CHAPTER 4. COMMITMENT PROCESSING

4-1. DETERMINING THE AMOUNT AND AMORTIZATION PERIOD OF LOAN. Analysis of the credit risk is based on a loan for a definite amount and amortization period.

A. Maximum insurable mortgage cannot exceed the lowest mortgage criterion that results from completing Form HUD-92264-A (refer to Reference 16 of the Foreword.) Round down to the nearest $100 multiple. This:

1. Assures compliance with the statutory and regulatory limitations; and

2. Establishes a mortgage that has a sound relationship to the income and expenses of the project.

B. Amortization period of the mortgage will not exceed 75 percent of the estimated remaining economic life of the physical improvements or 40 years, whichever is less.

C. Property offered for security must be designed principally for residential use. Projects must consist of five or more dwelling units or rental spaces, if it is a mobile home court or park.

4-2.AMOUNT OF LOAN - NEW CONSTRUCTION. New construction includes all projects that do not involve rehabilitation or slum clearance and urban redevelopment of a site acquired from the Federal or local government. The insurable mortgage is the lessor of:

A. Application amount.

B. Ninety percent of the result of the HUD estimated value of the project, less the amount of grant/loan funds attributable to replacement cost items.

C. Ninety percent of the result of the HUD estimated replacement cost for Section 207 projects located in Alaska and Guam, less the amount of grant/loan funds attributable to replacement cost items.

D. Debt service that does not exceed 90 percent of the project's estimated net income. The mortgage may exceed this limit by capitalizing the savings from any tax abatement.

(4-2) E. An amount attributable to dwelling use, excluding exterior land improvements, not to exceed:

1. For walk-up structures the per family unit limits found in 24 CFR 207.4(a)(2).

2. For elevator structures the per family unit limits found in 24 CFR 207.4(b)(1).

NOTE: An elevator structure is any structure with more than three stories that contains an elevator or any structure in which an elevator is required by local code or the Minimum Property Standards (MPS). Process all other structures containing an elevator as walk-up structures.

3. For mobile home courts or parks, the per space limit is found in 24 CFR 207.33.

4. Exceptions to insurable mortgage amount limitations:

a. Unit limits may vary according to the applicable Section of the Act under which the project is processed.

b. The mortgage may exceed the limits by 90 percent of both the site not attributable and cost not attributable to dwelling use, including exterior land improvements.

c. Per family unit limits may be increased by:

(1) The approved High Cost Percentage for the jurisdiction in which the project will be located.

(2) A percentage above the approved High Cost Percentage up to 140 percent maximum with the approval of the Commissioner on a case-by-case basis.

(3) The limits for walk-up and elevator structures may be increased by up to 20 percent, if necessary, for purchase and installation of a qualified solar energy system, This is in addition to any increase in a high cost area.

(4-2) (4) If the Commissioner finds good cause in Alaska, Guam or Hawaii, the maximum, high cost percentage may be increased by up to one-half.

(5) No more than 90 percent if the mortgage has been, or is committed to be, purchased by GNMA in implementing its Special Assistance Functions under Section 305 of the National Housing Act (as Section 305 existed immediately before its repeal on November 30, 1983).

4-3. AMOUNT OF LOAN - REHABILITATION. (Only projects involving substantial rehabilitation or reconstruction.) The loan must be the lesser of:

A. Amounts set forth under New Construction.

B. Property Held in Fee - 100 percent of HUD's estimated cost of rehabilitation less grant/loan funds attributable to replacement cost items.

C. Property Subject to Existing Indebtedness - HUD's estimated current cost of rehabilitation, less amount of grant/loan funds provided for replacement cost items, plus the lesser of:

1. Principal amount of existing indebtedness secured by the property, if any. Existing debt is defined to be:

a. The outstanding mortgage(s) incurred in connection with the construction of the project or with capital improvements made to the property as confirmed in writing by the present lender and other recorded indebtedness such as mechanics' and tax liens. The tax liens must be for project indebtedness rather than for an indebtedness against the property arising from a personal obligation of the mortgagor, or in connection with other realty.

b. Some unrecorded indebtedness, such as delinquent interest, indebtedness incurred in making significant betterments to the property, prepayment penalties, indebtedness

(4-3)incurred or advances made to cover operating deficits, etc., may also be eligible. If the indebtedness is not recorded, the mortgagor must provide documentation (i.e., audited financial statement, loan agreement which specifies purpose of the loan) which unquestionably indicates that the obligation is directly connected to the project.

c. Investigate any recent (e.g., within 2 years of original application) indebtedness placed against the property whether or not an identity of interest party is involved. If it appears that any such indebtedness was placed against the project in an effort to increase the mortgage to enable the owner to recapture equity out of mortgage proceeds, then it shall not be considered existing indebtedness for the purpose of determining the maximum insurable mortgage amount. However, this indebtedness is to be considered in determining the total estimated cash requirements.

d. Request pay-off figures as of the anticipated date for initial endorsement. Do not increase quoted pay-off figures if the owner fails to make required payments.

2. Ninety percent of the HUD estimate of the Fair Market (As-Is) Value of the property before rehabilitation (less the value of the leased fee, if leasehold, and/or the amount of any nonprepayable special assessments).

NOTE: Treat any properties acquired within 2 years of the date of the original application as "Property to be Acquired" in lieu of "Property Subject to Existing Mortgage."

D. Property to be Acquired - 90 percent of the cost of rehabilitation, less amount of grant/loan funds attributable to replacement cost items, plus the lesser of:

1. Ninety percent of the actual purchase price of the property; or

2. Ninety percent of the HUD estimate of Fair Market (As-Is) Value of property before rehabilitation, which is to be reduced by the

(4-3) value of the leased fee, if leasehold, and/or the amount of any nonprepayable special assessments.

NOTE: If an identity of interest, regardless of how slight, exists between the seller(s) of the existing property and the sponsor(s), the proposal is to be processed as "Property Subject to Existing Mortgage" in lieu of "Property to be Acquired."

NOTE 1: Paragraphs B, C and D are not applicable to substantial rehabilitation projects funded under Sections 220 and 221.

NOTE 2: The Notes in Paragraphs C and D also apply to Section 223(f) cases in determining whether the transaction is a purchase or refinance.

4-4. AMOUNT OF LOAN - REDEVELOPMENT. Redevelopment involves slum clearance and urban redevelopment where the site is acquired from an instrumentality of the Federal, State or local government. The insurable mortgage is the lesser of:

A. Amounts set in paragraph 4-2.

B. Ninety percent of estimated cost of the project to the mortgagor and sponsors.

4-5. ESTIMATING FINANCIAL REQUIREMENTS FOR COMPLETING A MULTIFAMILY PROJECT is essential for determining the net amount of cash or its equivalent needed to close the transaction.

A. Total the following:

1. HUD's total estimated development cost. Also, include the amount by which the:

a. Contractor's and/or mortgagor's estimate for construction exceeds HUD's estimate.

b. Owner/Architect Agreement for design and/or supervisory services exceeds HUD's estimate.

c. Consultant's contract for services exceeds HUD's estimate.

2. Amount necessary to clear all debts on the land (or property if substantial rehabilitation). All indebtedness must be verified by the MCE.

(4-5) In purchase transaction, include other costs associated with the acquisition that will not be recoverable from mortgage proceeds, i.e., zoning costs.

3. Estimated cost of offsite improvements and demolition.

4. Cost of equipping and furnishing a project with nonrealty items, if applicable. Use the higher of Cost Analyst's estimate or the mortgagor's estimate.

5. Required working capital deposit, if required.

6. Operating deficit, if any.

7. Commitment, marketing fees, and discounts.

8. Interest shortfall escrow deposit set up according to Reference 6 of the Foreword.

9. Cost of issuance to be paid out-of-pocket by the sponsor/mortgagor for tax-exempt or taxable bond financing.

10. Relocation payments not included in HUD's estimated replacement cost on Form HUD-92264.

B. Deduct the maximum insurable mortgage, any grant/loan funds attributable to replacement cost items and fees not to be paid in cash. The remainder is the estimated capital needed for the project.

C. Set forth these conclusions and the mortgagor's ability to close the transaction on Form HUD-92264-A.

4-6. REVIEW AND RECOMMENDATION. Give the project's temporary binder containing the processing forms and your recommendation (in a memorandum addressed to the Director of Housing Development) to the Chief of Mortgage Credit, for review and signature.

A. The memorandum must detail the project's financial requirements and the credit capacity of the sponsors and general contractor. Include, at minimum:

1. Name of the mortgagor entity, if known.

(4-6)   2.   Composition of the mortgagor entity, if known.

3.   Name of general contractor, if known.

4.   Mortgage amount and controlling criterion.

5.   Financial requirements for closing.

6.   A credit and financial review of sponsor(s) and general contractor.

7.   Bonding requirements.

8.   Recommendation to accept or reject.

9.   If accepted, any conditions to be included in the commitment.

B.   The Chief reviews, signs and dates the memorandum and Form HUD-92264-A and forwards the them along with Form HUD-92264, Rental Housing Project Income Analysis and Appraisal, to the Director of Housing Development.