):
4. For Subjects that have LIHTCs or Section 8 project based subsidies; the appraiser has not attributed any benefit for the LIHTC award or Section 8 subsidies in the estimate of Warranted Price of Land in new construction or the As Is value in substantial rehabilitation cases. (A “Yes” response means that no benefit was attributed.)  
 N/A  
 Yes  
 No (Document):
5. The Operating Deficit estimate of \$ \_\_\_\_\_ covering a period of \_\_\_\_\_ months as entered on the lender’s HUD-92264 form was properly calculated in accordance with the requirements in Section 7.14 of the Guide. (Note: If an Operating Deficit Escrow is not being required, there must be adequate documentation to support that the escrow is not needed.)  
 Yes  
 No (Document):  
 Not Required (Document):
6. The lender’s HUD-92264-A shows that there is a Tax Abatement that increases the Net Operating Income by \$ \_\_\_\_\_. This amount has been properly calculated according to the requirements in Section 7.17 of the Guide.  
 N/A

**Appendix 7**

**Valuation Processing**

- Yes
- No (Document):

**I. From a review of appraisal/consulting exhibits the following conclusions are made:**

1. The report reviewed supports the proposed rents and estimated rental income in compliance with the requirements found in Section 7.6 of the Guide: (Attach the rent schedule to this report.)
  - Yes
  - No (Document)
  
2. The report reviewed supports the proposed total operating expenses in compliance with the requirements found in Sections 7.4 and 7.7 of the Guide: (Attach the schedule of expenses to this report)  
\$ \_\_\_\_\_/unit    Expense Ratio \_\_\_\_\_ % (of effective gross)
  - Yes
  - No (Document)
  
3. The resulting Net Operating Income is: \$ \_\_\_\_\_.
  
4. The report reviewed supports the Warranted Price of the Land of \$ \_\_\_\_\_ or the As Is Value of \$ \_\_\_\_\_, as applicable, as noted on the lender's HUD-92264, in compliance with the requirements of Section 7.8 of the Guide.
  - Yes
  - No (Document)
  
5. The Total Replacement Cost of the project as shown in Section G on the lenders HUD-92264 is \$ \_\_\_\_\_. Section G has been properly completed and is consistent with the lender submitted replacement cost by formula.
  - Yes
  - No (Document)
  
6. The reconciliation of the applicable approaches and final value determination for the subject is summarized as follows:  
Value by Cost Approach: \_\_\_\_\_  
Value By Sales Comparison Approach: \_\_\_\_\_  
Value by Income Approach: \_\_\_\_\_ Cap. % \_\_\_\_\_  
GIM or EGIM \_\_\_\_\_ Value Estimate: \_\_\_\_\_



**Appendix 7**

**Valuation Processing**

7. The reconciliation provides an adequate discussion relating to the quality and quantity of the information presented in the applicable approaches to value and the final value estimated is credible and can be relied upon to make underwriting decisions:  
 Yes  
 No (Document)
  
8. The report reviewed contains thorough documentation supporting the Remaining Economic Life Estimate of \_\_\_\_\_ years, in accordance with the requirements of Section 7.4 of the Guide.  
 Yes  
 No (Document)
  
9. The Trial HUD-92264-A submitted by the lender was properly completed and indicates a Criterion # \_\_\_\_\_ limited mortgage of \$ \_\_\_\_\_.  
 Yes  
 No (Document)
  
10. There has been an acceptable level of due diligence by the lender in the appraisal underwriting process as evidenced by the facts, analyses and conclusions presented in the underwriting summary and associated exhibits.  
 Yes (Document)  
 No (Document and prepare a referral to the Lender Quality Monitoring Division.)

**Comments/Recommendations:** (Attach additional pages as necessary.)

Review Appraiser's Certification:

I certify that, to the best of my knowledge and belief:

1. The facts and data reported by the reviewer and used in the review process are true and correct.
2. The analysis, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

**Appendix 7**

**Valuation Processing**

5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use.
7. My analyses, opinions, and conclusions were developed and this review report was prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
8. I did personally inspect the subject property of the work under review.
9. The following persons provided significant real, business, or personal property appraisal, appraisal review or consulting assistance to the person signing this certification:

HUD Appraiser's  
Signature \_\_\_\_\_ Date \_\_\_\_\_  
License  
Number/State \_\_\_\_\_

**Team Leader:**                     **Concurrence**     **Non-concurrence:**

Team Leader's  
Signature/Date \_\_\_\_\_ Date \_\_\_\_\_

Reasons for Non-concurrence: (Attach additional pages as necessary)

## Appendix 8

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# Mortgage Credit Underwriting and Processing Requirements

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	<b>Title</b>
8A	HUD Mortgage Credit Review of Lender's Underwriter's Processing
8B	Table of Basic Statutory Mortgage Limits - National Housing Act <a href="http://www.hud.gov/offices/hsg/mfh/hicost/hicost.cfm">http://www.hud.gov/offices/hsg/mfh/hicost/hicost.cfm</a>
8C	Payoff Letter for Existing Mortgage
8D	How to Analyze Financial Statements

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## HUD Mortgage Credit Review of Lender's Underwriter's Processing

**8  
A**

HUD Office Name \_\_\_\_\_

Application Submission Date \_\_\_\_\_

Project Name \_\_\_\_\_

Project Location (City, State) \_\_\_\_\_

MAP Lender Name \_\_\_\_\_

Mortgagor Name \_\_\_\_\_

Pre-Applications  Firm Commitment Application

### A. Pre-Application

1. Review of Lender's Underwriter's estimate of the replacement cost:

If unacceptable, state reasons:

2. Review of Lender's Underwriter's estimate of the insurance mortgage amount:

If unacceptable, indicate reasons:

3. Acceptability of any nonprofit sponsors/mortgagors:

If unacceptable, indicate reasons:

### B. Firm Commitment.

1. HUD programs previous participation (HUD-2530) reviews:

Listing of unacceptable principals:

2. General review of the Lender's Underwriter's report and the HUD Form-2264-A, comments:

If report unacceptable, state reasons:

3. Acceptability of the sponsor, mortgagor and its key principals, and the contractor:

If unacceptable, state reasons:

- 4. Acceptability of the maximum mortgage amount:

If unacceptable, state reasons:

- 5. Acceptability of the financial requirements for settlement:

If unacceptable, state reasons:

- 6. Verifications of sources of funds to meet cash requirements:

I have reviewed the subject project and hereby make the following recommendations(s):

Reviewer:

Name of Reviewer: \_\_\_\_\_

Signature and Date of Review \_\_\_\_\_ Date \_\_\_\_\_

Concurrence:

Name of Team Leader \_\_\_\_\_

Signature and Date of Concurrence \_\_\_\_\_ Date \_\_\_\_\_

**Table of Basic Statutory Mortgage Limits - National Housing Act**

**8  
B**

**Sections 207 - 220 - 223(f)**

No. Bedrooms	<b>Non-Elevator Basic Limit</b>	<b>Elevator Basic Limit</b>
0	\$38,869	\$44,849
1	\$43,055	\$50,230
2	\$51,426	\$61,592
3	\$63,386	\$77,140
4+	\$71,758	\$87,221

**Sections 213**

No. Bedrooms	<b>Non-Elevator Basic Limit</b>	<b>Elevator Basic Limit</b>
0	\$42,121	\$44,849
1	\$48,565	\$50,813
2	\$58,572	\$61,787
3	\$74,971	\$79,932
4+	\$83,521	\$87,741

**Section 221(d)(3) - 234 – Nonprofit/Cooperative**

No. Bedrooms	<b>Non-Elevator Basic Limit</b>	<b>Elevator Basic Limit</b>
0	\$42,980	\$45,232
1	\$49,557	\$51,849
2	\$59,766	\$63,049
3	\$76,501	\$81,563
4+	\$85,225	\$89,531

**Section 221(d)(4)**

No. Bedrooms	<b>Non-Elevator Basic Limit</b>	<b>Elevator Basic Limit</b>
0	\$38,682	\$41,783
1	\$43,907	\$47,899
2	\$53,072	\$58,243
3	\$66,615	\$75,346
4+	\$75,485	\$82,708

**Section 231**

No.	<b>Non-Elevator Basic Limit</b>	<b>Elevator Basic Limit</b>
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**Appendix 8**

**Mortgage Credit Underwriting**

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Bedrooms		
0	\$36,776	\$41,783
1	\$41,112	\$47,899
2	\$49,094	\$58,243
3	\$59,080	\$75,346
4+	\$69,458	\$82,708

**Section 207 - Manufactured Home Parks**

Per Space	Basic Limit
	\$17,847





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## How to Analyze Financial Statements

**8D**

Please follow the instruction below to correctly analyze financial Statement(s) when determining the financial capability of the Mortgagor, Sponsor, General Contractor, and or Manager.

- A. **Current Assets** are cash and other assets convertible into cash during the normal operating cycle of business operations or 1 year, whichever is less.
1. When reviewing cash, take into consideration compensating balances, which would limit the amount of cash actually available.
  2. Determine the current value of readily marketable stocks and bonds.
  3. Evaluate the accounts receivable and classify the following as noncurrent.
    - a. Amounts due from officers and employees.
    - b. Amounts advanced to subsidiary, affiliated or associated companies.
    - c. Disputed accounts receivable.
    - d. Accounts receivable past due for more than 60 days. Funds from a local, State or Federal source past due beyond this period may be considered if evidence is provided that source is historically late and it can be expected that these funds will be received before initial closing.
  4. Using a Schedule of Accounts Receivable by Age, determine if the amount allowed for doubtful accounts, if any, is adequate.
  5. Recognize only syndication proceeds from other projects and notes receivable to be collected during the normal operating cycle or 1 year, whichever is less.
  6. If the statement is audited, evaluate inventory and establish its liquidation value, relying on the accountant's review. Do not consider inventory, if statement is unaudited.
  7. Recognize only prepaid expenses for the project.
  8. Do not include:
    - a. Equity in the proposed site, since consideration is given on Form HUD-92264-A, Part A.
    - b. Cash equity in land and/or properties unless they are readily marketable and intended for the sale market.
    - c. Anticipated profits from business ventures.

## Appendix 8

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- d. Equities in real estate encumbered by high ratios of loan to value mortgages, unlisted stocks, goodwill, and other intangible assets.

**B. Current liabilities** are payables due during the normal operating period or 1 year, whichever is less.

1. Include as current liabilities, regardless of term, those relating to marketable land and completed properties that were treated as current assets.

NOTE: If the balance sheet does not reflect the amounts required to complete construction in progress, the sponsor/general contractor must submit a supplementary statement of such amounts, which contains the truth and accuracy certification referred to in Section 8.4 B 1 b.

2. Consider amounts due to officers, employees, affiliates or stockholders as current liabilities unless the obligations have a definite long-term maturity.
3. Consider amounts needed to satisfy broker's margin account (brokerage account allowing customers to buy securities with money borrowed from the broker).
4. Consider current portion of long-term liabilities.
5. Current year income tax payable. Normally, deferred income taxes are not considered current as long on the economic outlook of company does not appear to be in an adverse trend.
6. Do not include the amount outstanding on the project land, since this obligation is considered on Form HUD-92264-A, Part A.

**C. Working Capital** is the excess of current assets over current liabilities. If current liabilities exceed current assets, precede the difference with a minus sign to show a deficit.

**D. Adjust the net working capital to consider:**

1. Effects of contingent liabilities.
2. Financial needs of other projects in the planning stage or under construction.

**E. Contingent Liability Related to Agreement for Payment of Real Property Taxes by Sponsor**, Form FHA-1708. This agreement requires the sponsor to make a lump sum payment to cut the mortgage to an amount which could be carried by the mortgagor on a tax-paying basis if a project does not obtain or loses its abatement or exemption from real estate taxes in the future.

1. The execution of this Form is not required if tax exemption is granted based upon State legislation granting tax exemption to particular types of housing, e.g., housing located in urban renewal areas or housing for low and moderate income groups or for other social needs.
2. The execution of this Form is required for all insured projects if tax exemption is granted based upon general charitable statutes.
3. Treat this as a contingent liability when analyzing the Sponsor's financial statements.
4. If the Sponsor does not evidence the capacity to meet the financial requirements for closing plus this contingent liability, process on a tax-paying basis.
5. This requirement is not applicable to Section 202 or 811 projects in which the Field Counsel has concurred in the validity of the exemption based upon special legislation or general charitable statutes.

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**F. When a sponsor's financial interests are represented by a number of corporations:**

1. Require a certification from the Board of Directors, which evidences their willingness to make the required funds available.
2. Establish the availability of funds from such corporations.
3. Consider whether:
  - a. Individual corporations have any operating capital to spare.
  - b. Laws under which they are incorporated and/or their banks permit:
    - (1) Withdrawals, loans or advances to owners or sponsors.
    - (2) Stock investment in affiliated corporations.
    - (3) Guarantee of debts of associated corporations.
  - c. In analyzing financial statement:
    - (1) Do not consider interlocking debts, receivables and investments between all affiliated corporations.
    - (2) Consider only those assets readily available for investment by the mortgagor.
    - (3) Do not consider the operating capital and/or net worth of rental project holding corporations as assets available for closing.

**G. If funds are being provided by a parent company or affiliate of the sponsor:**

1. Require a certification from the Board of Directors or authorized agent which specifies the funds the parent company/affiliate is willing to commit.
2. Establish the availability of funds from parent company/affiliate.
3. Require the parent company/affiliate to submit a certification indicating that the lending institution will not make any claim against the mortgaged property, mortgage proceeds, any reserve or deposit required by HUD, or against the rents or other income from the mortgaged property for payment of the loan. This certification must contain the criminal warning reflected in Section 8.4 B b(3).

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**Appendix 11**

**Lender Underwriting HUD Review**

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<b>Appendix</b>	<b>Title</b>
11A	Standardized Underwriting Narrative – Section 221(d)(4)
11B	Standardized Underwriting Narrative – Section 223(f)

**Standardized Underwriting Narrative**  
-  
**Section 221(d)(4)**

**11A**

CONTENT

**Standardized Underwriting Narrative -  
Section 221(d)**

**11B**

CONTENT


**Appendix 12**  

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**Construction Period**

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	<b>Appendix</b>	<b>Title</b>
12A		Instructions for Approval of Initial / Interim Advances
12B		Contractor’s Monthly Requisition and Related Matters
12C		Amendment to the Construction Contract for Payment for Components Stored Offsite
12D		Problems Before Final Closing

## Instructions for Approval of Initial / Interim Advances

**12A**

### A. Approving Initial/Interim Advances

1. Before advancing any insured mortgage proceeds, disburse other available funding sources in the following order:
  - a. All funds from the cash escrow established by the mortgagor for: onsite construction, fees, carrying charges, and financing (front money escrow).
  - b. Grant/loan proceeds furnished by a national, regional, or local community service organization or a private source.
  - c. Grant/loan proceeds furnished by a government agency or instrumentality or low-income housing or historic tax credits, unless the Hub or Program Center Director has previously approved a pro-rata disbursement arrangement.
2. The amount approved for a requested item cannot exceed the amount claimed by the mortgagor. Release of the front money cash escrow may not be targeted to the completion of specific on-site improvements.
3. The Lender states on Form HUD-92403 the cumulative total of all advances made to the mortgagor, including the advance under consideration. Reconcile any discrepancies before recommending approval of the advance.
4. Lender-approved disbursement amounts shall not exceed the sum of the amounts approved:
  - a. For mortgage insurance,
  - b. For funding from the mortgagor's cash escrow; and
  - c. For funding from available grant/loan proceeds.
5. Disbursement of Tax Credits at Initial Endorsement

The Housing and Economic Development Recovery Act of 2008 (HERA) provides that if the project is to receive the benefit of equity from the sale of low-income housing tax credits (LIHTC), the Department may not require the escrowing of the equity, or accept any form of security in place thereof, such as a letter of credit.

- a. The mortgagor's initial installment of tax credits is no less than twenty percent (20%) of the tax credits allocated for mortgageable costs. The initial installment must be expended on the initial requisition.
- b. The mortgage should have already provided a disbursement schedule of the remaining outlay of tax credits increments.



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### B. Architect's Fees

1. The Architect's cash fee is in AIA Document B108, Standard Form of Agreement Between Owner and Architect for a Federally Funded or Federally Insured Project.
2. If there is one agreement for both design and supervisory services, a specific dollar amount must be indicated for each service.
3. There may be separate agreements for design and for supervisory services.
4. The Architect's design cash fee may be released with the initial advance.
5. Design services provided by others as detailed in the B108 must be supported by contracts approved by HUD during commitment processing before any funds may be advanced.
6. The Mortgagor's and Architect's Certificate, Form HUD-92403.01, must accompany any request or partial request for advance of the design fee.
7. The Architect's supervisory cash fee is advanced based on a percentage of completion method. The maximum amount that may be approved is computed by multiplying the Architect's supervisory cash fee by the percentage of work completed and approved on Form HUD-92448, then deducting the total of installments previously paid.
8. There is no "holdback" applied to the disbursements approved from the Architect's Cash Fee.

- C. For Insurance of Advances, the Carrying Charges, Financing, Legal, and Audit Expense must not exceed their allocations in the Building Loan Agreement. Approve items due or already paid by the mortgagor which are supported by bills or paid receipts. Do not approve costs for interest, taxes and insurance incurred during early start period.

Note: At cost certification, certify to the actual cost without regard to release limitations imposed by the Building Loan Agreement during the Construction period.

1. Interest is to be advanced only when and as earned. The Lender must specify on Form HUD-92403, the period(s) for which interest is requested and the amount for each period.
  - a. At initial closing, verify as to whether a 360 or 365-day (or 366, if leap year) factor is to be used in calculating interest. Check each interest request for accuracy based on the factor indicated, and the annual interest rate approved at initial endorsement.
  - b. The Lender is prohibited from drawing down interest and refunding a portion of the money to the mortgagor. Such practice constitutes a kickback and is not acceptable to HUD and will be treated as a direct mortgage reduction.
2. Taxes. In approving amounts for this line item:

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- a. Do not allow amounts which accrued before initial endorsement.
  - b. Approve invoices which are payable during construction, even if a portion of the billing period will be after an allowable cutoff date. Necessary adjustments will be made at the time of cost certification.
3. Insurance. Allow amounts for fire, windstorm, extended coverage, liability, and other risk insurance customarily insured against in the community.
- a. Do not allow amounts which accrued before initial endorsement.
  - b. Do not approve invoices/receipts for workmen's compensation and/or public liability insurance which are included in the cost estimate.
4. Mortgage Insurance Premium may not exceed the amount due for 1 year.
5. Initial service charge and permanent lender fees are limited to:
- a. The actual amount paid or the amount stipulated in the Mortgagee's Certificate, Form HUD-2434, whichever is less.
  - b. The initial service fee cannot exceed 2 percent.
  - c. The combined amount may not exceed 3.5 percent of the mortgage.
- Note: If the 3.5 percent included in processing exceeds the financing fee charged by the mortgagee, identify the excess as restricted funds. For bond financed projects it is capped at 5.5 percent. Amounts in excess of 5.5 percent are not mortgageable.
6. Legal fees may be allowed for:
- a. Mortgagee's Counsel to create the mortgagor entity; however, do not allow the cost of legal services to create tax shelters, trusts, etc.
  - b. Costs associated with a counsel's review of initial and final closing documents.
  - c. Normal interim activities in creating a project.
  - d. Documented costs for items in paragraphs 6.a, b, and c above which are due and payable before or at final closing may be approved in the initial advance, provided the limitation in paragraph 6.e below is not exceeded.

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- e. Seventy-five percent may be disbursed at initial closing or during construction. The remaining 25 percent may not be released before final endorsement.

NOTE: Do not allow legal expenses of the MAP Lender or legal services connected with land acquisition, title and recording charges and/or obtaining zoning as they are reflected in the land value. Amounts included in Form HUD-92264 for legal and audit expenses are not blanket allowances, but ordinarily set an upper limit on allowable amounts. Non-typical fees must be borne by the mortgagor, unless in an exceptionally complex case, a higher fee is proven by the mortgagor to be necessary and reasonable. Detailed invoices and/or other documentation is required as to the reasonableness, purpose, necessity, and proper classification of all items in the category.

### 7. Organizational Fees:

- a. The amount included in the replacement cost estimate for organizational fees is an allowance to reimburse the mortgagor for costs incurred to:

- (1) Initiate a project;
- (2) Organize the mortgagor entity;
- (3) Organize its planning, financing and construction, and
- (4) Control and manage construction through endorsement
- (5) Third Party costs (Appraiser etc.)

- b. Release based upon the following:

- (1) Disburse 65 percent at initial closing.
- (2) Disburse 15 percent during construction based upon a percentage of completion.
- (3) Disburse the remaining 20 percent at final endorsement.

Note: Lender's Third Party Costs, reflected in Organization Costs are exempted from the 65% rule. The rule only applies to the mortgagor's organizational costs.

- c. This allowance may not be used to subordinate the cash requirements for closing.

d. At cost certification allow only the amount included in Section G of Form HUD-92264 for organizational fees, unless fully supporting documentation is submitted by the mortgagor which justifies the need for and

## Appendix 8

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reasonableness of the additional expenditure. Any costs incurred in excess of this allowance are not eligible for recognition in processing a mortgage increase or the equity computation on Form HUD-2580, Maximum Insurable Mortgage.

8. Audit fees associated with obtaining an accountant's opinion of the mortgagor's cost certification cannot be advanced until final endorsement.
9. Title and Recording. Approve amounts typically incurred for:
  - a. Title search and policy at the time of initial endorsement;
  - b. Recording fees at initial endorsement;
  - c. Mortgage and stamp taxes;
  - d. Survey recording fees;
  - e. Updating title policy during construction;
  - f. Final title policy and recording charges; and
  - g. Legal fees incurred with any of the above.

\*\* Do not fully disburse these funds at initial endorsement. Ensure that sufficient funds are maintained in the account to cover title and recording costs required at final endorsement. This may require the approval of an amount less than that requested in the initial draw.

\*\* Do not disburse funds for title and recording cost associated with acquisition of the land or property.

\*\* Legal, organizational, title, recording costs and taxes incurred in connection with the site purchase may be added to the cost of the land in establishing the latest arms' length purchase price.
10. Developer's fee is provided in the estimated replacement cost of Sections 220, and 221 projects involving nonprofit mortgagors. Part or the entire fee may be used to pay for transactional costs associated with developing the project including but not limited to:
  - a. Reduction of the estimated closing costs of the project;
  - b. Staff salaries;
  - c. Nonprofit working capital deposit;
  - d. Relocation expenses;

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- e. Operating deficit escrow;
  - f. Financing fees over and above the 3.5 percent included in the estimated replacement cost of the project;
  - g. Environment studies; and
  - h. Housing Consultant services provided by either in-house staff or contractor.
11. Pre-marketing Allowance. A pre-marketing allowance computed as \$1,500 per unit is included in the replacement cost. This pre-marketing budget allows the mortgagor to pay rent, hire marketing staff, and buy promotional services, consultants, and supplies. To obtain release of the pre-marketing funds, the mortgagor must submit a schedule of marketing and lease-up activities prior to initial endorsement. HUD must approve the pre-marketing schedule including the start of lease-up activities.
12. Tap fees, soil testing and other fees. Approved disbursement must be fully supported and is not to exceed the amount estimated in the general contractor's or mortgagor's list of other fees for requested items. Approve disbursement only for items actually due.
13. The contingency reserve is included in the replacement cost of substantial rehabilitation projects.
- a. Use the contingency reserve for:
    - (1) Unforeseen costs of necessary changes approved by the HUD Office.
    - (2) Unanticipated soft costs associated with extension of time change orders approved by the HUD Office.
  - b. Changes classified as betterments by Architectural and Cost staff is ineligible for funding.
14. Third-Party Lender Expenses: Fees to be paid for third-party review costs of the Lender including but not limited to Architectural reviews, Cost reviews, appraisals, and market studies.
15. At initial endorsement, HUD fees for examination and inspection.
16. Sums allocated to acquisition cost of land or existing building.
- D. Allocation of Cash Available to the Mortgagor:

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1. Allocation of cash available to the mortgagor listed on line 42 of Form HUD-2283, Financial Requirements for Closing (excess mortgage proceeds) may be allocated to the following items:
  - a. New Construction.
    - (1) HUD's estimate of the "as-is" value of land or the actual latest arms' length purchase price, whichever is less. The latest arms' length purchase price may include the following costs incurred in connection with the site purchase:
      - (a) Legal fees associated with negotiations for acquisition of land, zoning, and examination of title on the purchase or defense of title after purchase.
      - (b) Prepaid special assessments.
      - (c) Interest on bridge loans to purchase property after the date of submission of the initial application for mortgage insurance.
      - (d) Taxes.
      - (e) Cost of improvements made to the project site by the sponsor/mortgagor.
    - (2) Cash escrow to cover offsite construction cost.
    - (3) Cost of any demolition reflected in the Fair Market Value of Land. Payment is approved as demolition progresses.
    - (4) Construction and/or permanent loan discounts required to be paid at initial closing.
    - (5) Cash to cover interest shortfall escrow, working capital deposit, initial operating deposit, non-realty items and any permanent loan discounts not required to be paid at initial closing.
    - (6) Remaining balance may be used to fund any approved change orders or held until final endorsement.
  - b. Rehabilitation of Existing Construction.
    - (1) HUD's estimate of the "as-is" value by market comparison or the mortgagor's acquisition cost/existing indebtedness, whichever is less.
    - (2) Items a (1) through (6) above.

### E. Restricted Excess Mortgage Proceeds:

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1. Restricted excess mortgage proceeds are those excess mortgage proceeds determined not to be available to the mortgagor during construction, i.e., difference by which the HUD estimate exceeds contract amounts.
  - a. These funds cannot be used to satisfy any escrow requirements and must be held until final endorsement.
  - b. Identify these funds in an unused column of Form HUD-92451 as restricted funds.
- F. Lender Duties for Processing Form HUD-92403. The Lender must review and approve Form HUD-92403 conducting the following major responsibilities:
  1. Reconcile any discrepancies between the cumulative total for all advances, including the advance under consideration, and conclusions reached in the processing before recommending the advance for approval.
    - a. Enter any required adjustments in Column B and note, “No Adjustment Necessary, Except as Indicated,” or “No Adjustment Necessary,” as appropriate.
    - b. Enter the approved amount in the “Certificate of Mortgage Insurance” on the face of the form, and where the request is reduced, explain the disallowance on the form’s reverse side.
  2. Determine monthly that advances are proportionate to construction progress.
    - a. Require the Lender’s underwriter to advise you where advances for “soft costs”, i.e., financing and carrying charges, are in excess of work progress as shown by the most current Progress Schedule accepted by the HUD and the percentage of project completion reflected on Form HUD-92448.
    - b. Take action where the mortgage is not in balance due to the fault of the contractor.
  3. Secure approval from HUD for any advance requesting release of any portion of the contractor’s 10 percent holdback.
  4. Maintain a record of approved disbursements on Form HUD-92451, Financial Record of Mortgage Loan Transaction.
- G. Certificate of Mortgage Insurance: (Prepare when the advance is eligible for approval.)
  1. The approved sum is the total for the Contractor’s Requisition and other eligible line items.

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2. The total approved for any item must not exceed the amount allocated to the item unless the Lender submits a written request to HUD for permission to reallocate funds between line items.
  3. The sum approved for mortgage insurance is the amount approved for advance less any funds remaining in the front money escrow and any grant/loan proceeds.
  4. For interim advances, the Lender is to prepare this Certificate and sign for HUD, to increase the amount of mortgage insurance.
  5. After signing Form HUD-92403 in the space for the Authorized HUD Official, and signing Form HUD-92448 for the Director of Housing Development, the Lender sends a copy of Forms HUD-92403, HUD-92448, HUD-92451, and supporting documentation to HUD.
- H. HUD Monitoring of Interim Draws. HUD mortgage credit staff will monitor interim draws. If a problem is encountered during an interim draw, HUD mortgage credit staff will bring the problem to the Hub Director's attention in order to:
1. Modify the next draw, or
  2. Withdraw the Lender's authority to approve advances.
- I. Disbursement of Grant/Loan Proceeds/Tax Credit proceeds. Grant/loan proceeds may come either from a governmental source, i.e., Federal, State, or local government agency or instrumentality, or a nongovernmental source, e.g., a foundation. Tax credit proceeds come from nongovernmental sources, e.g., private investors.
1. General for Governmental/Nongovernmental Source Funds. The proceeds are used to fund a front money cash escrow (Part A of the "Total Requirements for Settlement", Form HUD-92264-A) at initial closing, whether the funding source is a governmental or nongovernmental entity. See paragraph 2 below for additional options to a cash escrow available to governmental source entities only.
    - a. Disbursement priority of grant/loan/tax credit proceeds in relation to mortgage proceeds and other escrows is discussed in paragraph [A].
    - b. Disbursement procedures from the cash escrow are discussed in paragraph [D].
    - c. Release of grant/loan proceeds may not be targeted to the completion of specific onsite improvements.
  2. Additional Options for Governmental Source Funds. Where the grant/loan proceeds come from a governmental source, the mortgagor may use instead of a cash escrow:



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- a. An unconditional irrevocable letter of credit issued by a banking institution, or
- b. An agreement entered into by HUD, the Lender, the mortgagor and the governmental entity for a pro rata disbursement of the loan/grant proceeds.
  - (1) Pro Rata Agreement for Governmental Source Funds and tax credits per 24 CFR 200.54. See Chapter 8.10.

**Contractor's Monthly Requisition and Related Matters****12B**

- A. Contractor's Monthly Requisition must be made on Form HUD-92448. The Contractor's Prevailing Wage Certificate on the form's reverse side must be signed. The HUD Inspector reviews for acceptability. If acceptable, forward to Lender's mortgage credit analyst for further processing.
1. Eligible items for inclusion on Form HUD-92448.
    - a. Acceptably completed onsite work, i.e. in full compliance with contract documents;
    - b. Materials acceptably stored onsite itemized by quantity and cost with supporting invoices;
    - c. Components acceptably stored offsite, where provisions are made at initial closing in accordance with Chapter 12, and requirements of Paragraph B below are met.
    - d. The Architect determines amounts due by job site observation of acceptable work. (The HUD Inspector makes the determination if there is no Architect.)
    - e. The HUD Inspector:
      - (1) Checks the Architect's determination using Form HUD-2328, Schedule of Values, and trade item cost breakdowns (guides) to assure that amounts are reasonable for acceptable work and that funds remain for unacceptable and incomplete work;
      - (2) Spot checks the count of stored onsite items, determines that storage is acceptable, and assures that amounts are reasonable for approval;
      - (3) Checks the invoice and certificate for stored onsite items, and approves payment after assuring that funds remain for transportation to the site and erection.
  2. Ineligible items for inclusion on Form HUD-92448.
    - a. Noncompliant work and work supported or dependent upon noncompliant work. Work changes completed in anticipation of future change order approvals are noncompliant work.
    - b. Additive change orders. Refer all change orders to HUD for processing and payment.
    - c. Offsite work. See Paragraph C below for the contractor's requisition of payment, and release of funds to the mortgagor for acceptably completed offsite work.
  3. Modification of Contractor's Requested Amount.

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Where there is disagreement with the requisition, the HUD inspector may modify the contractor's requested amount by:

- a. Entering trade item modification(s) on Form HUD-92448;
- b. Explaining the modification(s) in the HUD Representative's Trip Report, Form HUD-95379.
- c. Completion of Form HUD-92448, Items (1) through (13) are made by the Lender.

### 4. Supporting Documentation.

- a. In order to help the HUD Inspector reconcile differences with contractor claims, the contractor will submit receipts, bills of lading for onsite deliveries, billings for onsite work, evidence of onsite payrolls, etc.
- b. Surveys may be submitted with each contractor's requisition for improvements not previously shown on a survey, especially regarding:
  - (1) Where the siting of structures or setting of finished floor elevations are questioned;
  - (2) Location of materials stored onsite.
- c. A survey is required for the next to last advance.

### B. Components Stored Offsite.

1. Eligible Building Components. Only "building components" qualify for insurance of advances when stored offsite.
  - a. An "eligible building component" is a manufactured or pre-assembled building element which, by reason of bulk, size or weight, vulnerability to weather conditions or lack of space at the site, is impractical to store at the site.
  - b. Eligible building components comprise, but are not limited to:
    - (1) Precast concrete floor, wall, and roof panels;
    - (2) Assembled bath and/or kitchen core units;
    - (3) Fully fabricated structural steel beams and columns.
  - c. Items that are not eligible "building components" are (but not limited to): kitchen appliances, carpeting, wood roof trusses, etc.

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2. Basic Requirements for insured advances.
  - a. The Lender must have agreed to the necessary provisions at initial closing. See Chapter 12 Sections 12.5 and 12.20
  - b. The Construction Contract must include the rider “Amendment to the Construction Contract for Components Stored Offsite.” See Forms Appendix.
  - c. Payments are limited to the invoice value of the components.
  - d. The contractor and its surety bear full responsibility for fraudulent claims for payment and fraudulent disposition of such payments. Safeguards are to protect against premature payments, against materials that do not meet contract requirements and against losses not covered by insurance.
  - e. The construction contract must be secured by a 100 percent performance and payment bond.
  - f. Components must be stored at a location approved by the Lender and HUD.
3. Lender’s Responsibilities.
  - a. File Uniform Commercial Code (UCC)-1, financing statements with the proper office in the proper jurisdiction.
  - b. Make whatever additional filings are necessary to maintain a first lien on the components until they are incorporated into the building(s).
  - c. Release the financing statement filings as appropriate.
  - d. Unconditionally certify by letter to HUD that the security instrument(s) is (are) a “first lien” on the components covered by the instrument(s). The Lender’s certification must be supported by an opinion from the Lender’s counsel.
  - e. In the event of default under the mortgage, either assign its security interest to HUD or acquire title through foreclosure to the components intended for use or incorporation into the building(s) and convey title to HUD.
4. General Contractors’ Responsibilities.
  - a. All direct and indirect costs associated with the storage and transportation of components stored offsite;

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- b. Obtaining a risk of loss insurance policy which covers the components. Evidence of this policy must be submitted to the Lender prior to approval of any advance for components stored offsite;
  - c. Assurance that there is a valid security agreement that is a first lien on the components.
5. Contractor's Requisition. All requests for payment for components stored offsite must be submitted on Form HUD-92448, Contractor's Requisition, accompanied by the following:
- a. A statement from the mortgagor's Architect certifying that:
    - (1) He/she has visited the storage site and inspected the components for which payment has been requested;
    - (2) The components are in good condition and they comply with the contract requirements;
    - (3) The components are properly stored and protected;
    - (4) The components are segregated, in an easily identified manner from other materials stored at the same site and are marked for identification;
  - b. A bill of sale accompanied by an itemized invoice transferring title of the components to the mortgagor;
  - c. A copy of the security agreement provided to the mortgagee by the mortgagor;
  - d. A copy of the financing statement or statements filed by the Lender in accordance with the Uniform Commercial Code;
  - e. A warrantee from the Lender that the security instruments represent a first lien on the building components;
  - f. An opinion from the Lender's attorney that he/she has reviewed the security agreement and associated documents relative to the building components and that the security agreement creates a valid security interest in the collateral and that when the financing statement or statements is (are) duly filed, the secured party will have a first lien.
- C. Offsite Construction. Separate from work done under the Construction Contract for the project. Where offsite work is completed by the mortgagor, rather than by a municipality or utility company, a separate construction contract is required, even if completed by the project contractor. Offsite work must also be funded from sources outside the mortgage, except that an escrow for its completion may be funded from available excess mortgage proceeds.

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1. Completion Monitoring is performed by the HUD inspector and reported on the Trip Report, Form HUD-95379. See HUD Procedures.
2. Contractor's Requisition is by letter to the mortgagor. Do not use Form HUD-92448 to reflect the value of acceptably completed offsite work, even if completed by the project contractor. Request for Approval of Advance of Escrowed Funds, Form HUD-92464, is used.
3. Construction Changes for offsite work must be requested by letter. Form HUD-92437, Request for Construction Changes, may be used as a guide, but the form itself must not be used for offsite change orders.

## Amendment to the Construction Contract for Payment for Components Stored Offsite

**12C**

- A. The undersigned as Contractor and as Owner will abide by the following conditions to induce the Commissioner to release mortgage proceeds for the payment of components stored offsite:
1. The components stored offsite that will be recognized for payment under Article 3.B(3) of the contract are those listed and approved by HUD as an appendix to the Contractor's and/or Mortgagor's Cost Breakdown, Form HUD-2328, attached to the Contract as Exhibit "A". The appendix must provide an inventory of the "stored components" and a breakdown of the line item of which the stored components are a part. The breakdown must state:
    - a. Cost of Components (Invoice Value),
    - b. Cost of transportation form the offsite storage location to the construction site,
    - c. Cost of Installation, and
    - d. Costs of any other items included in the line item.
  2. The Contractor is responsible for:
    - a. All direct and indirect costs associated with the storage and transportation of components stored offsite.
    - b. Obtaining a risk of loss insurance policy which covers the components during storage, in transit and until installed at the project site. The policy must name the Mortgagor, the Mortgagee and the Commissioner as their interest may appear. Evidence of the existence of this insurance must be submitted to HUD prior to the approval of any advance for components stored offsite.
    - c. Assuring to the satisfaction of HUD proper identification and segregation of components while in storage and protection of components while in storage and transportation.
    - d. Securing from the mortgagor or mortgagee all necessary security agreements, copies of financing statement, and documentation pertaining to first lien warranties, and submitting them with the request for payment.

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- e. Providing corporate surety bonds for on-site improvements on Form FHA 2452 for payment and performance bonds, each equaling 100 percent of the HUD estimate of construction or rehabilitation cost.
3. All requests for payment for components stored offsite must be submitted by the Contractor on Form HUD-92448, Contractor's Requisition, accompanied by the following:
- a. A statement from the Architect certifying that:
    - (1) He/she has visited the storage site and inspected the components for which payment has been requested,
    - (2) The components are in good condition and they comply with the contract requirement,
    - (3) The components are properly stored and protected,
    - (4) The components are segregated, in an easily identified manner from other materials stored at the same site and are marked for identification.
  - b. A bill of sale accompanied by an itemized invoice transferring title of the components to the mortgagor.
  - c. A copy of the security agreement provided to the mortgagee by the mortgagor.
  - d. A copy of the financing statement filed by the mortgagee in accordance with the Uniform Commercial Code.
  - e. A warranty from the mortgagee that the security instruments requested a first lien on the building components.
  - f. An opinion from the mortgagee's attorney that he/she has reviewed the security agreement and associated documents relative to the components for which advance are sought and that the security agreement creates a valid security interest in the collateral and that when the financing statement is duly filed, the secured party will have first lien.
4. Restrictions.
- a. Payments for components stored offsite shall be limited to the cost of components (Invoice Value) identified in the HUD approved appendix to the Contractor's and/or Mortgagor's Cost Breakdown, Form HUD-2328, attached to the Contract as Exhibit "A," and shall be subject to a 10 percent holdback.



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- b. In no case shall a payment be approved for components stored offsite to a contractor whose performance, in the judgment of the HUD Field Office Manager, is marked by serious deviations from the contract documents.
- c. At no time may the outstanding amount of insured advances for components stored offsite exceed 50 percent of the total estimated construction costs a specified in the construction contract.
- d. The minimum amount for any single advance is \$10,000.

OWNER

CONTRACTOR

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

DATE: \_\_\_\_\_

DATE: \_\_\_\_\_

**Problems Before Final Closing****12D**

## A. General.

1. Additional attention must be given to projects that are experiencing difficulties that may lead to default before reaching final closing. Diagnose problems and take immediate measures during critical periods of project construction to avoid foreclosure or assignment, and to avoid serious hardship to mortgagors, contractors and mortgagees.
2. Prompt action must be taken to correct problems as they arise. Where requested relief cannot be granted for statutory, regulatory or administrative reasons. However, a prompt and final disapproval must be given.

## B. Problems leading to default include:

1. Construction problems due to:
  - a. Work stoppage,
  - b. Contractor abandonment of job,
  - c. A change in the contractor, owner or architect during construction,
  - d. Construction defects untreated for 30 days, and
  - e. Extended periods of bad weather, strikes, etc.
2. Financing problems due to:
  - a. Contractor's inability to complete because of under financing.
  - b. Overruns in carrying charges due to circumstances beyond the contractor's and mortgagor's control.
  - c. Overruns in construction hard costs caused by:
    - (1) Mandatory changes,
    - (2) Voluntary changes, and
    - (3) Price escalation.
3. Inadequate income due to:
  - a. Underestimated operating expenses,
  - b. Overestimated rents and long-term occupancy levels, and
  - c. Inadequate or lack of operating deficit.

## C. Defaults during construction. HUD staff will consider alternative measures that can be offered to avoid foreclosure and hardship to all concerned parties regardless of the cause.

1. Request field counsel to provide legal guidance and participate in meetings to discuss the consequences of default and possible preventive measures.
2. Telephone Lender.
  - a. Speak to a responsible official and obtain an opinion on the cause of default, methods of cure and probability of cure.
  - b. Advise the Lender:

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- (1) To preserve its rights against the surety by giving prompt oral and written notification of the contractor's lack of performance or default, and by demanding performance under the contract of surety (see Paragraph 3. below), and
  - (2) To consult with its attorney and to secure HUD approval before entering into any formal or informal agreement with the surety.
3. Notification of Surety. Lender must send a notice to the bonding company with a copy to the general contractor for all conditions affecting the bonding company's interests. The notice should be sent to the bonding company's principal office, and its regional or branch office, attention: Claims Department.
  - a. Conditions requiring notification include:
    - (1) A sustained work stoppage,
    - (2) Nonpayment of subcontractors, suppliers, workmen, etc., and
    - (3) Failure to maintain satisfactory progress.
  - b. Conditions that require obtaining surety's approval in advance include:
    - (1) Approving a change order or aggregate of change orders that exceed 10 percent of the contract price, and
    - (2) Extension of the bond by surety where there is a compelling reason why the contractor cannot remedy a latent defect before the bond's expiration date.
  - c. The mortgagor is responsible for requesting surety's performance, the Lender must act to protect its and HUD's interests, and HUD must take the final action to protect its interests under conditions in paragraph a. above.
4. Advise the mortgagor of the contractor's violation, and/or lack of performance by the architect or mortgagor, and give 30 days for correction.
5. Assess the situation by considering:
  - a. Percentage of construction complete,
  - b. Occupancy (including current estimates of income, expenses and occupancy projections),
  - c. Type of assurance of completion (bonds, cash escrow),
  - d. Status of escrow deposits,
  - e. Un-drawn amount of letters of credit (including working capital), and
  - f. Any other pertinent information.
6. HUD staff should meet to assess available options and prepare a position to present to interested parties. The meeting should include the Hub Director, Field Counsel, and a representative from Asset Management. Separate meetings by staff with one or more of the non-HUD parties may be helpful before holding a general meeting with all interested parties.

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7. Convene a general meeting of all interested parties with either a direct or indirect interest in the project to explain the consequences of default. Hold such meetings even where there is no possibility of HUD granting a mortgage increase or other form of relief.
  - a. Emphasize that all non-HUD participants must make a meaningful contribution before HUD will assume any additional risk. Such contributions include:
    - (1) Infusion of new capital through adding partners, syndication or other investments, and/or
    - (2) Concessions by the Lender to avoid a loss (e.g., deferral or forgiveness of interest, taking a partial assignment of the partnership interest, etc.).
  - b. State firmly and unequivocally that the non-HUD parties must work out the remedy if the default is to be cured.
  - c. Clarify that unless a written firm proposal for a workout is developed; assignment or foreclosure of the mortgage will be the consequence.
  - d. Address the remedies covered in paragraph D below, as appropriate.
8. Extension of Lender's election period to assign a loan for insurance benefits should not be granted where a workout proposal is not developed. Thirty days should be the maximum extension in most cases.

### D. Remedies to avoid/cure defaults.

1. Call on the Bonding Company to perform, where applicable.
  - a. Request field counsel to communicate with surety where it fails to perform to terms of the bond, and
  - b. Where surety refuses to honor its obligations after communications by field counsel, request the Department of Treasury to initiate procedures for removal of the surety from the Treasury Circular 570. List the surety, contractor, and project; describe the particulars, including nature of the problem, length of delays and actions taken by mortgagor, mortgagee and HUD to secure surety's performance; and attach a copy of the bond(s). Mail to:

U.S. Department of Treasury  
Surety Bond Branch  
Financial Management Service  
Washington, D.C. 20227
  - c. Distribute copies of the letter to the Washington Docket, Field Office Docket and Director, Office of Business Products.
2. Lender or Title Company control payments through issuance of two- or three-party checks to assure that disbursed mortgage proceeds are applied for the intended purpose and not diverted to other uses.
  - a. All money drawn for construction must actually be paid to subcontractors, suppliers, and workers on the job.

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- b. Money drawn for specified purposes, e.g., architect's fees, insurance premiums, taxes, etc., must not be diverted to other uses.
3. Transfer construction funds to soft cost expenses, i.e., keep the mortgage in balance. The liquidated damages clause in the construction contract provides a source of funds for overruns in interest, taxes, MIP and insurance (soft costs) that are due to construction delays which are the general contractor's fault.
  - a. Authorize the transfer of funds from the construction contract for payment of soft cost overruns, where it becomes apparent that the scheduled date for completion cannot be met due to the fault of the contractor. The amount of transferred funds must be reflected on subsequent Forms HUD-92448, as a decrease to item 7, Sum of Cost Breakdown Items Plus Inventories of Materials.
    - (1) The transfer of funds will get the attention of the contractor, surety (if any), mortgagor and mortgagee, as well as address any financial necessity.
    - (2) Notify the contractor, surety (if any), mortgagor and mortgagee by certified mail of the amount and the reason for the transfer.
    - (3) Require written acknowledgement of the notification from the mortgagee and surety, if any.
  - b. Computation for funds transfer from the construction budget. When the amount originally allocated to interest on Form HUD-92451, Financial Record of Mortgage Loan Transaction is exhausted or near exhaustion, request the Architect and HUD representative to estimate the earliest date of construction completion. Use this date to:
    - (1) Set an assumed completion date.
    - (2) Compute the minimum liquidated damages for the period between the completion date specified in the construction contract, as adjusted by approved change orders, and the assumed completion date.
    - (3) Transfer the computed amount from Column J, Construction, to Column G, Carrying Charges and Financing, on Form HUD-92451.
      - (a) Allocate full amount to interest, initially.
      - (b) Only use funds for MIP, taxes and insurance after funds for these line items, and the working capital escrow have been exhausted.
4. Use of contractor's holdback, subject to provisions of paragraph 2 above.
5. Infusion of new money. See Paragraph C.7.a above.
6. Release assurance of completion cash escrow where used in place of a performance and completion bond for the construction contract.
  - a. The Hub Director may authorize such release, where:
    - (1) The project is nearly complete,

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- (2) Project completion and final closing may not be attainable with the remaining mortgage proceeds alone or in combination with the mortgagor's other available assets, and
    - (3) Release of the funds will offer an excellent chance for project completion and final closing with clear title.
  - b. The entire escrow may be released under such circumstances except for 2-1/2 percent of the contract, which amount is needed to fund the latent defects escrow, subject to:
    - (1) The Lender must take steps to assure that all required payments by the contractor have been made or will be met to preclude uncovered liens, and
    - (2) Disbursement of such funds and mortgagor's additional contributions must be under strict control of the mortgagee or a title company.
  - c. Distribute the Hub Director's written authorization for release of the funds as follows: original to the Washington Docket with copies to the Field Office Docket, Closing Attorney, and Mortgage Credit Control File.
7. Deferment of principal payments where the project is complete and ready for occupancy but cannot go to final closing.
8. Mortgage increase may be provided as discussed in MAP Chapter 13 Section 13.21, where economically feasible. Where the contractor is changed because the original contractor becomes bankrupt, abandons the job, or the contract is terminated due to inadequate contractor performance, any mortgage increase must also be processed in accordance with the following:
  - a. Reprocess the project.
    - (1) Use rents, expenses, and occupancy ratios current as of the date of reprocessing.
    - (2) Take into account the new builder's cost to complete, amounts expended to date, and any increase in carrying charges, financing, etc., due to increased mortgage amount and/or extra construction time over the original estimate.
  - b. Mortgage increase conditions.
    - (1) The mortgagor provides any required front money.
    - (2) Any recovery from the original contractor or surety must be applied first to reduction of the mortgage on a mandatory basis,
    - (3) The balance of the net recovery after legal expense, if any, may be used to indemnify the mortgagor, Lender, and others, and
    - (4) A legal document providing for paragraphs (2) and (3) above must be included as a rider to the Regulatory Agreement and Mortgagee's Certificate at final closing, where such recovery has not been made before and considered in the cost certification.
9. Reanalyze the Cost Certification for inclusion of all allowable costs where final closing has not occurred.

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10. Working capital deposit balance.
  11. A Section 223(d) Operating Loss Loan where eligible.
- E. Default report before final closing, Form HUD-58047. Report monthly on the default and describe the plan for curing it.
1. If default cannot be promptly cured, provide a current estimate of income, expenses and occupancy projections.
  2. Report distribution:
    - a. Director, Office of Multifamily Development, and Director, Office of Asset Management and Office of Quality Assurance, within two weeks of default.
    - b. Asset Management staff for use with the Multifamily Default Status Report, Form HUD-92426.
- F. Decision to foreclose where the contractor becomes bankrupt, abandons the job or the contractor is terminated due to inadequate contractor performance. Encourage the Lender to consider foreclosure and tender of the unfinished property to HUD, where the Hub Director agrees in writing that it would be advantageous to the insurance fund, e.g., instances where interruption of construction occurs at an early stage and market and/or economic conditions have worsened to preclude attaining project viability. Consider surety's position in reaching this determination.
1. Lender tenders unfinished property. Where the Hub Director agrees in writing that accepting conveyance of such unfinished property would be more advantage to the insurance fund than pursuing project completion:
    - a. Promptly convey the decision to all interested parties.
    - b. Request field counsel to maintain close communication with the Lender's and mortgagor's counsel and seek advice from the Office of General Counsel as necessary.
  2. Estimate completion cost for the unfinished project to support a subsequent damages claim against the surety for damages due to contractor's failure to perform.
  3. Document distribution. Original documents, including the Hub Director's authorization to accept the unfinished project, in the Washington Docket with one copy to the Field Office Docket, Field Counsel and Mortgage Credit Control File.
- G. Recovery of mortgage proceeds. In the event of a mortgage insurance claim before final closing instruct the Lender's to establish communications with the Office of the FHA Comptroller regarding the surcharge of insurance benefits.
- H. Tax-exempt bond funded project default before final closing. See MAP Chapter 12 for additional information and riders included in the Note and Mortgagee's Certificate in regards to a default.
1. Prepayment lock-out and/or penalty override. Consider exercising HUD authority to override Lender's prepayment lock-out and/or penalty provisions only where:

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- a. The project mortgagor has defaulted and HUD has received notice of such default, in accordance with 24 CFR Section 207.256,
  - b. HUD determines that the project is experiencing a net income deficiency that is attributable to more than management inadequacy or lack of owner interest, and that the deficiency's magnitude leaves the mortgagor unable to make required debt service payments, pay all project operating expenses and fund all required HUD reserves,
  - c. HUD finds that there is a reasonable likelihood that the mortgagor can arrange to refinance the defaulted loan at a lower interest rate or otherwise reduce the debt service payments through partial prepayment, and
  - d. HUD determines that refinancing the defaulted loan at a lower rate or partial prepayment is necessary to restore the project to a financially viable condition and to avoid an insurance claim.
2. Deadline extension for filing claim intentions. Lender must request a three-month extension of the election notice filing deadline in the event of a default within the term of the prepayment lock-out and/or penalty. See MAP Chapter 12 and the Mortgagee's Certificate.
- a. Analyze the project's financial condition and assess the feasibility of arranging a successful refinancing.
  - b. Recommend that the Hub Director grant the 3-month extension or a shorter extension of the election notice filing deadline, based upon positive conclusions reached by the analysis in paragraph a. above.
  - c. Do not consider additional extensions of the election notice filing deadline, unless specifically requested by the Lender.
- I. Grant/loan project with a pro rata disbursement agreement that defaults before completion of construction. The governmental entity must disburse the remaining funds where the request for funds remains in the same ratio as previously authorized.



# Appendix 13

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## Specimen Letters

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**Title**

- 13A Specimen Letter - Agreement Authorization Reopening of Mortgage Transaction
- 13B Agreement Authorizing Deferment of Principal Payments for Level Annuity Monthly Payment

**Specimen Letter - Agreement Authorization  
Reopening of Mortgage Transaction**

**13A**

*(Insert Date)*

*(Insert Mortgagee's Name and Address)*  
*(Insert Project Number)*

Madam/Gentlemen:

We have favorably considered your request to reopen this mortgage transaction to increase the maximum insurable mortgage amount. An increase of \$ \_\_\_\_\_ is approved making the new maximum mortgage amount \$ \_\_\_\_\_. This increase will be insured pursuant to Section \_\_\_\_\_ of the National Housing Act, and Regulations there under applicable to the original mortgage, provided all legal instruments are modified in a manner satisfactory to the HUD closing attorney assigned to the case. It is understood that no portion of this increase will become available before final closing.

*(Insert the amount of additional fees required and the time of payment thereof in accordance with appropriate Regulations.)*

Please signify your acceptance of this agreement to modify by signing all five (5) copies of this letter and returning three (3) of them promptly to *(Insert name and address of the Director, Office of Housing Development)*.

Sincerely

Accepted HUD By: \_\_\_\_\_

Name: \_\_\_\_\_  
Title \_\_\_\_\_

Accepted Mortgagee By: \_\_\_\_\_

Name: \_\_\_\_\_  
Title \_\_\_\_\_

**Agreement Authorizing Deferment of  
Principal Payments for Level Annuity Monthly  
Payment**

**13B**

*(Insert Date)*

(Insert Mortgagee’s Name and Address)

(Insert Project Number)

Madam/Gentlemen:

This letter will serve as our approval of the request for a (further\*) stay in the commencement of principal payments on the mortgage covering the subject project. In this connection, the following stipulations are pertinent:

1. It is agreed that principal payments shall be (further\*) deferred for the period beginning \_\_\_\_\_ to \_\_\_\_\_.
2. The Level Annuity Monthly Payment (Principal and Interest) required to amortize the amount of \$\_\_\_\_\_ at \_\_\_\_\_% in \_\_\_\_\_ payments from \_\_\_\_\_ through \_\_\_\_\_ is \$\_\_\_\_\_.

These changes will not affect the eligibility of the mortgage for insurance under the provisions of Section \_\_\_\_\_ of the National Housing Act, as amended, and applicable FHA Regulations, provided that before final endorsement of the Mortgage Note, the Building Loan Agreement, the Construction Contract and the mortgage instruments are all modified in a manner satisfactory to the Department of Housing and Urban Development’s closing attorney assigned to the case.

In the event of a subsequent claim against the mortgage insurance, insurance benefits will be computed on the basis of the date of default as determined under the terms of the modified mortgage. For the purpose of

determining such date, all funds collected during the period of the modification agreement and before your election to claim mortgage insurance benefits will be applied to full monthly installments in the order in which they fall due under the mortgage as modified. The date of default will be the due date of the first installment not fully paid when the funds are so applied.

\* Insert when applicable.

Evidence your acceptance of this agreement to modify by signing all five (5) copies of this letter in the space provided and returning three (3) of them to (Insert name and address of the Director, of the Office of Housing).

Sincerely,

Accepted HUD By: \_\_\_\_\_

Name: \_\_\_\_\_

Title \_\_\_\_\_

Accepted Mortgagee By: \_\_\_\_\_

Name: \_\_\_\_\_

Title \_\_\_\_\_

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**Sample Master Lease Ownership Structure**

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16A      Sample Master Lease Ownership Structure

Sample Master Lease Ownership Structure

