CHAPTER 27. SECTION 241 PROGRAM

SECTION I. SECTION 241(a) - SUPPLEMENTAL LOAN

27-1.BASIC SOURCEBOOK. Basic program instructions are in HUD Handbook 4585.1, Supplemental Loans for Project Mortgage Insurance, Section 241.

27-2.MORTGAGE CREDIT PROCEDURES AND ANALYSIS. Complete under Section 207 instructions except as modified here.

27-3.APPLICATION EXHIBITS. Signed application form for mortgage insurance (Forms HUD-92013, 92013-NHICF, as appropriate). The only exhibits listed on the back of Form HUD-92013 that require review by the MCE are:

A.List of any proposed repairs, rehabilitation or equipmentand an estimate of the associated costs.

B.Forms HUD-2530 for the mortgagor and each principal is required. (See Handbook 4065.1.)

C.Form HUD-92013 Supp and, if applicable, supporting documentation required under paragraphs 2-2.D.1 and 2 of this Handbook:

1.Profit-motivated mortgagors complete only item 1about delinquent Federal debt; and

2.New principals complete the entire Form and include the certification authorizing the release of credit information.

D.Listing of new principal's other business concerns. Refer to paragraph 2-1.B.2.f.

E.Credit reports on the mortgagor entity and each new principal and their other business concerns in accordance with paragraphs 2-1.B.2.g.(3) and (4).

NOTE:Changes in ownership are subject to Handbook 4350.1, Insured Project Servicing Handbook, relative to Transfer of Physical Assets.

F.Audited project financial statements for the last 3 years, if not available from Asset Management (AM).

(27-3)G. An updated title report disclosing all liens and secured transactions.

H.The application exhibits listed in Chapter 2 of the Handbook for the evaluation of the general contractor.

27-4.MORTGAGE CREDIT ANALYSIS. In reviewing Section 241(a) applications, Mortgage Credit will perform a:

A.Credit Analysis of the Mortgagor. This process is simplified for Section 241(a) cases since HUD has knowledge of and experience with the owner.

1.If the mortgagor has delinquent Federal debt, follow instructions contained in Chapter 2.

2.Perform a credit investigation on all new principals. Refer to Chapter 2.

3.Review the title report to assure that all indebtedness has been reported.

B.Financial Analysis of the Mortgagor. Determine the working capital position of the mortgagor entity and:

1.Verify that amounts for existing indebtedness, both secured and unsecured, and escrow balances are in line with the amounts reported on the statement.

2.Review the notes to the financial statements forinformation that would affect the credit worthiness of the mortgagor or adversely impact upon the financial position of the project, i.e., contingent liabilities.

3.Verify with AM that any debt, except for the HUD-insured mortgage and payables attributable to the operations of the project, was approved by HUD and is evidenced on a HUD-approved form.

4.If the project financial statements do not reflect sufficient financial capacity to meet the financial requirements for closing, require the mortgagor to submit a financing plan. Refer to paragraph 3-7.

C.Perform complete financial and credit analysis of the general contractor.

27-5.AMORTIZATION PERIOD. Amortization period of the mortgage is not
to exceed:

A.Seventy-five percent of the remaining economic life; or

B.Forty years, whichever is less.

27-6.AMOUNT OF LOAN. The insurable supplemental loan is the lowest
of:

A.Application amount.

B.The result of the HUD estimated value of the improvements, addition, or equipment, less the amount of grant/loan funds attributable to replacement cost items, multiplied by 90 percent.

NOTE:The HUD appraiser completes a memorandum for Section 241 regarding value of improvements and attaches it to Form HUD-92264.

C.An amount attributable to the debt service criterion thatcan be amortized by the applicable percentage of estimated net income to the project after completion of the new improvements less the current annual debt service requirements on all outstanding indebtedness relating to the property.

1.Use the current applicable percentage allowed based on mortgagor type and Section or Title under which the existing mortgage is insured.

2."Outstanding indebtedness relating to the property" means the total outstanding amount of unsecured obligations of the mortgagor incurred in connection with improving, repairing, or maintaining the property and outstanding mortgage or obligations constituting liens on the title to the property or facility to be improved.

3.This criterion is not applicable when the mortgagor is a nonprofit cooperative.

(27-6)4. The supplemental loan may exceed this limit by capitalizing the savings from any tax abatement.

D. An amount which when added to any outstanding indebtedness relating to the property, as defined in paragraph C.2 above, does not exceed the maximum mortgage amount insurable under the Section or Title pursuant to which the mortgage covering such project or facility is insured.

1. Using the current Form HUD-92264, prepare a second Form HUD-92264-A based on mortgagor type and Section or Title under which the existing mortgage is insured, completing Criterion 3, Amount Based on Value or Replacement Cost, and Criterion 4, Amount Based on Limitations Per Family Unit, if applicable. The maximum insurable mortgage is based on the lower of Criterion 3 or Criterion 4, if applicable.

2. Take the maximum insurable mortgage from D.1 above and subtract out the total outstanding indebtedness relating to the property, as defined in paragraph C.2 above.

E. Where the project is covered by a mortgage held by the Secretary, the principal amount of the loan shall be in an amount acceptable to the Secretary.

27-7. WORKING CAPITAL DEPOSIT. Not applicable.

27-8. INSURANCE OF ADVANCES. Loans of $200,000 or more are eligible for insurance of advances.

27-9. COST CERTIFICATION.

A. Simplified cost certification requirements in paragraph 11-6.A of this Handbook, apply when:

1. The loan equals $200,000 or less or

2. The project contains 40 units or less.

B. Long form cost certification requirements in paragraph 11-6.B apply in all other cases.

C. No operating statement is required to accompany the costcertification since the mortgagor entity is controlled by an existing Regulatory Agreement.

SECTION II. SECTION 241(f) TITLE II EQUITY LOANS

27-10.SCOPE. Basic program instructions are in HUD Handbook 4350.6, Processing Plans of Action Under the Low-Income Housing Preservation and Resident Homeownership Act of 1990. Under the Emergency Low Income Housing Preservation Act of 1987 (ELIHPA), typically Mortgage Credit processing will commence with the submission of a Section 241(f) application. Mortgage Credit has no responsibility under the Notice of Intent (NOI) stage.

27-11.PROCESSING STAGES FOR TITLE II EQUITY LOANS.

A.SAMA/Feasibility. This stage of processing does not exist.

B.Conditional Stage. All applications shall bypass the conditional stage of processing.

C.Firm Stage.

1.Upon receipt of an application for Firm Commitment for a project that involves an equity take-out, the MCE reviews:

a.Form HUD-92013, Application for Multifamily Housing Project.

b.Forms HUD-2530 is required for the mortgagor andeach principal. (See Handbook 4065.1.)

c.Form HUD-92013 Supp and, if applicable, supporting documentation required under paragraphs 2-2.D.1 and 2 of this Handbook:

(1)Profit-motivated mortgagors complete only item 1 about delinquent Federal debt; and

(2)New principals complete the entire Formand include the certification authorizing the release of credit information.

d.Listing of new principal's other business concerns. Refer to paragraph 2-1.B.2.f.

(27-11) e. Credit reports on the mortgagor entity and each new principal and their other business concerns in accordance with paragraphs 2-1.B.2.g.(3) and (4).

f.Audited project financial statements for the last3 years, if not available from AM.

g.An updated title report disclosing all liens andsecured transactions.

2.Delinquent Federal debt must be satisfactorily addressed.

3.For substantial rehabilitation cases, the exhibits listed in Chapter 2 applicable to the general contractor are required. Do a complete financial and credit analysis on the general contractor.

4.For applications involving an acquisition. RESERVED.

27-12.REVIEW OF THE PRIORITY PURCHASER. RESERVED.

27-13.REVIEW OF THE HOUSING CONSULTANT. RESERVED.

27-14.AMORTIZATION PERIOD. The amortization period of the loan will not be less than 20 years nor be more than 40 years. Valuation will record the term of amortization in the "Remarks" Section of Form HUD-92264.

27-15.DETERMINATION OF MAXIMUM INSURABLE MORTGAGE, SECTION I OF FORM HUD-92264-A, SUPPLEMENT TO PROJECT ANALYSIS. Projects involving a sale are limited to the maximum mortgage permissible under the equity loan requirements. Therefore, use the following mortgage criteria regardless of whether the project involves an equity take-out or a sale.

A.Title II Equity Loan with no PCNA Repairs. The maximum equity loan is the lowest of:

1.Application Amount.

2.Ninety percent of the HUD estimated owner's equity shown in "Remarks" Section of Form HUD-92264.

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(27-15) 3. An amount attributable to the debt service criterion that can be amortized by the applicable percent of the project's estimated Section 241(f) equity. The equity income component will be shown in "Remarks" Section of Form HUD-92264.

a.Indicate the equity income component on Line 5.eof Form HUD-92264-A. Multiply this income component by 90 percent.

b.In completing Criterion 5, no adjustment is madefor income required to support all outstanding secured indebtedness. Valuation will give consideration to the equity and repair/rehabilitation, if applicable, income components, as well as the income component for debt service on existing loan(s), in its determination of rents.

c.The loan may exceed this limit by capitalizing the savings from any tax abatement.

B.Title II Equity Loan with PCNA Repairs. The maximum equity loan is the lowest of:

1.Loan criteria A.1 above.

2.Loan criteria A.3 above with following difference:

a.When PCNA repairs are involved, in addition to the equity income component, Valuation will provide an income component for repair/rehabilitation.

b.Multiply the equity income component by 90 percent and the repair/rehabilitation income component by 95 percent.

3.Ninety percent of the HUD estimated owner's equity recorded in the "Remarks" Section of Form HUD-92264. Adjust this result:

(27-15) a. To add the amount recorded on line 74, Total Estimated Replacement Cost, Section G of Form HUD-92264, which includes HUD's estimate of the hard and soft costs associated with the PCNA repairs.

b.To subtract the amount of any grant/loan funds attributable to replacement cost items.

C.Title II Equity Loan with Substantial Rehabilitation Required Before Final Endorsement. The maximum equity loan is the lowest of:

1.Loan criteria A.1, and B.2 above, or

2.Ninety percent of the HUD estimated owner's equity recorded in the "Remarks" Section of Form HUD-92264.

Adjust this result:

a.To add the amount recorded on line 74, Total Estimated Replacement Cost, Section G of Form HUD-92264, which includes:

(1)HUD's estimate of the hard and soft costs associated with the substantial rehabilitation of the project; and

(2)The soft costs associated with the equity portion of the loan.

b.To subtract the amount of any grant/loan funds attributable to replacement cost items.

27-16.TOTAL REQUIREMENTS FOR SETTLEMENT, SECTION II OF FORM HUD-92264-A, SUPPLEMENT TO PROJECT ANALYSIS.

A.Title II Equity Loan with or without PCNA Repairs.

1.Part A of Section II.

a.Line 1, Fees not to be Paid in Cash. Not applicable.

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(27-16)   b. Line 2, Commitment, Marketing Fees and Discounts. Self-explanatory.

c.Line 3, Working Capital Deposit. Not applicable...TX:
2.Part B of Section II.

a.Line 1, Development Cost. Delete "Development Cost" and enter either "Cost of Title II Equity Loan with no PCNA Repairs" or "Cost of Title II Equity Loan with PCNA Repairs."

For acquisition projects, enter the purchase priceof the property reflected in the purchase agreement and the total loan closing charges based on the maximum loan. Enter only the total loan closing charges based on the maximum loan when the owner is retaining the project.

Compute the loan closing charges in the Remarks Section of Form HUD-92264-A.

(1)Financing Fee (Initial Service Charge not to exceed 2 percent).

(2)Permanent Placement Fee (not to exceed the difference between 3.5 percent and the percentage applicable to the financing fee).

(3)Mortgage Insurance Premium of .5 percent of the loan paid at initial/final endorsement.

(4)Required Deposit to Replacement Reserve. The Valuation Branch will show in the "Remarks" Section of Form HUD-92264 the amount of the deposit, if any, that the mortgagor is required to make.

(27-16) (5) Title and Recording Expenses. Use the greater ofmortgagor's estimate from Form HUD-92013 or the amount recorded on line 62 in Section G of Form HUD-92264.

(6)Legal Expenses. Use the greater of themortgagor's estimate from Form HUD-92013 or the amount recorded on line 64 in Section G of Form HUD-92264.

(7)HUD Exam and Inspection Fees. Compute the exam fee based on 24 CFR 241.1015. For projects with PCNA repairs, the inspection fee is 1 percent of total repairs, with a minimum fee of $500.

(8)Include any relocation expenses approved by the CPD relocation specialist.

b.Line 2, Land Debt. This item is only applicableif there are PCNA repairs. Delete "Land Indebtedness" and enter the PCNA repairs shown in the "Remarks" Section of Form HUD-92264. Adjust to reflect escrow requirements equal to 110 percent of the cost of PCNA repairs to be completed after endorsement.

NOTE:With HUD's permission, any repair items included in the list of PCNA repairs may be completed before endorsement of the loan. Therefore, the MCE may have to adjust the amount of the PCNA repair cost escrow to be established at final endorsement.

For nonprofit mortgagors see the escrow requirements in paragraph 27-18.

c.Line 3. Self-explanatory.

d.Line 4. Modify to read "Amount of Loan and Grant/Loan."

(27-16) e. Line 5. Not applicable.

f.Lines 6 and 7. Self explanatory.

g.Line 8, Operating Deficit. AM computes an operating deficit during construction/repair and the approved rent phase-in period. At initial/final endorsement the operating deficit escrow must be established.

h.Lines 9, 10, 11, and 12.

Note: Front Money Escrow. Not Applicable.

B.Title II Equity Loan with Substantial Rehabilitation Required Before Final Endorsement.

1.Complete according to Section 207 instructions found in HUD Handbook 4480.1.

2.Include any relocation expenses approved by the CPD relocation specialist in excess of the $500 per household that may be included in Section G, Total Estimated Replacement Cost, of Form HUD-92264.

27-17.COMMENCEMENT OF AMORTIZATION. Amortization begins for a:

A.Loan with or without PCNA repairs on the first day of thesecond month following the date of initial/ final endorsement of the loan.

B.Loan with Substantial Rehabilitation Required Before Final Endorsement 4 months after final completion of the substantial rehabilitation work.

27-18.INITIAL/FINAL ENDORSEMENT OF A LOAN WITH PCNA REPAIRS. At the closing:

A.A for-profit mortgagor sets up a two-tier escrow equalling at least 110 percent of the cost of PCNA repairs not yet completed.

1.One-hundred percent of the cost must be in cash...TX:

(27-18) 2. Ten percent or such greater amount as determined by the mortgagee must be funded in cash or, at the mortgagee's option, by a letter of credit.

B.A nonprofit mortgagor can:

1.Set up the escrow required in A above and complywith C below, or

2.Set up a two-tier cash escrow equalling:

a.One-hundred percent of PCNA repairs not yet completed.

b.Ten percent contingency reserve included in the mortgage.

c.Release of the funds will comply with C below except that funds released from the 100 percent escrow are subject to a 10 holdback.

d.Money may be released from the 10 percent contingency reserve for change orders involving necessity type items that are unanticipated during the repairs.

C.The mortgagor, the mortgagee and HUD enter into a formalescrow agreement using Form HUD-92476.1, Escrow Agreement for Unpaid Construction Costs, Repairs or Needs Assessment Repairs, which provides:

1.All repairs must be completed by the mortgagor within 12 months. (A, E & C staff will provide the MCE with a copy of the mortgagor's estimated Progress Schedule.)

a.The mortgagee may specify a shorter escrow period.

b.The FO can grant extensions of the escrow beyond12 months.

(27-18) 2. If the mortgagor does not complete all the repairswithin the allotted time frame, the mortgagee will use the balance of the escrow to complete the repairs.

3.At the mortgagee's option, escrowed funds may bedisbursed as work progresses using Form HUD-92464, Request for Approval of Advance of Escrow Funds:

a.HUD inspects and approves all work before authorizing release of the escrowed funds.

b.Funds released from the 100 percent escrow are not subject to any holdback except when the provisions of paragraph B.2 above apply. For those cases where the mortgagor funds the second 10 percent escrow, no money is released until all PCNA repair work is complete and found acceptable.

4.Before releasing the remaining funds, the following conditions must be met:

a.All PCNA repairs have been satisfactorily completed;

b.Latent defects guarantee is satisfied (see paragraph 27-21 below);

c.An updated title search, provided to the FO, mustshow no liens have been placed on the project because of the PCNA repairs, and;

d.All Davis-Bacon payroll requirements have been satisfied.

5.If the actual cost of repairs is less than the estimated cost of repairs (including the contingency reserve for nonprofit mortgagors) and the controlling mortgage was based on:

a.Paragraph 27-15.B.3, use the difference to prepaythe loan.

(27-18) b. The application amount or debt service,

(1)Reduce amount recorded on line 74, TotalEstimated Replacement Cost, Section G of Form HUD-92264 by the difference. Recompute the mortgage developed in paragraph 27-15.B.3 and compare with original committed mortgage to determine if a reduction is warranted.

(2)If no reduction is warranted, release the difference to the owner.

27-19.INSURANCE OF ADVANCES FOR A LOAN WITH SUBSTANTIAL REHABILITATION REQUIRED BEFORE FINAL ENDORSEMENT.

A.Insurance of advances is available where the substantialrehabilitation hard and soft costs equal $200,000 or more.

B.Release the equity component of the loan at initial endorsement.

C.Assurance of Completion. The Borrower must provide an assurance of completion in accordance with 24 CFR 241.140.

D.All closing documents presently required in connection with Section 207 insured mortgages are to be used in supplemental loans, including property insurance requirements as well as the mortgagee's and mortgagor's certificates.

1.The new Note and Mortgage for the Section 241(f)will be on the same form as used for the original loan. The mortgage form will be adjusted to delete reference to "first mortgage" and state that the second mortgagee's rights are subject to the rights of the mortgagee of the HUD-insured first mortgage, including rights relating to the assignment of rents.

2.The new mortgage form will be adjusted to deleteall references to the collection of escrows for "taxes" and "hazard insurance."

(27-19) 3. Title evidence must be presented covering the new loan that reflects no lien other than the lien of the first mortgage and liens accepted on the first title policy insuring the first mortgage.

27-20.COST CERTIFICATION.

A.Loan with or without PCNA Repairs. No cost certification is required.

B.Loan with Substantial Rehabilitation Required Before Final Endorsement.

1.Simplified cost certification requirements, described in paragraph 11-6.A of this Handbook, apply when:

a. The substantial rehabilitation component of a loan equals $200,000 or less, or

b. The project contains 40 units or less.

2. Long form cost certification requirements, described in paragraph 11-6.B of this Handbook, apply in all other cases.

3. Treat the equity portion of the loan as an allowance.

4. No operating statement is required to accompany the cost certification since the mortgagor entity is controlled by an existing Regulatory Agreement.

5. In recomputing the maximum loan on Form FHA-2580, Maximum Insurable Mortgage, add:

a. Ninety percent of the HUD estimated owner's equity and

b. One-hundred percent of all other allowed costs.

27-21. LATENT DEFECTS GUARANTEE. Upon completion of PCNA repair or substantial rehabilitation work:

(27-21) A. The mortgagor must give satisfactory evidence thatthe repair work is covered by a guarantee, running for 15 months from the date all repair work is satisfactorily completed, against defects due to faulty materials or workmanship.

B. Performance must be assured by either:

1. Surety Bond. Form FHA-3259, Surety Bond AgainstDefects Due to Defective Materials and/or Faulty Workmanship, by a surety on the accredited list of the U. S. Treasury and drawn in an amount not less than 10 percent of the cost of repairs as estimated by HUD.

2. Cash Escrow equal to 2-1/2 percent of the total cost of repairs, to be retained for 15 months from the date all repair work is satisfactorily completed.

3. If Form FHA-2452, Performance Bond-Dual Obligee, or the American Institute of Architect's Form AIA A311,

Performance Bond were used for substantial rehabilitation, no action is required as the bonds remain in effect for 2 years from the date of final payment under the construction contract.

27-22.PREPAYMENT PRIVILEGES AND CHARGES. Same as those set forth in 24 CFR 241.1100.

27-23.BOND FINANCED LOANS must comply with all the requirements for bond financed loans found in Chapter 15 of this Handbook and in HUD Handbook 4430.1 REV-1, Initial Closing for Project Mortgages.

27-24.LOW INCOME HOUSING TAX CREDITS. The mortgagor and FO must comply with all Headquarters review requirements concerning processing a project receiving benefit of Low Income and Historic Tax Credits including those found in HUD Handbook 4430.1 and Chapter 18 of this Handbook.

SECTION III. SECTION 241(f) TITLE VI EQUITY OR ACQUISITION LOANS

27-25.GENERAL INSTRUCTIONS. The processing instructions for Title II and Title VI closely mirror one another. The differences particular to Title VI are discussed below.

27-26.SCOPE. Under the Low Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA), typically Mortgage Credit processing commences with the submission of a Section 241(f) application. Mortgage Credit has no responsibility under the NOI stage.

27-27.AMORTIZATION PERIOD.

A. The amortization period of the:

1. Equity loan will have a term of not less than 20years nor be more than 40 years. The term should be rounded to the next highest year.

2. Acquisition loan will be 40 years.

B. Valuation will record the term of amortization in the "Remarks" Section of Form HUD-92264.

27-28.EXTENSION PRESERVATION EQUITY. It is the extension preservation value less the unpaid balance of all debt secured on the property.

27-29.TRANSFER PRESERVATION EQUITY. It results from deducting the unpaid balance on all federally assisted mortgages from the transfer preservation value as adjusted. The procedure does not recognize any non-federally assisted mortgages on the property such as conventional seconds even if they were HUD approved.

27-30.PRIORITY PURCHASER.

A.A Priority Purchaser is any entity that is not a relatedparty to the owner and that is either:

1.A resident council organized to acquire the project under a residential homeownership program; or

(27-30)   2. Any nonprofit organization or State or local agencythat agrees to maintain low income affordability restrictions for the remaining useful life of the project.

B.A Priority Purchaser is not a nonprofit organization or State or local agency affiliated with a for-profit entity for purposes of purchasing a project.

C.Refer to paragraph 27-12 for procedures relative to approval of a Priority Purchaser.

27-31.EXTENSION PRESERVATION EQUITY 5-YEAR ESCROW. The mortgagor must set up an escrow, equal to 10 percent of the loan.

A.A cash escrow or, at the option of the mortgagee, a letter of credit will be established at initial endorsement by the mortgagor entity, held by the lender and controlled by the Secretary or a Secretary approved State Housing Finance Agency.

B.The escrow account will be released to the owner after 5years if the project has been in compliance with 24 CFR 248.147, Housing Standards.

27-32.DETERMINATION OF MAXIMUM INSURABLE MORTGAGE, SECTION I OF FORM HUD-92264-A, SUPPLEMENT TO PROJECT ANALYSIS.

A. Equity Loan with no PCNA Repairs. The maximum equity loan is the lowest of:

1. Application Amount.

2. Seventy percent of the HUD estimated extension preservation equity recorded in the "Remarks" Section of Form HUD-92264. Adjust this result:

a. To add the amount recorded on line 74, Total Estimated Replacement Cost, Section G of Form HUD-92264, which includes the required deposit to replacement reserve, if any, and associated soft costs.

b. To subtract the amount of any grant/loan funds attributable to replacement cost items.

(27-32) 3. An amount attributable to the debt service criterion that can be amortized by the applicable percent of the project's estimated Section 241(f) annual authorized return and initial deposit to replacement reserve income components. Valuation will indicate the amounts of the income components in the "Remarks" Section of Form HUD-92264.

a. Indicate both income components on Line 5e of Form HUD-92264-A.

(1) Multiply the annual authorized return income (equity income) component by 90 percent.

(2) Multiply the initial deposit to the replacement reserve income component by 95 percent.

b. Place total of paragraphs a.(1) and (2) in Line 5, Column 2.

c. In completing Criterion 5, no adjustment is madefor income required to support all outstanding secured indebtedness. Valuation will give consideration to the annual authorized return and initial deposit to replacement reserve and repair/ rehabilitation, if applicable, income components as well as the income component for debt service on existing loan(s), in its determination of rents.

d.Do not capitalize the savings from any tax abatement, since the income figures provided by Valuation will take tax abatement into consideration.

B.Equity Loan with PCNA Repairs. The maximum equity loan is the lowest of:

1.Loan criteria A.1 above.

2.Loan criteria A.3 above with following difference:

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(27-32) a. When PCNA repairs are involved, in addition to the annual authorized return income component, Valuation will provide an income component for repair/rehabilitation, which includes the component for the initial deposit to the replacement reserve.

b.Multiply the annual authorized return component by 90 percent and the repair/ rehabilitation component, which includes initial deposit to replacement reserve component, by 95 percent.

3.Seventy percent of the HUD estimated extension preservation equity recorded in the "Remarks" Section of Form HUD-92264. Adjust this result:

a.To add the amount recorded on line 74, Total Estimated Replacement Cost, Section G of Form HUD-92264, which includes:

(1)HUD's estimate of the hard and soft costs associated with the PCNA repairs; and

(2)The required deposit to replacement reserve, if any, and associated soft costs.

b.To subtract the amount of any grant/loan funds attributable to replacement cost items.

C.Equity Loan with Substantial Rehabilitation Required Before Final Endorsement. The maximum equity loan is the lowest of:

1.Loan criteria A.1 and B.2 above, or

2.Seventy percent of the HUD estimated extension preservation equity recorded in the "Remarks" Section of Form HUD-92264. Adjust this result:

a.To add the amount recorded on line 74, Total Estimated Replacement Cost, Section G of Form HUD-92264, which includes:

(1)HUD's estimate of the hard and soft costs associated with the substantial rehabilitation of the project;

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(27-32) (2) The soft costs associated with the equity portion of the loan; and

(3)The required deposit to replacement reserve, if any, and associated soft costs.

b.To subtract the amount of any grant/loan funds attributable to replacement cost items.

D.Acquisition Loan with no PCNA Repairs. The maximum loanis the lowest of:

1.Application amount.

2.Ninety-five percent of the transfer preservationequity recorded in the "Remarks" Section of Form HUD-92264. Adjust this result:

a.To add the amount recorded on line 74, Total Estimated Replacement Cost, Section G of Form HUD-92264, which includes:

(1)Soft costs associated with 95 percent of the transfer preservation equity.

(2)The initial deposit to replacement reserve and associated soft costs; and

(3)For a Priority Purchaser, HUD approved transactional costs [reasonable expenses associated with the acquisition, loan closing and implementation of the plan of action] and soft costs associated with both the transactional costs and 95 percent of the transfer preservation equity.

b.To subtract the amount of any grant/loan funds attributable to replacement cost items.

NOTE:Use the purchase price if it is less than 95 percent of the transfer preservation equity.

(27-32) c. Assist Valuation in determining eligible transactional costs. Adjust the fee included in the loan if duplicative services are paid from PTAG/ITAG or other funding sources. Transactional costs may include:

(1)Bond Fees and Discounts included in theMortgage Transaction.

(a)Where a project is to be financed through the sale of either taxable or tax-exempt bonds, the maximum financing fees allowable in the mortgage computation and recognizable for cost certification purposes is 5.5 percent of the mortgage amount. Any cost beyond the 5.5 percent must be paid from sources outside the mortgage.

A typical but not inclusive list of bond fees would contain, Trustee setup, underwriter's fee, underwriter's counsel, bond counsel, issuer's initial fee, bond printing expense, rating agency fee, negative arbitrage and a 1 percent assignment escrow.

The maximum financing fee the mortgagee may retain for its own account is 3.5 percent. This 3.5 percent covers the costs of origination, processing, underwriting, closing and delivery (including the mortgagee's legal fees), escrow monitoring, permanent placement, etc. The remaining 2 percent (or such greater percentage as may result from the lender reducing its maximum retainable 3.5 percent fee) may be used to offset the cost of bond fees.

(27-32)(b) Discounts will be recognized only forthose actual costs charged by the permanent lender which are determined to be eligible.

1Discounts charged for warehousing a mortgage for future delivery are not eligible for inclusion in the determination of the maximum insurable mortgage.

2Discounts must be reasonable based on current market conditions. In some cases, discounts are used to buy down the permanent rate to a below market rate. This has the affect of inflating a project's value and mortgage while placing an undue risk on the insurance fund. Therefore, do not include in the mortgage computation discounts incurred in a buy down situation that exceed reasonable discounts based on current market interest rate levels.

(2)Environmental studies prepared for the purchaser's benefit.

(3)Operating deficit.

a.during construction/repair.

b.during the approved rent phase-in period.

(4)Relocation Allowance. The priority purchaser must submit a relocation plan. The Community Planning and Development relocation specialist will review and

(27-32)analyze the plan. An allowance for relocation costs (not to exceed a total of $500 per household to be relocated) may be included in the loan.

(5)Construction manager/clerk of the workswhere there is a repair program. The scope of this function is detailed in AIA Document B352 under "Duties, Responsibilities and Limitations of Authority of the Architect's Project Representative."

(6)Organizational costs incurred in establishing nonprofit purchasing organization.

(7)Tenant training and education costs incurred by a priority purchaser which is not a resident council purchasing the project under a homeownership plan, may be reimbursed depending on the need for the training and the reasonableness of the costs.

NOTE:Seller financing is not permitted permitted to cover the transaction costs for paragraph (7).

3.An amount attributable to the debt service criterion can be amortized by 95 percent of project's estimated acquisition income component (purchase price, if less) and initial deposit to replacement reserve income component. For priority purchasers, transactional cost income component will be considered.

NOTE:This criterion must equal or exceed the lowerof either D.1 of D.2.

E.Acquisition Loan with PCNA Repairs. The maximum acquisition loan is the lowest of:

1.Loan criteria D.1 above.

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____

(27-32)   2. Loan criteria D.3 above except that, in addition toacquisition income component, Valuation will also identify repair/rehabilitation income component, which will include initial deposit to the replacement reserve income component and, for priority purchasers, transactional cost income component.

3.Ninety-five percent of the transfer preservationequity recorded in the "Remarks" Section of Form HUD-92264. Adjust this result:

a.To add the amount recorded on line 74, Total Estimated Replacement Cost, Section G of Form HUD-9226A, which includes:

(1)Soft costs associated with the 95 percent of the transfer preservation equity;

(2)HUD's estimate of the hard and soft costs associated with PCNA repairs;

(3)The initial deposit to replacement reserve and soft costs associated with the deposit; and

(4)For a Priority Purchaser, HUD approved transaction expenses. Refer to paragraph 27-32.D.2.c.

b.To subtract the amount of any grant/loan funds attributable to replacement cost items.

NOTE:Use the purchase price if it is less than 95 percent of the transfer preservation equity.

F.Acquisition Loan with Substantial Rehabilitation. The maximum acquisition loan is the lowest of:

1.Loan criteria D.1 and E.2 above, or

2.Ninety-five percent of the transfer preservationequity recorded in the "Remarks" Section of Form HUD-92264. Adjust this result:

(27-32) a. To add the amount recorded on line 74, Total Estimated Replacement Cost, Section G of Form HUD-92264.

NOTE: This amount consists of:

*HUD's estimate of the hard and soft costs associated with substantial rehabilitation of the project;

*The soft costs associated with theequity portion of the loan;

*The initial deposit to replacementreserve and soft costs associated with the deposit;

approved transaction expenses. Refer to paragraph 27-32.D.2.c.

b.To subtract any grant/loan funds attributable toreplacement cost items.

NOTE:Use the purchase price if it is less than 95 percent of the transfer preservation equity.

27-33.TOTAL REQUIREMENTS FOR SETTLEMENT, SECTION II OF FORM HUD-92264,
SUPPLEMENT TO PROJECT ANALYSIS.

A.Equity and Acquisition Loans with or without PCNA Repairs.

1.Part A of Section II.

a.Line 1, Fees not to be Paid in Cash. Not applicable.

ommitment, Marketing Fees and Discounts. Self-explanatory.

c.Working Capital Deposit. Not applicable.

2.Part B of Section II.

(27-33) a. Line 1, Development Cost. Delete "Development Cost" and enter either "Cost of Title VI Equity or Acquisition Loan with no PCNA Repairs" or "Cost of Title VI Equity or Acquisition Loan with PCNA Repairs."

For acquisition projects, enter the purchase priceof the property reflected in the purchase agreement and the total loan closing charges based on the maximum loan. Enter only the total loan closing charges for an equity loan.

Compute the loan closing charges in the Remarks Section of Form HUD-92264-A.

(1)Financing Fee (Initial Service Charge not to exceed 2 percent).

(2)Permanent Placement Fee (not to exceed the difference between 3.5 percent and the percentage applicable to the financing fee).

(3)Mortgage Insurance Premium of .5 percent of the loan paid at initial/final endorsement.

(4)Deposit to Replacement Reserve - Valuation will show in Section G, Estimated Replacement

Cost, of Form HUD-92264 the amount of the required deposit, if any.

(5)Title and Recording Expenses. Use the greater of the mortgagor's estimate on Form HUD-92013 or the amount recorded on line 62 in Section G of Form HUD-92264.

(6)Legal Expenses. Use the greater of themortgagor's estimate on Form HUD-92013 or the amount recorded on line 64 in Section G of Form HUD-92264.

(27-33) (7) HUD Exam and Inspection Fees. Compute the exam fee based on 24 CFR 241.1015. For projects with PCNA repairs, the inspection fee is 1 percent of total repairs, with a minimum fee of $500.

(8)Include for the nonprofit mortgagor anytransaction costs, except for the operating deficit which is reflected on line 8.

(9)An extension preservation equity 5-yearescrow equal to 10 percent of the proposed loan.

(10)Include any relocation expenses approved by the CPD relocation specialist.

b.Line 2, Land Debt. This item is only applicableif there are PCNA repairs. Delete "Land Indebtedness" and either the PCNA repairs shown in the "Remarks" Section of Form HUD-92264 as adjusted to reflect escrow requirements equal to 110 percent of the cost of PCNA repairs to be completed after endorsement.

NOTE:With HUD's permission, any repair items included in the list of PCNA repairs may be accomplished before endorsement of the loan. Therefore, the MCE may have to adjust the amount of the PCNA repair cost escrow to be established at final endorsement.

For nonprofit mortgagors see the escrow requirements in paragraph 27-18.

c.Line 3. Self-explanatory.

d.Line 4. Modify to read "Amount of Loan and Grant."

e.Line 5. Not applicable.

(27-33) f. Line 6 and 7. Self-explanatory.

g.Line 8, Operating Deficit. AM computes and operating deficit during construction/repair and the approved rent phase-in period. At initial/final endorsement the operating deficit escrow must be established for a minimum of 2 years.

h.Line 9, 10, 11, and 12.

NOTE: Front Money Escrow. Not Applicable.

B.Equity and Acquisition Loans with Substantial Rehabilitation Required Before Final Endorsement.

1.Complete according to Section 207 instructions found in HUD Handbook 4480.1.

2.Include an extension preservation equity 5-year escrow equal to 10 percent of the proposed loan.

3.Include any relocation expenses approved by the CPD relocation specialist in excess of the $500 per household that may be included in Section G, Total Estimated Replacement Cost, of Form HUD-92264.

4.For a Priority Purchaser, refer to paragraph A.2.g. above, relative to operating deficit.

27-34.COST CERTIFICATION.

A.Loan with or without PCNA Repairs. No cost certification is required.

B.Loan with Substantial Rehabilitation Required Before Final Endorsement.

1.Simplified cost certification requirements, described in paragraph 11-6.A of this Handbook, apply when:

a.The substantial rehabilitation component of a loan equals $200,000 or less, or

b.The project contains 40 units or less.

(27-34) 2. Long form cost certification requirements, described in paragraph 11-6.B of this Handbook, apply in all other cases.

3.Treat the equity portion of the loan as an allowance.

4.No operating statement is required to accompany the cost certification since the mortgagor entity is controlled by an existing Regulatory Agreement.

5.In recomputing the maximum loan on Form FHA-2580,Maximum Insurable Mortgage, add:

a.Seventy percent of the HUD estimated extension preservation equity or 95 percent of the HUD transfer preservation equity (or purchase price, if less) and

b.One-hundred percent of all other allowed costs.

27-35.INITIAL/FINAL ENDORSEMENT OF A LOAN WITH PCNA REPAIRS. At the closing follow the instructions in paragraph 27-18 as modified here. If the actual cost of repairs is less than the estimated cost or if there are savings in the contingency escrow for projects with PCNA repairs or transactional costs included for Priority Purchasers and the controlling mortgage is based on:

A.Paragraph 27-32.B.3 or E.3, the FO can require the difference to be:

1.Applied as a prepayment to the loan, or

2.Deposited in the reserve for replacements.

B.The application amount or debt service:

1.Reduce amount recorded on line 74, Total Estimated Replacement Cost, Section G of Form HUD-92264 by the difference. Recompute the mortgage developed in paragraph 27-32.B.3 or E.3 and compare with the original mortgage to determine if a reduction is warranted.

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(27-35) 2. If a reduction is warranted, refer to paragraph A above.

3. If no reduction is warranted, release the difference to the owner.

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