
CHAPTER 2. DISBURSEMENT OF ELIGIBLE LOANS

- 2-1. GENERAL. This chapter provides the lending institution with the policy and required documentation in connection with the disbursement of eligible loans for each property improvement loan program.
- 2-2. PROTECTIVE INSURANCE. Lenders attention is called to the statutory or regulatory restrictions, Federal or State, which may affect the handling of insurance in their respective jurisdictions. While HUD has no objection to lending institutions selling credit life or other types of protective insurance to borrowers under the Title I program, the purchase of such insurance shall be a purely voluntary basis, and the cost of of the insurance shall not be incorporated in the net proceeds of the loan nor be added to the maximum permissible financing charged. In order to permit the borrower to notify the lender of any questions or misunderstandings relating to the protection to be provided, the lender may include proper confirmation of the premium charge for the protection insurance in the "Advance Notice of Approval" forwarded to the borrower. The lender may bill the borrower for the premium, if desired, on an installment basis; however, the payment coupon should clearly segregate the loan and insurance premium payment.
- 2-3. FLOOD INSURANCE. Flood insurance coverage in an amount at least equal to the value of the loan advance or the available limits of coverage, whichever is less, is required as a condition for obtaining a loan for the repair, improvement, or construction of a structure located in an area identified by the Secretary as an area having special flood hazards.
- a. You cannot obtain flood insurance under the National Flood Insurance Program unless the community is participating. You are permitted to obtain private flood insurance provided the coverage meets or exceeds the National Flood Insurance requirements.

SECTION 1 - TITLE I PROPERTY IMPROVEMENT LOANS

- 2-4. ELIGIBLE IMPROVEMENTS. The following basic policy may be supplemented by a specific ruling as to any particular project or item about which there may be doubt on the part of the lending institution, upon application to the Director, Office of Title I Insured Loans, Department of Housing and Urban Development, Washington, DC 20410. Requests for rulings should be supported, if possible, by descriptive or illustrated literature in the case of a specific individual item as well as

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by plans and specifications where general projects involving various improvements are contemplated.

- 2-5. INELIGIBLE IMPROVEMENTS. Lending institutions must review carefully the partial list of ineligible improvements given in Section 201.7 of the HUD Regulations. The omission of any item from this list should not be construed as rendering such omitted item eligible for financing. Any improvements made prior to the loan approval are ineligible for financing.
- 2-6. MAXIMUM LOAN AMOUNTS are changed periodically to conform with economic conditions. At the time a loan is made, lenders must make certain that the loan does not exceed the maximum allowable amount as set forth in the HUD Title I regulations.
- 2-7. EXISTING STRUCTURES - CLASS 1 LOANS. The structure to be improved must exist as a completed building that is occupied or used, was formerly occupied or used, or has been made ready for occupancy or use. In the case of a new residential structure, the building must be completed and occupied, and if the amount of advance is in excess of \$600, the building must have been completed and occupied for 90 days before the date of the application.
- a. Class 1(a) Loans. No part of a loan may be used to finance the cost of completing an unfinished structure. Structures commonly known as "shell houses" are not deemed "completed" within the meaning of the regulations. This does not exclude a loan for the repair of a previously completed structure which has been damaged but not substantially destroyed by deterioration, flood, fire, or other casualty; nor does it exclude the construction of an attached garage or other attached building in connection with a completed house or other existing buildings, such as apartment houses, hotels, office buildings, hospitals, orphanages, colleges, churches, and manufacturing industrial plants.
- (1) Eligible expenditures are limited to those for structural alterations, repairs, additions to the structure itself, or other improvements to or in connection with the structure which substantially protect or improve the basic livability or utility of the property. The enlargement of the size of the structure, new flooring, new porch, roof, plumbing, wiring, painting, plastering, awnings, and heating systems, which in themselves are alterations and improvements, are eligible expenditures.

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- (2-7) (2) Certain improvements in connection with the structure are also eligible, such as making structures barrier-free and accessible to handicapped or disabled persons, grading and landscaping, permanently installed lawn sprinkler system, the construction of private sidewalks, curbs, fences, and driveways, the installation of a septic tank or cesspool, and the drilling of a well together with necessary pumping equipment and piping to serve the structure. These improvements although physically removed from the structure, are eligible.
- (3) A loan to convert one type of building into a different type will be eligible provided a substantial part of the original building is left standing. For instance, a loan for the conversion of a house into a commercial type structure would be eligible if the walls and other main structural elements are left standing. A new stairway, new windows, rooms, porch, etc., may be added, and partitions changed.
- (4) A loan to demolish a structure or move a structure off the premises would not be eligible except where such demolition or moving is for the purpose of improving an existing structure remaining on the property.
- (5) Loans to finance the cost of insulating an existing structure, putting on a new roof, installing a new bathroom, adding closets, repairing the floors, walls, or ceilings are eligible.
- (6) Heating systems, including stokers, oil burners, coal, gas and electric furnaces, and plumbing and wiring, when made a permanent part of the realty, are eligible.
- (7) Solar energy heating systems are eligible provided they meet the Commissioner's standards outlined in HUD 4930.2 Intermediate Minimum Property Standards supplement. Inquiries should be addressed to the local HUD office for a determination of eligibility.
- (8) Equipment and machinery such as presses, drills, lathes, and other similar items used in an industrial or commercial establishment are not eligible regardless of the method or permanence of installation.
- (9) Farm or dairy equipment and machinery, except bulk milk tanks and milk coolers, are not eligible.
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- (2-7) (10) Built-in kitchen equipment designed to be installed and remain as a permanently attached integral part of a kitchen is eligible provided the structure is residential and the borrower is the owner of the property or has a renewable lease having an original term of not less than 99 years. Free-standing household appliances, as well as draperies and other furnishings, are not eligible. Prior to disbursing the loan proceeds, the lender must obtain a completed Certificate of Eligibility for installation of built-in-kitchen appliances (Form FH-801) signed by the borrower and dealer.
- (11) Carpeting purchased and installed in a residence with the intent that it become and remain a part of the real estate will be eligible if the borrower is the owner of the property or has a renewable lease having an original term of not less than 99 years. The carpeting must meet HUD's minimum standards. Carpeting in a kitchen, bathroom, or patio is not eligible. Prior to disbursing the loan proceeds, the lender must obtain a completed Certificate of Eligibility for carpet installation (Form FH-802) signed by the borrower and the dealer/seller.
- (12) The following principles are applicable, bearing in mind that loans for eligible improvements must be upon existing structures or in connection therewith:
- (a) The repair, improvement, or addition must be physically attached to and a part of the structure.
 - (b) Improvements and additions which are removable or temporary, are generally not eligible. Items which are generally considered as trade fixtures or equipment for commercial or industrial use are not eligible.
 - (c) An ineligible item does not become eligible merely because it is attached to the realty.
- (13) A mobile home unit may be improved with Class 1(a) property improvement loan terms, if the following criteria are met:
- (a) The mobile home has been placed on property owned by the borrower or is being purchased under a real

estate contract.

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- (2-7) (b) The wheels of the unit have been removed and the unit has been placed on a permanent foundation.
- (c) The security for the mobile home loan is in the form of a deed of trust or mortgage covering the realty and the unit is no longer capable of being repossessed as personal property.
- (d) All utility connections-including water and sanitary facilities are operable so that the unit is complete and habitable.
- (e) The unit has been occupied for at least 90 days, if proceeds are in excess of \$600.
- (f) The unit is carried on the tax rolls of the locality as real property.
- (14) A mobile home that is considered personal property which is located on a private site or in a mobile home park is eligible for a maximum loan of \$5,000 for a maximum period of 12 years. The proceeds of the loan may only be used to improve, repair or alter the structure.
- b. Class 1(b) Loans. The property to be improved must be individually owned. Corporate Entities are not eligible borrowers. The proceeds of a class 1(b) loan must be used to alter, repair or improve a structure, or convert a structure to further its use as a dwelling for two or more families. ("Family" as used in the regulations is defined as one or more persons living, sleeping, cooking, and eating on the same premises as occupants of one living unit.) For example, a one-family house may be converted into a dwelling for two or more families and may be improved by painting or by installing a new heating system or a new plumbing system; a commercial building may be altered to provide living accommodations for two or more families. Class 1(b) loans for improvements to residential structures having commercial units are permissible, provided the improvements benefit the commercial portion of the structure only incidentally, if at all.
- (1) The maximum class 1(b) advance is based on the number of living units in the structure after the improvements

have been made.

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- (2) If there is any doubt as to whether a proposed project is eligible for class 1(b) financing, all the facts of the case may be submitted to Washington for an official ruling.

2-8. NEW STRUCTURE-CLASS 2 LOANS. Examples of new structures eligible for a class 2 loan which may be erected on improved or unimproved real property are: barns, garages, service buildings, gasoline stations, tourist cabins, bunk houses for itinerant farm laborers, and industrial or commercial buildings.

- a. A class 2 loan may not include the cost of trade equipment used in the operation of the business that will occupy the structure. The loan may include the cost of heating or lighting systems and similar items which are eligible for class 1 improvement loans. For example, a loan may be used to erect a commercial building, including a heating system, but no portion of the proceeds may be used to buy and equip the structure with trade fixtures.
- b. A class 2 loan must be used to finance the building of a new structure that will be ready for use upon completion. It is not permissible to purchase an existing structure nor to apply the proceeds to complete a structure that is partially built.
- c. More than one new structure may be built on a single piece of property, but the principal amount of any one loan may not exceed the maximum loan amount for any one property.
- d. No portion of a class 2 loan may be used for demolishing existing structures to make room for a new structure. However, the erection of a new structure on an old foundation would be eligible.

2-9. RESTRICTIONS ON ELIGIBILITY OF LOANS FOR INSURANCE.

- a. Prior Liens. A HUD property improvement loan may not be made to supplement an obligation not reported for insurance, the payment of which is secured by a prior lien created in connection with the proposed work. However, if the insured loan is also secured, and such security has priority over the uninsured obligation, the loan may be made.
- b. Supplemental Costs. A loan may include the cost of

architectural and engineering services. However, a loan may not include the cost of land, or the cost of an appraisal, if such cost is in addition to the maximum permitted financing charges.

- c. Additional Loans. The regulations do not limit the number of loans an individual borrower may obtain to improve one property as long as the total outstanding balances of all such loans at any time do not exceed the maximum permitted for the particular type of loan involved. An individual owning several properties may obtain any number of loans to improve each property, provided the HUD improvement loans outstanding on any particular property at no time exceed the maximum loan permitted for the type of loan involved and the prior approval of the Commissioner is obtained, when required.
 - d. Prior Approval of Credit. If a proposed loan would result in a total principal amount of HUD improvement loans outstanding in excess of \$15,000 (exclusive of financing charges) to any borrower, the prior approval of the Commissioner must be obtained before the transaction will be eligible for insurance. The principal amount outstanding applies to anyone who, as an eligible borrower on a proposed loan, is primarily or secondarily liable on any prior HUD improvement loan. Such approval may be obtained from the Field Office having jurisdiction over the site of the property to be improved. This approval applies solely to the applicant as an acceptable risk for the additional credit and must not be construed that all other aspects of the loan are acceptable.
 - e. Delinquency on Prior Loans. If the lender has knowledge that the borrower is past due more than 15 days in the payment of either principal or interest on an obligation owing to or insured by a department or agency of the Federal Government, the transaction will not be eligible for insurance.
- 2-10. DISTINCTION BETWEEN "DIRECT LOANS" AND "DEALER LOANS". It is important that a clear understanding exist as to the elements constituting "direct loans" as distinguished from "dealer-contractor loans".
- 2-11. DIRECT LOANS. The lending institution may disburse the proceeds of the note to the borrower by cash, check, or money order drawn solely in favor of the borrower(s), or by crediting the borrower's account. Dealer-contractor approval, completion

certificates, dealer-contractor's contract or sales agreements, advance notices, and borrower authorization certificates are not required for such loans if the dealer-contractor does not assist the borrower in obtaining financing. A loan is not a direct loan if the dealer-contractor participates in the financing in

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- (2-11) any manner, such as presenting the loan application to the lending institution, receiving the check or money order (although made payable to the borrower), or accompanying the borrower to the institution for the purpose of receiving payment. In other words, disbursement must be made to the borrower in such a way that he/she will have complete control of the funds at all times.
- a. To qualify as a "direct loan", the loan must be applied for by and disbursed directly to the borrower without any intervention on the part of the dealer either in the application for or the disbursement of the loan. The "direct loan" procedures will be used only where all contracts and arrangements for the loan are made by the borrower.
 - b. The credit application, bearing the borrower's signature must be filled out and completed by one of the following:
 - (1) The borrower or borrowers; or
 - (2) The maker of the note other than a borrower; or
 - (3) A person acting at the direction of a borrower who has no financial interest, directly or indirectly, in the contract for the repair, alteration or improvement of the loan borrower's property. (An officer of the lending institution will normally qualify under this category.)
 - c. Before a loan may be made to a lessee of commercial property, the owner of the property must join in signing the note. If the owner is unwilling to sign, this requirement will be waived if prior credit approval of the applicant by the Commissioner is obtained. The requirement that prior credit approval be obtained on loans made to lessee's in those instances where the owner does not join in execution of the note is applicable to all such loans without regard to the amount involved. A loan in excess of \$2,500 will require the owners to sign a mortgage regardless if he or she signs the note or prior approval is obtained.

- (1) In submitting the transaction for approval, all papers bearing on the case, including the recommendation of the institution, the credit application, balance sheet, profit and loss statement, credit reports, and other supporting papers should be forwarded to the local HUD office in order to insured prompt consideration.

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- (2) The Commissioner's letter granting prior credit approval when required in accordance with the above, must be included in the file if a claim for loss is made.

2-12. DEALER/CONTRACTOR LOANS. On loans not made directly to the borrower, the financial institution must have investigated and approved the dealer-contractor, who must be in good standing with the insured (see Chapter 1). The lender must have in its possession a properly signed and dated completion certificate, a copy of dealer-contractor's contract or sales agreement, and a borrower's authorization certificate, if the note is payable to the insured. (The authorization certificate is not necessary if the note is purchased from dealer-contractor who is the original payee).

- a. An advance notice of the intention to disburse the loan to the dealer-contractor must be mailed or delivered to the borrower, at least six days prior to disbursement to the dealer-contractor, (see Section 2-17).
- b. The purpose of the foregoing disbursement procedure is to protect the borrower, the lending institution, and the Government by making certain that all improvements contracted for are actually completed to the borrower's satisfaction and that other persons do not obtain the loan proceeds without the work being completed.

2-13. LOAN DOCUMENTS. In addition to the credit application and note, other documents are required when disbursing loans under certain circumstances. These documents, when applicable, must be included in the file if a claim for loss is made. Figure 1 is self-explanatory and may be used as a convenient reference to determine the loan documents required.

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- a. In either case the service performed by the dealer-contractor must constitute the entire consideration for which the note was executed and delivery by the maker. Under this provision, articles and materials or services not being delivered or performed by the dealer-contractor may not be included in the transaction. The completion certificate may not be attached to the note or credit application, nor may it have any other appendage.
- b. The certificate must be dated and signed. The signature of only one eligible borrower is required as well as the signature of the person approved by the lender as dealer. As a precaution against forgery, the signature on the borrower's portion of the certification must be compared with the signature on the credit application and note.

2-15. DEALER-CONTRACTOR'S CONTRACT OR SALES AGREEMENT. In dealer-contractor disbursement transactions, lending institutions are required to obtain a copy of the contract or sales agreement, signed by the borrower and the dealer-contractor, describing the type and extent of improvements to be made and the material to be used. The unit cost should be shown, and the stated cost of the improvements must be in agreement with the credit application.

- a. The contract or sales agreement must be a type regularly used by the dealer-contractor in his business. Signatures on the lender's copy may be a carbon imprint of the signatures on the original. A copy of the signed contract or sales agreement must be attached to the credit

application when the application is submitted to the lending institution.

- b. HUD does not approve or furnish dealer-contractor contract or sales agreement forms. If a dealer-contractor has any question regarding a contract or sales agreement, he/she should obtain the advice of counsel in the jurisdiction where operations are contemplated.

2-16. BORROWER'S AUTHORIZATION CERTIFICATE. The certificate must be properly dated and signed by all borrowers, makers and co-signers on the note. All signatures must be genuine. The signatures must be compared with the signatures on the credit application and note as a precaution against forgery. It is permissible to incorporate the contents of the borrower's authorization certificate in the note, credit application, or

completion certificate. Lending institutions are urged to consult their own attorneys as to what effect, if any, such incorporation will have on the validity and enforceability of the note. HUD does not furnish this form, Figure 2, illustrates an acceptable form of borrower's authorization certificate.

FIGURE 2

BORROWER'S AUTHORIZATION CERTIFICATE
(FOR DEALER LOANS ONLY)

_____, 19

I/(We) hereby authorize and direct the _____

_____ to pay the proceeds

of my/(our) note dated _____ for \$_____

to _____.

(Signature)_____.

(Signature)_____.

2-17. ADVANCE NOTICE TO BORROWER. At least six days prior to making disbursement to a dealer-contractor, the lending institution is required to mail or personally deliver to the borrower written notice of its intention to make the loan if there is no

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(2-17)objection from the applicant. It is not required that the borrower acknowledge receipt of the notice; however, the insured must have a record of having mailed or delivered such notice. The suggested record of such delivery is a dated carbon copy of the notice or a dated notation in the loan file.

- a. Supplies of the advance notice are not furnished by HUD as it is believed that the institutions should issue the notice on their own stationary. As the regulations require such notice to be on a form approved by the Commissioner, this shall be considered as official approval of any notice containing in its text the minimum data in either of the suggested forms illustrated below.
- b. Lenders should add to this notice any additional information that may be helpful to the homeowner in fully understanding

the transaction. Frequently, a warning is expressed against bonus selling and the borrower is cautioned that the completion certificate should not be signed until he is satisfied as to the completion of the job.

- c. In case the amount of a HUD property improvement loan is to be increased, a second advance notice reflecting the new amount must be mailed to the borrower and disbursement not made until at least six days thereafter. If, for example, the notice is mailed on the first day of the month, disbursement shall not be made before the seventh day of the month. In a case where the amount of the loan turns out to be less than the amount indicated in the notice, it will not be necessary to send the customer another notice.
- d. Suggested Notice Forms. Figures 3-5.

FIGURE 3

(Letterhead of Institution)
OUR NOTICE OF INTENTION TO EXTEND A
PROPERTY IMPROVEMENT LOAN TO YOU

_____, 19

Dear :

We are pleased to have received your application for credit in the net amount of \$_____ for _____months, under Title I of the National Housing Act as presented to us by _____. In the event the application is approved, the face amount of your note will be \$_____ which included financing charges and will be payable in monthly installments of \$_____.

If you have any questions regarding this transaction, or if we can be of assistance in any way, kindly let us hear from you within 6 days from the date of this notice. Otherwise, if the loan is finally approved, we shall purchase your note and pay the proceeds to the dealer named above. It will be a pleasure to have you as a customer.

Cordially,

FIGURE 4

(Letterhead of Institution)
ADVANCE NOTICE TO THE APPLICANT FOR AN
FHA PROPERTY IMPROVEMENT LOAN

_____, 19

Dear :

We have found your credit to be satisfactory for the net amount of \$ _____, for _____ months, under Title I of the National Housing Act as presented to us by _____.

The face amount of your note will be \$_____, which includes financing charges and will be payable in installments of \$_____ per month.

It is our intention to make this loan by disbursing the funds to the above named dealer when all necessary documents, including a certificate indicating the work has been completed, are received in proper order, but not earlier than 6 days from this date.

If you have any questions regarding this transaction, or if we can be helpful in anyway, kindly let us hear from you within 6 days from this date.

Cordially,

- (1) Lender may want to provide for an expiration on this letter.
- (2) Lender may add provision that gives protection in case of changing conditions of the borrower or dealer that impact the approval of the loan.

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FIGURE 5

(Letterhead of Institution)
ADVANCE NOTICE OF ACCEPTANCE AND INTENT
TO PURCHASE AN FHA TITLE I NOTE

_____, 19

Dear :

We will purchase the note payable to the contractor listed below. The face amount of your note will be \$_____, which includes financing charges and will be payable in monthly installments of \$_____.

It is our intention to disburse the funds to the dealer when all the necessary documents, including a completion certificate indicating the work has been satisfactorily completed, are received in proper order, but not earlier than 6 days from this date.

If you have any questions regarding this transaction, or if we can be of assistance in any way, kindly let us hear from you within 6 days from this date.

Cordially,

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SECTION 2 - HISTORIC PRESERVATION LOANS

2-18. ELIGIBLE IMPROVEMENTS. To be eligible under this part a loan must be for the purpose of rehabilitating, preserving, or restoring a historic residential structure which is listed or determined eligible for inclusion in the National Register of Historic Places, either individually or as part of the district. Eligibility of improvements to any structure may be determined by the State Historic Preservation Officer or any other person authorized by the Secretary of Interior. Whenever possible, accessibility for the handicapped or disabled should be considered when preserving a building (for technical assistance see ANSI A.117.1-1980 Standard).

- a. "Rehabilitation" means the process of returning a structure to a state of utility, through repair or alteration, which makes possible an efficient contemporary use. In rehabilitation, those portions of the property important in illustrating historic, architectural, and cultural values are preserved or restored.
- b. "Preservation" means the process of sustaining the form and extent of a structure essentially as it now exists. Preservation aims at halting further deterioration and providing structural stability, but does not contemplate significant rebuilding.
- c. "Restoration" is defined as the process of accurately recovering the form and details of a structure as it

appeared at a particular period of time by means of removal of later work and the placement of the original missing work.

- d. "Non-Residential use". A building which has an incidental non-residential use may be eligible for a historic preservation loan, provided the non-residential use does not exceed 20 percent of the total usable floor area of the structure. Likewise a building which has more than 20 percent non-residential use, but will be fully residential when rehabilitation, preservation, or restoration is completed is eligible.

2-19. INELIGIBLE IMPROVEMENTS. A loan may not be made to improve libraries, bridges, industrial, or commercial structures even though such places or structures are listed in the National Register of Historic Places.

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- a. No part of the proceeds may be used for the following exterior walls, except where the proposal receives the approval of the State Historic Preservation Officer.

- (1) Sandblasting.
- (2) Application of primastone
- (3) Application of aluminum siding.
- (4) Application of asbestos shingles.
- (5) Application of plastic siding.

2-20. ELIGIBILITY REQUIREMENTS. Before an application for a loan can be made, the borrower must obtain a Certificate of Eligibility, Form FH-1(HP), (see Appendix 2), from the lender and submit it to the State Historic Preservation Officer for review and approval. Under no circumstances may the improvements be started before an application for the loan is approved by the lender. (See Appendix 2 for a listing of the name and address of State Historic Preservation Officers.)

- a. A \$25.00 review fee must accompany the Certificate of Eligibility submitted to the State Historic Preservation Officer (SHPO).
- b. The SHPO will verify the property's National Register status and will take one of the following actions regarding the proposed improvements:
 - (1) Approve them,
 - (2) Approve them conditioned upon the incorporation of some

- modification that the SHPO will outline,
- (3) Disapprove them, or
 - (4) Make no comment.

If the SHPO approves the improvements, approves them conditionally, or does not comment, the applicant may then apply to the lender for a loan using the regular credit application for Property Improvement Loan (Form HUD 56001) to which the FH-1(HP) must be attached. It is expected that the SHPO will act on the Certificate of Eligibility within 45 days after receiving it.

- c. If the SHPO makes no comment, the review fee is to be returned to the applicant. If the SHPO disapproves the proposed improvements, they must be changed and the certificate resubmitted for further review.
- d. The \$25.00 application fee will be retained by the SHPO only in those instances where approval, disapproved or modification recommendations concerning the improvements have been made.

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2-21. ELIGIBLE LOANS. A direct-to-borrower loan, obtained by the borrower direct from the lender, without the intervention of anyone having a financial interest, is the only acceptable and eligible loan transaction.

- a. A dealer/contractor, although furnishing the contract or proposal, may not participate in the application for, or the disbursement of the loan proceeds.
- b. A person acting at the direction of the borrower who has no financial interest, directly or indirectly, in the contract for the rehabilitation, preservation, or restoration of the historic structure may assist in the making of the application. (An officer of the lending institution will normally qualify under this category).

2-22. LOAN DOCUMENTS. Other than the certificate of eligibility and the credit application and promissory note, there is no further documentation needed in support of a historic preservation loan. The entire general administrative policy; including security, prior credit approval, credit investigation, etc., outlined in Chapter 1 is applicable to all historic preservation loans.

SECTION 3 - FIRE SAFETY EQUIPMENT IN HEALTH CARE FACILITIES

2-23. GENERAL. This section contains the requirements which financial institutions may obtain insurance on loans made for the purchase

and installation of fire safety equipment for nursing homes, extended health care facilities, intermediate health care facilities and other comparable health care facilities.

- 2-24. ELIGIBLE IMPROVEMENTS. A loan for purchasing and installing fire safety equipment and other related items are the only eligible improvements under this section.
- a. "Fire Safety Equipment" means any device or facility which is designed to reduce the risk of personal injury or property damage resulting from fire in nursing homes, extended care facilities, intermediate health care facilities, or comparable health care facilities. The safety equipment includes any device or construction feature which is recognized in the latest edition of the Department's Minimum Property Standards for Care Type Housing (4920.1) or the Life Safety Code of the National Fire Protection Association (NFPA).
 - b. Other related items include changes to improve egress (widening of doors, construction or improvements of ramps,

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etc.) as well as warning detection systems recognized by such standards.

- 2-25. ELIGIBLE BORROWERS. The borrower must be the owner of a nursing home, extended care facilities, intermediate care facility or other comparable health care facility where the installation of fire safety equipment in such facility is provided for and required by fire safety codes.
- 2-26. ELIGIBLE PROPERTIES. In addition to qualifying as a proprietary facility or a facility of a private non-profit corporation or association properly licensed and regulated by state, municipality or other political subdivision, the facility must be free and clear of all liens other than those specifically approved by the Commissioner.
- 2-27. FEES AND CHARGES. A loan may not include expenses incurred in perfecting security, i.e., recording fees, documentary stamp taxes, title examination charges, and hazard insurance premiums. These costs may, however, be collected from the borrower in cash.
- a. An origination fee or initial service charge not to exceed 1-1/2 percent of the original principle amount of the loan may be collected from the borrower as compensation for setting up the loan.

- b. A handling charge of \$500, may be assessed the borrower for any transaction wherein a refinancing is consummated.
 - c. A late charge not to exceed 5 cents per \$1.00 of each installment past due more than 15 days may be collected. A late charge may not exceed a maximum of \$50.00 for any one installment.
 - d. The insurance charge of .50 of 1 percent per year on the net proceeds may be passed on to the borrower provided such charge is fully disclosed to the borrower.
 - e. In the event of prepayment of the loan, the lender may assess a reasonable penalty provided the approval of the Commissioner is obtained.
- 2-28. PRIOR APPROVAL. Any proposal to purchase and install fire safety equipment under this part must first be approved by the Fire Safety Marshal or other state or local official or agency having primary jurisdiction for fire safety equipment of the health care facility.

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- a. A proposal, properly approved, and together with an application for credit with supporting credit investigation must be submitted to the local HUD office for prior credit approval. Upon approval of the credit worthiness and stability of the applicant borrower, a letter shall be issued by the Commissioner setting forth the terms and conditions upon which a fire safety loan will be deemed eligible for loan insurance.
- 2-29. DIRECT LOANS. The loan must be initiated and obtained by a borrower directly from the lender. In these cases the application for and disbursement of monies must be made by the borrower without the intervention or participation of a dealer or other intermediary having a financial interest in the transaction.
- 2-30. DEALER LOANS. Loans may be initiated and obtained through a dealer-contractor that has previously been approved by the lender. A loan of this type requires supportive documentation (in Chapter 1).
- 2-31. SECURITY. In all states except Louisiana, the loan shall be secured by a properly recorded and perfected financing statement and security agreement covering the fire safety equipment.

- a. The security agreement shall be perfected in the manner specified by the Union Commercial Code as adopted in each state.
- b. If prior liens on the underlying realty by operation of law attach to the fire safety equipment the Commissioner or the lender may require the borrower to obtain a subordination agreement or a disclaimer from the holder of the prior lien.
- c. As additional security, a recorded lien on the improved real estate shall be required for any loan in excess of \$25,000. The lien shall be in the form of a real estate mortgage, deed of trust or other form of security instrument approved by the Commissioner.
- d. In the State of Louisiana, the loan shall be secured by a chattel mortgage covering the fire safety equipment, which shall be filed or recorded as required by law. If prior liens on the underlying realty attach to the collateral the Commissioner or the lender may require that a severance agreement be obtained from each person, other than the borrower, having any interest in the real estate on which the equipment is installed.

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- 2-32. LOAN REQUIREMENTS. The note and security instrument or instruments, shall be on forms approved by the Commissioner and valid and enforceable in the jurisdiction in which the property to be improved is located.
- a. The minimum principal amount permitted under this part is \$10,000.
 - b. The loan shall be written as a simple interest obligation and provide for equal monthly payments scheduled in accordance with amortization tables provided by the Commissioner.
 - c. The obligation must contain a provision for acceleration of maturity, at the option of the holder, upon default in the payment of any installment.
 - d. The note and security instrument must contain a provision permitting prepayment of the loan in whole or in part upon any due date a payment is due.
 - e. It is permissible to enter into a new obligation for the

purpose of liquidating a previously insured loan. The new obligation may not provide for an additional advance; however, the rewritten obligation may include the unpaid principle, uncollected earned interest and a handling fee. In rewriting an obligation, care must be exercised in assuring the protection and continued validity of the original security instrument.

2-33. CONTRACT PROPOSALS. The contract proposal must be a lump sum contract of a specified amount and limited only to the purchase and installation of fire safety equipment.

- a. The Commissioner may prescribe assurance of completion of the contract.
- b. Upon full completion of the contract, a completed certificate, on a form approved by the Commissioner, must be signed by the borrower and the dealer/contractor.
- c. Any contract or subcontract executed for the purchase and installation of fire safety equipment shall provide that there will be no discrimination against any employee or applicant for employment because of sex, religion, race, color, or national origin.

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(2-23)d. The contract or proposal must be of a type generally used by the dealer's business. A copy of the signed contract must be attached to the credit application when the application is submitted to the lending institution.

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