
CHAPTER 8. CONSTRUCTION COST PROCESSING

SECTION I. GENERAL

- 8-1 COST STAFF. The lender must be able to evaluate and provide cost estimates of projects to be coinsured.
- A. Lender's staff must have a full-time or contract employee who knows construction cost estimating techniques. This person will be designated the chief cost analyst for the lender. The chief cost analyst may also serve as chief architect, if qualified.
 - B. The cost staff must be large enough to perform the functions described in this chapters or the lender may obtain these services under contract.
- 8-2 RESPONSIBILITIES OF THE LENDER'S CHIEF COST ANALYST
- A. Making assignments to the cost staff or to consultants for contract services.
 - B. Cost data development and cost estimation by the cost staff or review if by contract.
 - C. Completing cost portions of Form HUD-92264, Project Income Analysis and Appraisal.
 - D. Reviewing and recommending approval of the Contractor's and/or Mortgagor's Cost Breakdown, Form FHA-2328.
 - E. Preparing the Property Insurance Schedule, Form HUD-92329 or form designed by the lender.
 - F. Reviewing and recommending approval of requests for prior approval of identity of interest subcontractors.
 - G. Reviewing and approving estimates of proposed construction changes.
 - H. Reviewing and recommending acceptance or modification of mortgagor's and contractor's certificates of actual cost.
 - I. Providing advice and assistance on cost matters to sponsors, consultants, contractors and others.

SECTION II. THE COST ESTIMATE

- 8-3 PURPOSE. One criterion for determining the mortgage amount is replacement cost. This requires an estimate of construction cost of the proposed improvements to the property.
- 8-4 OTHER USES. The cost estimate is also a basis for:
- A. Establishing the structural replacement cost for property hazard insurance.
 - B. Reviewing contractor's and/or mortgagor's cost breakdown and determining reasonableness of trade-item costs for payment purposes.
 - C. The appraiser to estimate amounts to be deposited for replacement reserves.
 - D. The mortgage credit examiner to estimate financial requirements to close.
 - E. Reviewing the reasonableness of the mortgagor's cost estimate for proposed changes in plans and specifications during construction.
 - F. Reviewing the reasonableness of requests for insured advances during construction.
 - G. Determining the reasonableness of mortgagor's, contractor's, subcontractor's and material supplier's certificate of actual costs.
- 8-5 CONSIDERATIONS. Estimates must reflect the general level of costs, projected to the estimated start of construction, with labor wage rates not less than those determined applicable by the Secretary of Labor.
- 8-6 INCLUSIONS
- A. The estimate includes the costs for the:
 - 1) dwellings
 - 2) garages
 - 3) commercial and other structures proposed as improvements to the property

the project

- 5) extensions of pavements, walks, curbs, and utility lines beyond project boundaries where necessary to connect with facilities adjacent to the project site.

B. Allowances for general requirements, general contractor's fee (overhead and profit), architect's design and supervision fees and general contractor's bond premium will be at the current prevailing levels considering project type, size, complexity, structural system, improvement cost, and any other local condition influencing these allowances.

8-7 METHOD OF ESTIMATION should be similar to that used by general contractors. It must provide for selection of recorded data for each trade division (Uniform System for Construction Specifications, Data Filing, and Cost Accounting) adjusted to reflect cost differences due to time, location and price fluctuations. The cost estimate may be prepared using a quantity survey take-off or a square-foot and per-unit cost approach.

8-8 SUPPLEMENTAL COST ESTIMATES. In addition to the basic estimate, several other types of cost estimates may be required. They are used in determining other mortgage criteria.

A. Unusual Site Conditions. Include the cost for work required because site conditions are not common or found in competitive sites.

- 1) Any condition which, after consultation with the appraiser, is determined to be typical will not be considered "unusual".

2) Items to be considered.

- excessive excavation, cuts and fills, rock excavations
- high water tables
- problem soils
- after similar conditions.

B. Demolition. This includes the demolition as well as removal of debris and any salvageable material or equipment. Include disposal of old foundation material and filling of basement excavations when necessary.

C. Cost Not Attributable to Dwelling Use includes on-site items, whether income-producing or part of land improvements or structures, not specifically for dwelling use.

- (8-8) B. Offsite Requirements. Include the cost of improvements which serve the project but are outside the property lines.
- 1) Include utilities, streets, drainage structures and similar improvements.
 - 2) Do not include extensions of utilities, walks, curbs and drive beyond the property lines, to connect with those adjacent to the site. Consider these short extensions as on-site.
- C. Demolition. Include the cost of work to remove existing structures as well as removal of debris and any salvageable material or equipment. Include disposal of old materials and filling of basement excavations when necessary.
- D. Cost Not Attributable to Dwelling Use. Include on-site items, whether income-producing or part of land improvements or structures, not specifically for dwelling use.
- 1) The categories (underlined below) from Form HUD-92264 and items not attributable to dwelling use are:
 - a) Parking areas and the walks and driveways leading to them, not including roads and streets.
 - b) Garages or covered parking and the walks and driveways leading to them, not including roads and streets.
 - c) Commercial structures, spaces or facilities and any property improvements directly attributable to the commercial use include halls, corridors, lobbies, stairs, elevators, etc., solely for commercial use.
 1. Include only the basic and permanent structure improvements typical in vacant commercial space. Do not include equipment, fixtures, movable partitions, special finishes, etc., for a specific business as they are not part of the mortgage.
 2. Always include central dining rooms and central kitchens, if the dwelling units contain cooking and eating facilities. Also include integrated, built-in or attached kitchen equipment located in the central kitchen.
 - d) Special Exterior Land Improvements, that is, features unusual or in excess of those typical for similar projects.

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1. Include such items as gazebos, sitting areas or patios for the use by all occupants, specimen trees and shrubs, fountains and pools, and ornamental lighting and fencing.
2. Always include exterior works of art, despite whether they are unusual or in excess of the typical.
3. Do not consider earthwork; roads and streets; lawns; typical plantings; private balconies and patios; utility lines; retaining walls; and security lighting and fencing.

e) Other improvements are:

1. Project administrative and maintenance areas, such as: offices; repair shops; employee toilets; and janitor or cleaning closets
 2. Community space, such as: lounges; multi-purpose rooms; game rooms; libraries; and hobby or craft shops
 3. Storage facilities not for occupant use
 4. Recreational facilities: such as swimming pools; tennis and basketball courts; and tot lots, including their necessary equipment and appurtenances
 5. Interior works of art
- 2) Do not consider entrances, lobbies, halls, corridors, stairs, and elevators used by the occupants to enter or leave dwelling units as "Not Attributable to Dwelling Use." You must not prorate such circulation elements between dwelling use and any category of "Not Attributable to Dwelling Use".
 - 3) Prepare a worksheet describing by category each item considered "Not Attributable to Dwelling Use", showing calculation of cost of each item or category, the basis of measurement, and unit price. Summarize the categories and total.
 - 4) To determine the percentage of cost not attributable to dwelling use (the B over A ratio) divide the total cost not attributable to dwelling use by the total cost of land improvements and structures.

SECTION III. DATA

8-9 PURPOSE. Fast, accurate cost estimates depend on valid preassembled data. The data base--whether gathered under contract or by the lender--must be similar to what is described here and acceptable to HUD.

8-10 DATA BANKS. Systematically collect and maintain project cost data for later use in making project cost estimates based on comparability.

A. Use a numerical coding system to describe the work in each trade item shown on Form FHA 2326, Project Cost Estimate. Base the code on the 16 trade divisions of the Uniform System for Construction Specifications, Data Filing and Cost Accounting.

- 1) Assign "00" for the most typical material, labor and equipment composition of a trade item.
- 2) Code significant variations from the most typical, 01 through 99. Variations will frequently be combinations of other coded descriptions.

3) Example:

Division 11, Trade Item-Appliances
00 - Refrigerator, range and oven
01 - Garbage disposal plus 00
02 - Dishwasher plus 00
03 - Dishwasher plus 01
04 - Range hood plus 00
05 - Range hood plus 01
06 - Range hood plus 03

- 4) Avoid elaborate and extensive codes or coding for minor variations.
- 5) A single coding system for each trade item is desirable, but it may be necessary to establish separate coding systems for certain projects types and structural systems to describe all data.

B. Record data from accepted Form HUD-92328, Contractor's and/or Mortgagor's Cost Breakdown, cost certifications, and conventionally financed projects.

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- (8-10)
- 1) Before adding a project, review the cost of all trade items. Purge any cost that is excessive according to other verified data or not valid for comparability.
 - 2) Make entries on Form FHA-2326. Use the numerical coding system to describe the work in each trade item for the project.
 - 3) File the Form FHA-2326 by:
 - a) Conventional or Section of the Act (202, 207, 221(d)(4), etc.).
 - b) Project type (detached, semi-detached, row, two-story walk-up, etc.).
 - c) Structural system (wood, frame, masonry, concrete, etc.).
 - 4) Enter as the effective date of the data the month and year of the actual construction start, not the estimated start.

C. Review data banks

- 1) Replace Form FRA-2328 costs with certified cost after cost certification review. Include the cost effect or approved change orders in the certified data.
- 2) Remove data older than four years unless it is for a unique project type or structural system and necessary to provide comprehensive data banks.

8-11 BENCH MARKS. Develop and record costs of trade item elements, trade items, and building components typical in construction in the area for adjusting comparables, preparation of supplemental estimates, and review of change orders and cost certifications.

A. Establish bench marks from data bank costs, commercial building cost data (Means, Dodge, etc.), and quotations of field sources.

- 1) Prepare a worksheet for each bench mark describing the item, data source, calculation of cost with basis of measurement, and summary.

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- (8-11) 2) In demolition, bench marks include the salvage value of

recoverable materials.

- 3) Use typical units of measurement for an item (i.e., square foot; gross square foot; linear foot; cubic yard; lump sum). The summary must be convertible to gross square-foot or per-unit cost for use in cost estimation.
- 4) Code each trade item in the bench mark.
- 5) Identify the effective date of the costs.

B. File bench marks alphabetically or by trade division.

C. Review bench marks annually or as often as necessary to update costs. The bench mark is valid as long as the cost is current. Remove a bench mark only when it is no longer useful or the cost cannot be up dated.

8-12 ALLOWANCES AND FEES. Collect from data bank projects and field sources information on typical allowances and fees in the area. Record as lump sum dollar amounts or a percentage.

A. General Requirements is an allowance for the general contractor's job overhead for a specific project.

- 1) Items will vary due to project type, location and site conditions. Consider:
 - a) Supervision and job site engineering
 - b) Job office expenses including clerical wages, whether on-site or offsite if for the project
 - c) Temporary buildings, tool sheds, shops and toilets
 - d) Temporary heat, water, light and power for construction
 - e) Temporary walkways, fences, roads, siding and docking facilities, sidewalk and street rental
 - f) Construction equipment rental not in trade item costs
 - g) Clean-up and disposal of construction debris
 - h) Medical and first-aid supplies and temporary facilities

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(8-12) i) Watchmen's wages, security cost, and theft and vandalism insurance

- 2) Salaries of owners, partners or officers of the general contracting firm are not part of general requirements. Actual work on the job in a trade or supervision is allowable.

B. Builder's Fee is the profit and overhead of the general contractor. Gather data on customary fees for various project types, sizes and structural systems.

- 1) General overhead is the cost of continuing operations of a building construction firm.
- 2) Profit is the return anticipated for providing building construction services under competitive conditions. For a specific project consider:
 - a) On-site construction time
 - b) Work performed by the general contractor
 - c) Number of subcontractors and extent of subcontract work
 - d) Risk and responsibility
- 3) In processing, estimate the builder's fee from data as a percentage.
 - a) Always compute general overhead as 2 percent of the total cost of land improvements, structures and general requirements.
 - b) Apply the remaining percentage to the same total cost to determine profit.
- 4) For projects with a builder's and sponsor's profit and risk allowance (BSPRA), compute only the 2 percent general overhead as the builder's fee. Do not include an amount for profit.

C. Architect's Fees are the typical amounts paid professionals for design and construction contract administration (supervision).

- 1) Include information on architectural, structural, mechanical and other engineering and consultant services.

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- (8-12) a) Data must be convertible to a fixed fee (stipulated sum) but may be on the basis of: a percentage of

construction costs; stipulated sum; hourly billing;
fixed fee plus expenses; multiple of direct expenses;
or any other local practice.

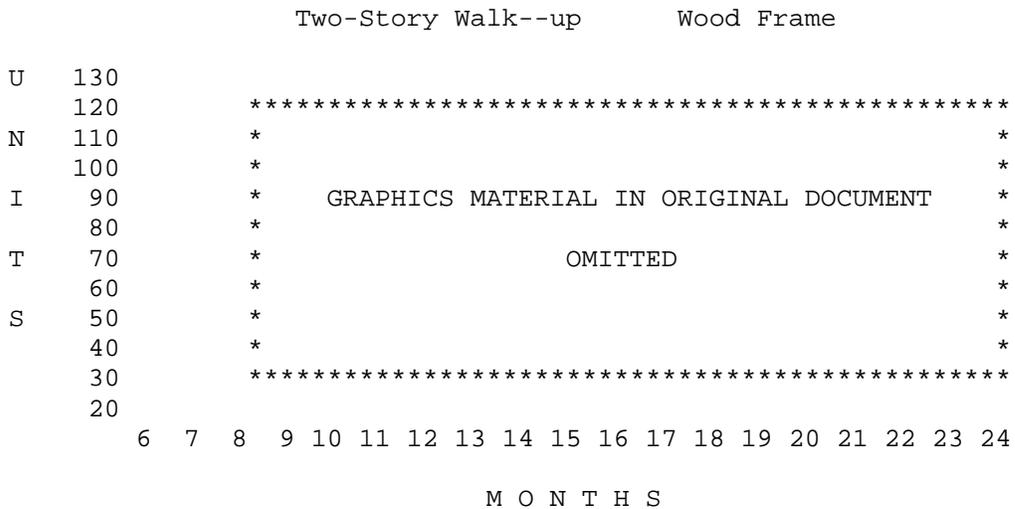
- b) Separate the data for design and supervision services.
- 2) In estimating the architect's fees for a specific project, use data from projects similar in design and services rendered.
 - a) Determine the professional services from review of the project's Owner-Architect Agreement.
 - b) Consider all factors that the agreement states may influence the fees--such as repetition, redesign, design complexity, research, client identity, location.
 - c) Use the fees stated in the agreement, unless totally unreasonable in comparison with data.
 - d) Document the method of estimating the fees.
- D. Bond Premium is the typical cost for various bonds required for building construction.
 - 1) Record typical rates charged.
 - 2) Use the applicable rates to calculate the cost of the bond premium for a specific project.
- E. Other Fees are the costs of various required items and services. Record data as typically a cost to either the owner or contractor.
 - 1) Site and topographic surveys
 - 2) Subsurface exploration (test borings)
 - 3) Soil tests, concrete tests, and other construction testing
 - 4) Fees for utility taps and connections
 - 5) Building permits and licenses
 - 6) Fees for cost certification

A. Categorize this data by:

- 1) Project type
- 2) Structural system. (A further breakdown between on-site "stick built" and factory components or modules may be made.)
- 3) Number of units

B. Plot the data on graphs.

- 1) Develop a graph for each project type and structural system.
- 2) Units are on the left, vertical, increasing in number from the bottom.
- 3) Months are on the bottom, horizontal, increasing in number from the left.
- 4) Each project's construction time is a dot opposite the number of units and over the number of months for construction.
- 5) Draw a trend line interpolating the data.
- 6) Example:



(8-13) C. Estimate the construction time for a project from the graph

type and structural system.

- 1) Adjust, as needed, to represent accurately the particular job (i.e., location, contractor, or labor and material market).
- 2) Document the method of estimating the construction time.

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SECTION IV - PROJECT PROCESSING

8-15 PROCESSING. Cost processing of a project can be done by either the lender or an independent cost estimator under the direction of the lender's chief cost analyst.

A. Forms to Use

- 1) The following may be substituted by equivalents designed by the lender and approved by the Commissioner:

Forms FHA-2325; 2326; 2326-A; 2331 and Form HUD-92329.

- 2) Mandatory are:

Form FHA-2328, Contractor's and/or Mortgage's Cost Breakdown

Form FRA-2330, Mortgagor's Certificate of Actual Cost

Form HUD-92330-A, Contractor's Certificate of Actual Cost

- B. Estimates must have the individual trade-item breakdown of Form FHA-2326 or its lender equivalent.
- C. The completed and reviewed Form FRA-2326, or the lender equivalent, becomes the lender's estimate for Total of All Improvements of the proposed project. It is not subject to change except to correct errors or omissions.
- D. Form FRA-2328, Contractor's and/or Mortgagor's Cost Breakdown, must be reviewed and accepted by the lender before issuing a commitment.
- E. The Property Insurance Schedule, Form HUD-92329 (or lender equivalent), a guide to hazard insurance coverage, must be prepared before the lender requests a mortgage insurance certificate. (Always include a typical builder's profit in the 100 percent insurable value of structures.)

NOTE: For rehabilitation projects, calculate hazard insurance on the total structures replacement cost estimate, not on the estimated cost of rehabilitation.

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SECTION V - APPROVING IDENTITY-OF-INTEREST SUBCONTRACTS

8-16 REQUIREMENTS. When subcontractors, material suppliers, or equipment lessors have an identity-of-interest with a mortgagor or general contractor, the lender must approve the subcontracts and specific amounts for subcontractor general overhead and profit. (See Article 10C of the Construction Contract-Appendix 26.) For purpose of this requirement, the same circumstances under which an identify-of-interest shall exist, as described in paragraph 4-9, shall also apply to the mortgagor and or contractor and:

- a subcontractor
- a equipment lessor
- a materialman

NOTE: A general contractor doing total trade items with persons on his or her payroll is not considered a subcontractor with identity-of-interest.

8-17 Timing. Approval is required before work begins under the subcontract.

NOTE: If the above requirements are not met, the total general overhead and profit of the subcontractor will be disallowed at cost certification.

8-18 Request for Approval (with the subcontracts, agreements, or leases) goes to the lender's chief cost analyst, whose recommendations must cover:

- Acceptability of the documents
- Reasonableness of guaranteed maximum prices for the subcontract work
- Appropriateness of general overhead and profit dollar amounts

8-19 Mandatory Criteria (NOTE: For "C" and "D", below, the burden of proof is on the subcontractor. Any doubts must be resolved against a finding that the criteria were met.)

A. Subcontracts

- There must be a separate one for each trade.

- They must clearly identify the work to be done (either specifically or by reference to the general contract).

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- They must not be approved if they appear to be merely "paper conduits" for performance by other subcontractors, suppliers or lessors.
 - They must be on a cost-plus fixed fee basis with a guaranteed maximum price.
- B. Overhead and Profit - must not exceed prevailing fees of firms doing business arms-length.
- C. Prices in Subcontracts. (For this criterion, recent reliable data is a better test than whether higher bids were submitted.)
- Must not exceed the amount shown for the trade item on the accepted Form FHA 2328.
 - Must not exceed the best prices obtainable from other available sources. If other sources aren't available, the price must not exceed what is reasonable under the circumstances - i.e., general contractor's cost plus a reasonable fee.
- D. Subcontractor
- Must have demonstrated experience and ability in the specific field covered in the contract.
 - Must operate according to the customs of the particular trade - i.e., control of labor force, maintenance of payrolls, use of tools and equipment.
 - Must do significant business in specific trade with others having no identity.

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SECTION VI - CONSTRUCTION

8-20 COST ANALYST RESPONSIBILITIES

- A. See that costs are reasonable in construction change requests.
 - 1) Review all requests.
 - 2) Compare with data bank and other data on file and gathered as needed from builders and subcontractors at construction site.
- B. Maintain a change order binder. Use it to record increases/decreases in trade-item costs on Form FHA-2326 (or lender form) at project completion for cost certification review.

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SECTION VII - COST CERTIFICATION

- 8-18 GENERAL. Mortgagor's certificate of actual project cost is required before final endorsement for mortgage insurance.
 - A. General contractors must certify cost when:
 - They have identity-of-interest with mortgagor
 - A cost-plus contract is used
 - B. Subcontractors, material suppliers and equipment lessors must certify cost when:
 - They have identity-of-interest with the mortgagor or with the general contractor
- 8-19 PREPARATION. Certificates of actual cost must be submitted on:
 - A. Form FHA-2330, Mortgagor's Certificate of Actual Cost.
 - B. Form HUD-92330-A, Contractor's Certificate of Actual Cost, in projects where there is identity-of-interest between the mortgagor and general contractor and in projects where a cost-plus contract is used.
 - C. A separate Form HUD-92330-A by each identity-of-interest subcontractor, material supplier and equipment lessor.
 - 1) Identity-of-interest suppliers of material must submit an attachment to Form HUD-92330-A listing quantities furnished, sources from which the supplier obtained the materials and unit prices paid to the source, together with brand names, model numbers, sizes, lumber grades, etc.

- 2) Identity-of-interest lessors of equipment must submit an attachment to Form HUD-92330-A showing: dates the equipment was purchased; how old it was; brand names; model numbers; sizes; rates charged and length of time used. The lessor must certify that: the rates were the lowest obtainable in the area; the time charges were only those absolutely essential; and the charge for each piece did not exceed the difference between the fair market value at the beginning and end of use on the project.

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(8-19) NOTE: In lieu of the descriptions and estimates required above, the lessor may certify equipment charges at 85 percent of the local going rates for identical equipment under arms-length leases. Using this alternative, the lessor must agree that: the lender will be the sole judge of the reasonableness of the time and rates charged; and that equipment maintenance and repair will be expenses of the lessor and not included as additional cost.

D. When manufacturers of industrialized housing certify actual costs, they certify the total cost allocated a particular project, then show their method and computations for establishing:

- 1) materials cost including mark-up;
- 2) labor cost;
- 3) overhead and profit.

8-20 COST CERTIFICATION REVIEW is to ensure: completeness; proper preparation of exhibits; mathematical accuracy; proper transactions; cost allocation to appropriate trade items or functions. Review is also to detect: any duplication and unreasonableness of amounts certified; nonallowable items.

A. First review should reveal the need for any clarifications, additional information, or supporting exhibits to be required of the mortgagor or accountant as soon as possible.

- 1) On the Mortgagor's Certificate, Form FHA-2330, review only Lines 1-b, 12, 13 and 14a. On Line 13, review only "Other Fees," "Demolition Costs" or other miscellaneous construction costs.
- 2) Review all items on the Contractor's Certificate, Form

HUD-92330-A, including any for subcontractors, suppliers or lessors.

NOTE: See paragraph 8-19 for other criteria on identity-of-interest of subcontractors, material suppliers and equipment lessors.

- B. When deficiencies have been resolved, the chief cost analyst finishes the review by checking for mathematical errors and nonallowable or unsupported amounts. Further contact with the mortgagor and others may be necessary.

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8-21 ALLOWABLE COSTS are actual expenses paid or to be paid within 45 days after final closing and amounts estimated by the lender for items requiring escrow.

- A. The project cost estimate, adjusted for approved changes, serves as a basis for review. However, allowable individual item amounts may be above or below the estimated figures. Further, a certified amount is not necessarily allowable simply because it is at or below that estimate for the item.
- 1) Manufacturers of prefabricated housing must meet the requirements of paragraph 8-19.
 - 2) The lender reserves the right to disallow part of any expense item, when the expenditure is clearly not reasonable or necessary. In such cases, the amount allowed will be the lender's estimate of the reasonable and necessary amount.
- B. Costs can be determined "reasonable" where they are line current prices in the area when the subcontract, material purchase or lease agreement was negotiated. Determine item-by-item. In addition to the project cost estimate, other supporting information includes:
- Recent cost certifications
 - Weekly payrolls
 - Wage interviews made during construction
 - Project inspection reports
 - Supporting information for periodic advances
 - Other recorded data

- Current general level of going rates.
- 1) General Requirements cover items described in paragraph 8-12A and other items that can be properly considered part of these requirements for the project. Not included is any item in General Overhead, such as the salary of employees in the contractor's home office.
- 2) Salaries of officers or executives of the contracting firm are allowable only if:

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- (8-21) a) The "executive" did work during the period customarily done by a nonexecutive employee,
 - b) the salary is in line with the current wages; for such work by nonexecutive employees; and
 - c) the time charged was for actual performance of such work.
 - 3) General Overhead allowed in processing doesn't have to be itemized by the general contractor when certifying costs.
 - 4) As stated on FHA Form 2330, and Form HUD-92330-A, all amounts certified must have been reduced by any discounts, rebates, adjustments, kickbacks or any other device which had the affect of reducing actual costs.
 - 5) When there is identity-of-interest between the mortgagor and the general contractor, the contractor's fee is limited the amount on Forms HUD-92264.
 - 6) When BSPRA is involved, profit for the contractor is not allowable.
 - 7) When certification by a general contractor includes owned equipment, the allowable amounts will be: reasonable depreciation or replacement reserve, plus maintenance, repair and fuel expenses; or 85 percent of the local going rate for similar equipment for a reasonable time on the job.
- Note: Subcontractor owned equipment costs are part of subcontractor general overhead.
- 8) If the certification shows any unusually high and/or low item amounts, see whether the costs have been

properly allocated to trade items and other categories.

- C. The chief cost analyst reports conclusions and recommendations on Form FHA-2331, Summary of Cost Certification Review or lender's equivalent form.
- D. After the review, enter the allowed costs in the data bank, labeled "Certified." Remove or void the previous estimate for the project.

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SECTION VIII - COST ESTIMATION - SUBSTANTIAL REHABILITATION

8-22 General. Follow instructions of other sections of this handbook except as modified by this section.

8-23 Processing Stages. The lender may allow the sponsor to combine the processing stages. When stages are combined, instructions will be combined as appropriate.

A. Feasibility

1) Exhibits include:

- a) Application
- b) Project location map and survey or site plan
- c) Drawings or sketches of the existing buildings and description of the proposed rehabilitation, including any post-rehabilitation sketches
- d) Mortgagor's cost estimate for proposed rehabilitation

2) Participate in a joint inspection of project, comparing mortgagor's exhibits with on-site conditions to determine:

- a) Actual extent of rehabilitation
- b) Character of structure and materials
- c) Type of bench mark data necessary for estimate

3) Assist in preparing work write-up.

4) Prepare a preliminary estimate based on work write-up.

- a) Include an amount for contingency reserve.
- b) Estimate the starting date and length of rehabilitation.

B. Conditional Commitment

- 1) Exhibits include:
 - a) Application
 - b) Preliminary drawings/specifications as required by the work write-up

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 - c) Mortgagor's detailed cost breakdown
 - d) Owner-Architect Agreement (if professional services are required)
 - e) Other cost exhibits required by work write-up
 - 2) Estimate rehabilitation cost.
 - a) Use Form FHA-2325 for land improvements and supplemental estimates.
 - b) Use Form FHA-2326-A for structural trade items.
 - c) Summarize cost of land improvements, structures and supplemental estimates on Form FHA-2326. Include applicable fees.
 - 3) Estimate the contingency reserve percentage (see 8-28) and enter in Section O of Form HUD-92264.
 - 4) Estimate starting date and rehabilitation period and enter the number of months in Section G of Form HUD-92264.
- C. Firm Commitment. Review application, final drawings and/or specifications (if required by work write-up), and the Form FHA-2328.
- 1) Confirm previous cost conclusions.
 - 2) Develop a new estimate if exhibits show significant changes that affect cost.
 - 3) Combine all procedures in firm processing if conditional commitment is skipped.

8-24 Bench Mark Costs. Use bench mark data for trade items in costing-out work write-up.

- A. Project the cost of trade items to the estimated start of rehabilitation.
- B. Consider in the trade items the cost of repair or removal before rehabilitation.

8-25 Allowances and Fees

- A. Use data that reflects the risk and responsibility inherent in rehabilitation and considers project location.

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- (8-25) B. For projects entitled to BSPRA do not include profit. Assume a normal builder's profit in computing architectural fees and bond premium.

8-26 Rehabilitation Time. Estimate from available data. Adjust for demolition time.

8-27 Demolition. Estimate cost in work write-up, considering the salvage value of material or equipment.

- A. Demolition cost directly related to refurbishing structures and preparing the site and goes under the applicable trade item cost.

- B. Demolition costs for total gutting goes in Division 13, Special Construction.

- C. For total removal of a structure (footings, foundations, utilities, etc.), disposal of debris, fill and compaction, describe and show the cost on Form FHA-2326 and enter in Section O of Form HUD-92264.

- 1) Include general requirements, overhead and profit.

- 2) Where demolition cost is a lump-sum bid by a general contractor or subcontractor, so note.

- 3) Form FHA-2328 must include a description and cost of total demolition.

8-28 Contingency Reserve. Estimate a percentage of 0 to 10 percent, depending on the condition of the project, the extent of rehabilitation, and experience and financial capacity of the sponsor and contractor. Enter the recommended percentage in Section O of Form HUD-92264.

8-29 Rehabilitation Cost Not Attributable To Residential Use. Use the format in Appendix 16 completing the computations in

items 1, 2, and 3, and give to the appraiser.
