
CHAPTER 18 INSTRUCTIONS FOR PROCESSING A MULTIFAMILY INSURED
PROJECT WITH GRANTS/LOAN.

- 18-1. GENERAL. These instructions apply to:
- A. Grants involving Federal funds.
 - B. Loans to principals of the mortgagor entity involving Federal funds.
 - C. Loans to the mortgagor entity from a Federal, state or local government agency or instrumentality.
- 18-2. APPLICATION FOR MORTGAGE INSURANCE. At the commitment processing stage, the applicant:
- A. Identifies the use of grant/loan funds on Form HUD-92013, Application for Project Mortgage Insurance.
 - B. Submits either:
 - 1) A "letter of intent" signed by an authorized agent of the government agency or instrumentality showing:
 - a) Amount of the grant/loan funds.
 - b) Intended use of the grant/loan funds.
 - c) Original source of grant monies, if not submitted presume Federal funds are involved.
 - 2) An application for the grant/loan showing the information above.
- 18-3. REPLACEMENT COST FORMULA. Forms HUD-92013 and 92264 must reflect the inclusion of all proposed mortgageable improvements whether they are to be funded by the grant/loan funds or mortgage proceeds. The Valuation Branch:
- A. Deducts the amount of the grant/loan funds attributed to replacement cost (mortgageable) items when computing replacement cost by formula.
 - B. Doesn't deduct grant/loan funds earmarked for non-replacement cost (i.e., not mortgageable) items.
 - C. Completes either:
 - 1) Exhibit 1 for proposed construction projects
 - 2) Exhibit 2 for rehabilitation projects

(18-3) 2) Exhibit 2 for rehabilitation projects

- D. Prepares a trial copy of Form HUD-92264A, following outstanding mortgage credit instructions as modified by paragraph 18-4 below.
- E. Completes the Total Estimated Replacement Cost of Project in Section G of Form HUD-92264 using the maximum insurable mortgage developed on the trial Form HUD-92264A.

18-4. SUPPLEMENT TO PROJECT ANALYSIS (FORM HUD-92264A) is completed as follows:

A. Criterion 3, Value/Replacement Cost

- 1) Deduct of grant/loan funds attributed to mortgageable items from the total of the replacement cost taken from Section G, line 74 of Form HUD-92264, Project Income and Analysis.
- 2) Multiply the result by the applicable percentage:

| Section | Mortgagor | Percentage |
|--------------|----------------------------------|------------|
| 1) 221(d)(3) | General and Limited Distribution | 90 |
| 2) 221(d)(3) | Cooperatives | 98 |
| 3) 221(d)(3) | All Others | 100 |
| 4) 221(d)(4) | All Mortgagors | 90 |

B. A grant/loan:

- 1) Does not affect other criteria on Form HUD-92264A.
- 2) Cannot be used to meet the mortgagor's required investment

C. The least mortgage permitted by the applicable criteria becomes the maximum insurable mortgage.

D. Add the grant/loan funds to the mortgage amount in Part A of the "Total Requirement for Settlement" section of Form HUD-92264A.

18-5. INITIAL ENDORSEMENT

A. Chief Counsel and Mortgage Credit review the grant/loan documents to assure:

- 1) Legal sufficiency of the documents.

- 18-5 B. You must consent to the existence of the second mortgage and agree that its existence doesn't constitute a basis for default on the first mortgage
- C. The mortgagor may use instead of a front money escrow, either:
- 1) Unconditional irrevocable letter of credit issued by a banking institution or
 - 2) An agreement entered into by the lender, the government agency or instrumentality, and the mortgagor which provides the following:
 - a) The lender has:
 1. The right to approve construction advances after considering any reported noncompliance by the agency or instrumentality if the project is proceeding in-compliance with approved plans and specifications.
 2. Sole authority to resolve differences in the inspection process and disbursement of grant/loan proceeds.
 - b) The mortgagor will concurrently supply you and the agency or instrumentality with copies of Form FHA 2448, Contractor's Requisition, Form HUD-92403, Application for Insurance of Advances of Mortgage Proceeds.
 - c) The agency or instrumentality must process the advance promptly and without adjustment.
 1. Send the agency or instrumentality a copy of the approved requisition for their records.

- 18-5
2. The agency must notify you of a need to make an adjustment in the following month.
 - d) If default occurs before completion of construction, the agency or instrumentality must disburse the remaining funds so long as the request for funds remains in the same ratio as previously

authorized.

- e) The agency or instrumentality attorney must render an opinion that the agreement and grant/loan commitment is legally binding on the present and all future administrations.
- f) Mortgagors must post either a cash escrow or an unconditional irrevocable letter of credit equal to no less than 10 percent of the grant/loan proceeds.
 - 1. Draw upon the escrow if the government agency or instrumentality fails to advance the grant/loan proceeds in a timely manner.
 - 2. The mortgagor must reinstate any portion of the escrow called during the term of the construction loan, within ten days of the draft for payment.
 - 3. Establish control of the escrow in a separate agreement.

D. Grant/loan proceeds may be advanced:

- 1) Before mortgage proceeds.
- 2) Concomitantly on a prorata basis with the disbursement of mortgage funds proceed.
- 3) Release of grant/loan proceeds cannot be geared to the completion of specific improvements.

18-6. REPAYMENT OF THE LOAN may be secured by a second lien on the project provided:

- A. Repayment of the secondary mortgage, including interest, is geared solely to the availability of surplus cash or residual receipts. The following language must be included in the note:

6/85

18-4

4561.1

18-6 "So long as the Secretary of Housing and Urban Development and (insert name of coinsured lender) or their successors or assigns, are the insurers or holders of the first mortgage on (insert project name and FHA Project No.), payments due under this note shall be payable only from surplus cash (or residual receipts) of

said projects, as the term surplus cash (or residual receipts) is defined in the Regulatory Agreement dated between the (insert name of coinsured lender) and (insert name of mortgagor). The restriction on payment imposed by this paragraph shall not excuse any default caused by the failure of the maker to pay the indebtedness evidenced by this Note."

- B. The term of the second mortgage may be extended, if:
- 1) The note matures, there are no surplus cash funds or residual receipts available for repayment and the first mortgage has not been retired in full.
 - 2) You grant a deferment of amortization or forbearance which results in an extended maturity of the insured mortgage.
- C. The second mortgage is assumable in the event of a sale or transfer of physical assets where the mortgage insurance remains in the place provided:
- 1) 70 percent of the net proceeds of the sale or transfer be applied to the reduction of the loan.
 - 2) For these instructions, net proceeds are the funds available to the original mortgagor after:
 - a) Correcting any monetary or covenant default on the first mortgage.
 - b) Making:
 1. Necessary contributions to any required reserve funds.
 2. Needed improvements to the property as evidenced by your annual inspections reports.
- D. The loan automatically terminates if you acquire title to the project by a deed in lieu of foreclosure.

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- 18-6 E. All work performed with the proceeds of the second mortgage will be cost certified and conform with Davis-Bacon requirements. This includes the submission of payrolls, certifications, etc.
- F. The second mortgage is subject to and subordinate to the first mortgage, the regulatory agreement and the building

loan agreement.

G. Proceeds of the second mortgage are used to cover only project related items.

H. If a loan is made to the project sponsor then:

1) The issuer of the loan and the principals must certify that they have no claim and will not later assert any claim; against the mortgaged property, the mortgage proceeds, any reserve or deposit made in connection with the mortgage transaction, or against the rents or other income from the mortgaged property for payment of any part of the loan.

2) The mortgagor cannot issue a surplus cash/residual receipts note to the principals as evidence of an obligation of payment for the loan.

I. In addition to the conditions cited in items, A through H above, terms of the second mortgage should reflect those provisions found in Forms FHA 1710, 1712 and or 2223, as applicable based on mortgagor-type.

6/85

18-6

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EXHIBIT 1

REPLACEMENT COST BY FORMULA
FOR GRANT/LOAN ASSISTED PROJECTS
PROPOSED CONSTRUCTION (WITH BSPRA/WITHOUT BSPRA)

All Grant/Loan Amounts Included in Replacement Cost \$ _____ =G

Consultant Fee (NP Project Only) \$ _____

Supplemental Management Fund _____

Warranted Price of Land _____

Major Movable Equipment (Section 232 Only) _____

TOTAL KNOWNNS ON WHICH BSPRA IS NOT ALLOWED \$ _____

Less Portion of Grant/Loan Attributable to Above Items - \$ _____

TOTAL KNOWNNS ON WHICH BSPRA IS NOT ALLOWED ADJUSTED FOR GRANT/LOAN \$ _____ =A

Total For All Improvements \$ _____

Taxes _____

Insurance _____
 Title and Recording _____
 Legal _____
 Organization _____
 Cost Certification Audit Fee _____

TOTAL KNOWNNS ON WHICH BSPRA IS ALLOWED \$ _____

Less Portion of Grant/Loan Attributable
 to Above Items \$ _____ x .90909 (for
 PM or LD) or x 1.00 (for NP, Coop, or NH/ICF) = - \$ _____

TOTAL KNOWNNS ON WHICH BSPRA IS ALLOWED
 ADJUSTED FOR GRANT/LOAN \$ _____ =B

NOTE: All Grant/Loan amounts for mortgageable items included in
 Replacement Cost "G" shall be subtracted from "B", Total
 Knownns on which BSPRA is allowed, unless specifically earmarked
 for "A", Total Knownns on which BSPRA is not allowed.

18-7

6/85

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EXHIBIT 1

Interest Rate/2 x Construction Period (Yrs) _____
 Mortgage Insurance Premium _____
 Examination Fee _____
 Inspection Fee _____
 Financing Fee _____
 AMPO (NP Projects Only) _____
 FNMA/GNMA Fee _____
 Consultant Fee (If an Unknown, NP Only) _____
 Subtotal _____ x _____ Loan Ratio = _____
 Marketing Expense (Cooperative or Condo Only) _____
 TOTAL UNKNOWNNS _____=C

WITH BSPRA:

A + 1.1B
 _____ = \$ _____ Project Replacement Cost,
 1 - 1.1C Excluding Grant = X
 (X + G - A)/11 = \$ _____ = BSPRA

WITHOUT BSPRA:

A + B
 _____ = \$ _____ Project Replacement Cost,

1 - C

Excluding Grant = X

TOTAL PROJECT REPLACEMENT COST:

X + G = R

Total Project Replacement Cost = R

MAXIMUM MORTGAGE:

R - G = \$ _____ x _____ % (Loan Ratio) = _____
(Maximum Mortgage)

Check Against 92264, Line G74:

R = Line G74, Form HUD-92264, Total Estimated Replacement Cost of Project (Approximately)

6/85

18-8

4561.1

EXHIBIT 2

REPLACEMENT COST BY FORMULA
FOR GRANT/LOAN ASSISTED
REHAB PROJECTS (WITH BSPRA/WITHOUT BSPRA)

All Grant/Loan Amounts Included in Replacement Cost \$ _____ =G

Consultant Fee (NP Project Only) \$ _____

Supplemental Management Fund _____

Off Site Costs (If Any) _____

"As-Is" Value _____

Contingency Reserve _____

Relocation Cost (If Any) _____

Major Movable Equipment (Section 232 Only) _____

TOTAL KNOWNNS ON WHICH BSPRA MAY NOT BE ALLOWED \$ _____

Less Portion of Grant/Loan Attributable to Above Items - \$ _____

TOTAL KNOWNNS ON WHICH BSPRA IS NOT ALLOWED ADJUSTED FOR GRANT/LOAN \$ _____ =A

Total For All Improvements \$ _____

Interest on 1/2 of either the "As Is" Value or Existing Indebtedness _____

Taxes _____

Insurance _____

Inspection Fee (On "TOT. for All Imprmts.") _____
 Title and Recording _____
 Legal _____
 Organization _____
 Cost Certification Audit Fee _____

TOTAL KNOWNNS ON WHICH BSPRA MAY BE ALLOWED \$ _____

Less Portion of Grant/Loan Attributable
 to Above Items \$ _____ x .90862
 (for PM or LD) or x 1.00 (for NP, Coop, or NH/ICF) - \$ _____

TOTAL KNOWNNS ON WHICH BSPRA IS ALLOWED
 ADJUSTED FOR GRANT/LOAN \$ _____ =B

NOTE: All Grant/Loan amounts for mortgageable items included in
 Replacement Cost "G" shall be subtracted from "B", Total
 Knownns on which BSPRA is allowed, unless specifically
 earmarked for "A", Total knownns on which BSPRA is not allowed.

18-9

6/85

4561.1

EXHIBIT 2

UNKNOWNNS:

Interest Rate/2 x Construction Period (Yrs) _____
 Mortgage Insurance Premium _____
 Examination Fee _____
 Financing Fee _____
 AMPO (NP Projects Only) _____
 FNMA/GNMA Fee _____
 Consultant Fee (If an Unknown, NP Only) _____
 Subtotal _____ x _____ Loan Ratio = _____
 Marketing Expense (Cooperative or Condo Only) _____
 TOTAL UNKNOWNNS _____ =C

WITH BSPRA:

$$\frac{A + 1.10055B}{1 - 1.10055C} = \$ \text{_____} \text{ Project Replacement Cost, Excluding Grant} = X$$

$$(X + G - A)/11 = \$ \text{_____} = \text{BSPRA}$$

WITHOUT BSPRA:

$$\frac{A + B}{1.0 - C} = \$ \text{_____} \text{ Project Replacement Cost, Excluding Grant} = X$$

TOTAL PROJECT REPLACEMENT COST:

$$X + G = R$$

$$\text{Total Project Replacement Cost} = R$$

MAXIMUM MORTGAGE:

$$R - G = \$ \text{_____} \times \text{_____} \% \text{ (Loan Ratio)} = \$ \text{_____} \text{ Maximum Mortgage}$$

Recalculate the interest based on 1/2 of the sum of the mortgage and either "As Is" Value or existing indebtedness. Enter the result on line titled "Int. _____ Mos. @ _____ %," Part G of Form HUD 92264.

For Projects with BSPRA only, recalculate the Inspection fee based on "Tot. For All Imprmts." plus BSPRA rounded to the next higher \$100 multiple. Enter the result on line titled "FHA Inspec. Fee," Part G of Form HUD 92264.

Check Against 92264, Line C74:

R = Line G74, Form HUD-92264, Total Estimated Replacement Cost of Project (Approximately)