CHAPTER 33. SPECIAL MANAGEMENT AND SERVICING OF SINGLE ROOM OCCUPANCY PROJECTS

SECTION 1. INTRODUCTION

33-1. PURPOSE OF THE SINGLE ROOM OCCUPANCY PROGRAM. Single Room Occupancy (SRO) mortgages insured under Section 221(d) are designed to provide affordable housing for persons of low income and to help prevent homelessness. It is intended that the SRO program will consist of single rooms for individual occupancy and may include shared bathroom and/or kitchen facilities. Although tenant-based assistance, such as Section 8 rental certificates and rental vouchers, may be used in an SRO insured project, Federally-funded project-based assistance cannot be used in conjunction with SRO projects.

33-2. GENERAL. The potential for turnover in SRO projects is greater than that for most HUD-insured apartment projects. Consequently, there is a need for more intensive project management. It is, therefore, imperative that the Field Office provide adequate and necessary oversight of the management agent. Except as discussed in this Chapter, Field Offices must follow instructions for the management and servicing of Section 221(d)(3) and 221(d)(4) projects as indicated in this Handbook. For information regarding the development of the Single Room Occupancy program, Field Offices should refer to HUD Handbook 4560.3, Mortgage Insurance for Single Room Occupancy (SRO) Projects, Section 221(d).

33-3. PROCESSING PROJECT APPLICATIONS. Field Office Housing Management Division staff should provide assistance in the review of the project application to determine:

A. In conjunction with Field Office Economic Market Analysis Staff and Housing Development valuation staff, that there is a need and a market for the project.

1. Field Office Housing Management staff should review the market analysis and rent comparables submitted by the applicant, and the comments made by the Appraisers on the applicant's market analysis.

2. The market analysis should demonstrate that employment trends of the project area and the income levels of the targeted population can adequately afford the projected rents.

3. The Field Office Housing Management staff should determine the impact on other HUD-insured projects in the proposed project area if the project is approved for HUD insurance.

B. Projected income is adequate to cover projected expenses. Field Office Housing Management staff should review the income and expense data submitted by the applicant on HUD Forms 92013 and 92013-E.

1. Annual income and expense data from HUD Form 92410 on similar projects in similar market areas should be used in reviewing the applicant's projected income and expenses for the SRO project. In addition to the special services (such as laundry, guest fees, cable TV, etc.) offered by the project, projected expenses should adequately reflect expenses that are usually required for similar single room occupancy projects in the market area.

2. The results of the Housing Management staff's review and analysis should be forwarded to the Director, Housing Development Division.

C. Management agent is capable of providing satisfactory management services. The management agent must be experienced in SRO management or a related housing project. The management agent, once identified, should attend the pre-application conference.

D. Management agent fees and project payroll expenses should be adequate and comparable with other similar single room occupancy projects in the project area. An on-site review of management agents of SRO projects indicates that intense management is required due to the high turnover rate, security needs, and project staff requirements.

33-4. CIVIL RIGHTS REQUIREMENTS. Each project mortgagor/owner must certify that:

A. It will comply with the Fair Housing Act and implement regulations and administrative procedures that prohibit discrimination in HUD assisted projects because of race, color, religion, sex, national origin, familial status, or handicap.

B. Marketing will be done in accordance with the HUD approved Affirmative Fair Housing Marketing Plan.

SECTION 2. PROGRAM ADMINISTRATION

33-5. OCCUPANCY. A unit must be the primary residence of the occupant(s). Tenants must have sufficient income to afford the market rents. Although there are no income limits for admission to insured SROs, the program is designed to provide affordable housing for persons of low income and to help prevent homelessness. In addition to any local government occupancy requirements, the following occupancy requirements apply:

A. Tenants will be subject to normal tenant selection procedures and occupancy standards. If an applicant is eligible, but no unit is available, the applicant must be placed on a waiting list. If the project, or similar projects in the market area, are experiencing high turnover, the project owner should be required to continue an aggressive marketing effort in order to maintain a waiting list with eligible applicants.

B. Tenants must execute a lease for a minimum period of 30 days. However, the lease may provide for rent to be collected on a weekly basis.

C. Each unit may be occupied by one or more persons, as permitted by the local codes, the Fair Housing Act, and the owner's uniform tenant selection criteria. Additionally, facilities restricting occupancy to particular groups, such as students, shall not be eligible for mortgage insurance under

this program. If more than one person occupies a unit and one of the occupants is a minor, local laws or statutes may require that the other occupants be a parent (including legal guardians) or a blood relative of the minor.

33-6 SPECIAL PROGRAM REQUIREMENTS. In addition to the program requirements for Section 221(d) as described in this Handbook, the Field Office Housing management Division should make sure the project owner complies with the following:

A. Financial Responsibility. Project financial records and accounts must be maintained in accordance with instructions in HUD Handbook 4370.2, Financial Operations and Accounting Procedures for Insured Multifamily Projects. Annual audited financial statements must be prepared and submitted as described in IG Handbook 4372.1, Audit Guide for Use by Independent Public Accountants for Audit of Mortgagors having HUD Insured or Secretary Held Mortgages. Annual audited financial statements must be reviewed by Field office Housing Management staff in accordance with HUD Handbook 4370.1, Reviewing Annual and Monthly Financial Reports. The Field Office Housing Management staff must also review the financial statement to determine if actual project income and expenses are consistent with the level of income and expenses projected during the application stage. Any inconsistencies not caused by market-conditions, or if project expenses exceed project income, the owner must be notified. Field Office Housing Management Division staff will determine the necessary corrective actions and will inform the owner.

B. Reserve for Replacement. In addition to the reserve for replacement for fixed realty items (such as, major movable furniture and equipment for common areas, office and lobby furniture, sofas and chairs for lounge area, copy machine, etc.) established at closing, the project owner must also establish a separate reserve for replacement for nonrealty unit, furnishings (For example, bed with mattress and box springs, desk/table, chair, dresser, etc.). The Field

Office Housing Management staff must ensure that the amount of monthly deposits to this account is adequate, based on the use and projected life of the unit furnishings.

C. Security. Since there may be a high turnover of tenants in the project, there may be a need for increased security. Owners should be prepared to provide this heightened security, including 24-hour desk coverage, if necessary.

D. Management Reviews. In addition to the requirements of a management review, Field Office Housing Management staff must determine that the project is adequately meeting project expenses and is providing decent, safe, and sanitary housing to the tenants.

E. Restriction Against Change of Use. The mortgage note and Regulatory Agreement for an SRO project insured under Section 221(d) shall contain a covenant which provides that unless written approval is received from the Commissioner and the mortgagee, the owner (or any successor owner) may not change the use of the project from that of an SRO rental facility for a period of 20 years, commencing at final endorsement of the mortgage for insurance. This use restriction shall pertain irrespective of whether the mortgage is prepaid by the mortgagor within the 20-year period.