



MEMORANDUM FOR: Minnesota MF Hub Lenders

SUBJECT: Various Issues Relating to Underwriting of FHA Insured Loans- Circular 05-02

Date: December 15, 2005

This circular is a reminder of various issues relating to the underwriting of FHA Insured loans.

- Lender fees (per paragraph 14.15H of the MAP Guide): The maximum allowable aggregate (both the construction lender's initial service charge and the permanent lender's placement fee) financing fee on a non-bond financed transaction is 3.5%. Moreover, the construction lender's initial service charge can make up no more than 2% of the aggregate percentage.
- Due diligence certification: On all MAP projects, in addition to the certifications required by paragraph 11.2 K of the MAP Guide, a due diligence certification (per 11.1 C of the MAP Guide) is required from the MAP lender.
- RMCR's required: On projects where credit reports are required, a commercial credit report is required for businesses and a residential mortgage credit report (RMCR) is required for individuals. The report must be current - within 30 days of the application acceptance date. Credit reports are required on the following: all sponsors, the mortgagor entity (even if newly formed) and principals of the mortgagor. A merged in-file credit report is unacceptable - our directives require a residential mortgage credit report. If there is any question as to which type of reports your firm has been receiving, please contact the credit bureau or service that you are using.
- 2013 Supplements: 2013 Supplements are required to be signed by the spouse if the principal is married.
- Financial statements: Financial statements are required for all principals of the mortgage transaction. For married sponsors or principals, the financial statement must be signed by the spouse - unless the form is prepared with only the principal's assets. If the form is prepared without the assets of the spouse, the certification must state this.

An un-audited financial statement must be no more than 3 months old when Form HUD 92013 is submitted for Firm Commitment review. If the financial statement is audited, it may be up to a year old. The audited statements must be supplemented with updated interim financial statements, which may be management prepared, if more than six months have lapsed since the closing date of the audited statement.

- Sponsor's Continuing Commitment: A written statement must be submitted from principals who are sponsors indicating the parameters of their financial commitment to and contractual relationship with the mortgagor.
- Smoke detectors on Section 223(f)'s: Please see MAP Frequently Asked Questions (FAQ's) 11 and 12 under Chapter 5 for details on smoke detector requirements. These FAQ's state, among other things, that smoke detectors are required inside all bedrooms, outside every sleeping area in the immediate vicinity of the bedrooms, and on all levels of the dwelling unit, including basements.
- State Historic Preservation Office (SHPO) review: A SHPO review letter is required on all projects we finance, with the exception of Section 223(a)(7) projects. We ask that lenders request this letter from the SHPO and submit to our office with the earliest submittal - whether this is a Pre-Application or a Firm Commitment package.
- Phase I Environmentals on new construction cooperatives: We require a Phase I on all new construction cooperatives (these must be processed as TAP). We encourage you to submit the Phase I as early in the process as possible, however it must be submitted prior to our Firm Application review.
- 202 Refinances: We sent an email to you regarding our office's treatment of 202 refinances on 5/23/2005. Until the new Notice regarding 202 refinances is issued, our office will not categorically reject proposals that request that the developer fee be mortgagable - the current directives are silent on this matter. As we will review each proposal on a case-by-case basis, we encourage you to submit the details on any proposal containing a developer fee to us as soon as possible in the process. We also encourage you to consider the additional 20% work-write-up escrow requirement when you are conducting your varying underwriting scenarios. We have been amenable to proposals where the developer fee has been mortgaged (assuming HUD Form 92264a supports this) and used to fund a portion of this additional escrow - with any unused funds going into replacement reserves.

If you have any questions regarding this circular, please contact Tim Gruenes, Supervisory Project Manager, at 612-370-3000 (Ext. 2252).