
CHAPTER 5. COST CERTIFICATION

- 5-1. GENERAL. HUD regulations require cost certification for all Section 202 projects. Only costs which have been paid in cash or will be paid in cash within 45 days of final closing are certifiable. Cost certification must be completed in accordance with Handbook 4470.2, Cost Certification Guide for Mortgagor and Contractors of HUD-Insured Multifamily Projects, except as modified here.
- 5-2. REQUEST FOR SUBMISSION OF COST CERTIFICATION. Upon construction completion, the Field Office must send a letter to the owner which:
- A. Establishes the completion date for the determination of actual project costs.
 - B. Requests early submission of cost certification documents in order to expedite final closing (must be received at least 30 days prior to anticipated closing date).
- 5-3. COST CERTIFICATION DOCUMENTS. The documentation required from the Owner will vary with the type of construction contract and the size of the mortgage.
- A. Lump-Sum Contract. Form HUD-92330, Mortgagor's Certificate of Actual Cost, showing the actual cost to the owner, supported by an accountant's opinion.
 - B. Cost-Plus Contract. Form HUD-92330 and HUD-92330A, Contractor's Certificate of Actual Cost, both supported by an accountant's opinion.
- NOTE: Subcontractors, suppliers and equipment lessors with an identity of interest with the general contractor also must submit Form HUD-92330A.
- C. Capital Advance of \$750,000 or Less. Regardless of form of construction contract, submission will be made on Form HUD-92330, accompanied by HUD-92330A. An accountant's opinion is needed only for the general contractor's certification.
 - D. Audited Balance Sheet. This document must be dated the same as the cut-off date.
 - E. Audited Operating Statement. This must be requested if occupancy occurred before the cut-off date.

1. Period covered is from first occupancy to cut-off date.
2. Any net income up to \$25,000 must be transferred at final closing to residual receipts account.
3. Any net income in excess of \$25,000 will be transferred to the Replacement Reserve Account.

5-4. DETERMINATION OF MAXIMUM CAPITAL ADVANCE AMOUNT. On completion of the review of certificates of actual cost and acceptance thereof, the Field Office must:

A. Savings Calculation. Calculate the amount of "savings" to be retained in the project's Replacement Reserve Account (if the Fund Reservation is not increased above the amount reserved at the Fund Reservation Stage).

1. The Owner is entitled to retain 50 percent of the savings in the Replacement Reserve Account.

EXAMPLE:

Capital Advance at Fund Reservation	-	\$3,650,000
Approved Amount at Final Closing (including eligible cost overruns)		3,300,000

DIFFERENCE	-	\$ 350,000

"SAVINGS" = \$350,000 X .50 = \$175,000 (to be deposited in the Replacement Reserve Account)

The remaining \$175,000 is recaptured.

2. The percentage is increased up to 75 percent if the project contains energy efficiency features which:
 - a. Exceed the energy efficiency standards developed by the Department in accordance with Section 109 of the National Affordable Housing Act;
 - b. Substantially reduce the life-cycle cost of the housing;
 - c. Reduce gross rent requirements; and
 - d. Enhance tenant comfort and convenience.

EXAMPLE:

Excess Funds (see 5-1A above) = \$350,000

"SAVINGS" = \$350,000 X .75 = \$262,500 (to be deposited in the Replacement Reserve Account)

The remaining \$87,500 is recaptured.

- B. Maximum Capital Advance Calculation. Determine the maximum capital advance amount using Form HUD-92580-CA, Maximum Capital Advance Mortgage, by:
1. Stating the capital advance amount reserved at fund reservation; or
 2. Reducing the original capital advance amount by any funds to be recaptured.
- C. Notification to Owner. Notify the owner of the final capital advance mortgage, by issuing the Form HUD-92580-CA.
- 5-5. MORTGAGE REDUCTION. If the mortgage is to be reduced the following actions must be taken:
- A. Mortgage Note Modification. The Mortgage Note must be modified to reflect the amount of the reduction and sent to RAD.
 - B. Fund Reservation Amendment. An amended Form HUD-718, Funds Reservation and Contract Authority, must be prepared to recapture the unused balance of the Capital Advance Fund Reservation.
- 5-6. OPERATING EXPENSE ADJUSTMENT. Ordinarily no adjustment of approved operating expenses would occur at this stage unless some item were deleted or added during the construction phase which affected operating costs.