

## **Policy Clarification for Prepayments Subject to Section 250(a) of the National Housing Act**

Notice H-06-11, "Prepayments Subject to Section 250(a) of the National Housing Act" provides HUD's policy and procedures regarding the prepayment of certain HUD-insured/held mortgages. This statement clarifies the term "significant amount of repair" in the Notice.

The Department allows prepayments that are restricted by Section 250(a) so project owners can refinance and recapitalize their projects for needed rehabilitation. The Notice, however, does not contain standards for the amount of rehabilitation required for approval of a prepayment under this Section. This memorandum provides those standards and is effective immediately.

For the Department to approve prepayments under this Section, the project owner must provide documentation evidencing rehabilitation costs that meet one or more of the criteria below to be considered a "significant amount of rehabilitation".

- Rehabilitation cost is at least \$15,000 per unit. The minimum amount is calculated excluding all costs except hard construction costs (no contingencies) which must be supported by a sources and uses statement.
- There is a replacement or modernization of one or more mechanical systems or major building components such as roof structures, wall or floor structures, foundations, plumbing, central heating and air conditioning; or electrical systems, as defined by paragraph 4-2B of HUD Handbook, 4460.1, Architectural Analysis and Inspections for Project Mortgage Insurance; or,
- The total hard cost of repair/rehabilitation is at least 25% of the total development cost. Total development cost is the sum of the costs of acquisition, site improvements, rehabilitation, fees, carrying charges and financing, legal organizational and audit. (Generally, the amount shown on line G72 of form HUD-92264, Multifamily Summary Appraisal Report.)

The standard Prepayment Checklist will be revised to include this requirement as well as a certification from the Hub or Program Center Director that the project meets the rehabilitation requirements.

The Department reserves the right to request additional information in conjunction with an exception request. The objective of the Department's action in these cases is to assure the long-term viability of affordable housing.

If you have any questions, please contact your Asset Management Desk Officer.