

GENERAL

5.1

Qualifications, Responsibilities, and Approval of Lender's Representative

A. Qualifications

1. The Lender shall hire a qualified architectural analyst(s) with experience in multifamily construction. The analyst must be knowledgeable and experienced with local building standards and construction methods for the type of project proposed, including the Federal Fair Housing Accessibility Guidelines. The Architectural analyst may also serve as the cost estimator if the qualifications are met.
2. Lender Architectural staff. The lender must be able to review all designs submitted. The lender must employ the services of a qualified architectural reviewer or contract for the services of a qualified reviewer, to review the architectural plans and specifications. The person providing the architectural services should be preferably a registered architect or engineer. However, persons with a degree in architecture or engineering with three years of experience in their respective field, may also provide this service. Additionally, individuals with experience as a construction manager, estimator, general superintendent of construction, draftsman, degree in building construction, may also qualify to provide architectural services.
3. Lender Technical Specialists. Mechanical, structural, sanitary, site engineers, etc. may be required for review of a particular project. The prime principal of the technical specialists must be a licensed professional. The architectural analyst is not required to review structural design details and calculations.

B. Responsibilities

The Lender's architectural analyst:

1. Reviews mortgagor's Required Architectural Services. (See Paragraph 5.2)
2. Determines that the project design complies with the Minimum Property Standards, local codes, the applicable accessibility requirements, and HUD design standards. (See Appendix 5.)

3. Determines that mortgagor's Architect (or other persons or organizations providing architectural services) is qualified to provide the design services to the project and administer the construction contract.
4. Reviews mortgagor's Architect's certification that the project design complies with the Minimum Property Standards, all applicable local codes and ordinances, Fair Housing Act accessibility requirements, and HUD standards. (See Appendix 5N)
5. Determines that the mortgagor's Architect's liability insurance will be maintained up through acceptance of the 12-month warranty inspection.

C. HUD Approval of Lender's Architectural Analyst

The Department reserves the right to examine the credentials of all architectural analysts hired by the Lender, and to reject any and all individuals that it considers unqualified.

5.2

Required Architectural Services for Design and Supervision

The mortgagor shall engage the services of a licensed professional, which are required for the design of elevator and walkup projects, projects of 20 or more living units, and smaller projects of complex design or construction.

- A. Architects, engineers or designers providing required design and/or construction services must be professionally licensed to render services in the design of buildings by the State in which the project is to be constructed.
- B. Evaluation and Selection of Architect. The Architect must be one in whom the mortgagor, Lender, and HUD have confidence.
 1. The Lender's architectural analyst
 - a. reviews the Architect's work progress and product(s);
 - b. may recommend that the mortgagor select another professional if the Architect's work progress or work product(s) is found to be unacceptable.
 2. Failure of the mortgagor to engage an Architect acceptable to the Lender is basis for rejection of the project.
- C. Owner-Architect Agreement. On projects requiring licensed professional service, an agreement between the Architect and the owner for architectural services will be executed.
 1. The owner shall submit the agreement with the application for Firm Commitment.
 2. The executed agreement shall be AIA Document B 181, Standard Form of Agreement Between Owner and Architect for Housing Services. It shall include the HUD Amendment. (See Appendix 12B.)

- a. The scope of services shall provide all architectural, structural, mechanical, electrical, civil, landscape, and interior design and consulting services necessary to prepare drawings, specifications and other documents setting forth in detail the requirements for construction of the project. The scope of services shall also provide for administration of the construction contract.
 - b. The scope of services shall designate the responsibility for the services to be provided, whether by the Architect, owner, or others.
 - c. Additional B181 Agreements must be submitted for any part of the basic design services with more than one prime professional, e.g. for site, civil, mechanical, electrical engineering services, etc., or supervisory architectural services. The mortgagor's Architect shall have the authority to coordinate multiple prime professional contracts.
3. There may be separate agreements for design and construction services if the same Architect is not employed. When there is a separate agreement for administration of the construction contract, it must be submitted not later than initial endorsement. Where separate agreements are made, those sections not applicable shall be struck out.
 4. An Architect with an identity of interest with the owner or general contractor cannot administer the construction contract. An identity of interest is defined in the HUD Amendment.
- D. Modification of Owner-Architect Agreement. The document may be changed to reflect the actual agreement between owner and Architect for the specific project.
1. Generally modifications can be made by striking out inapplicable provisions and inserting additional provisions in Article 12. Also, adding directly to a specific provision is acceptable.
 2. Changes shall not delete any service, either by the Architect or owner necessary to the project though the responsibility for a required service may be transferred.
 - a. The document shall provide a clear and definite statement of how responsibility for providing any required service is to be divided between Architect, owner, and others. Documents must conform to requirements in 5.2.C.2 above.
 - b. Required services may not be sublet or delegated to any one not acceptable to HUD.
 3. The basis of compensation (Architect's fee) shall be a fixed fee for the services provided by the Architect as stated in the Agreement. No other method of stating compensation is acceptable. The amount of compensation for design services and for construction services shall be stated.
 4. Where the Architect's basis fee exceeds that which may be paid from mortgage proceeds or where the Owner-Architect contract provides for reimbursables (note that reimbursables may not be paid from mortgage proceeds), the person/entity responsible for such extra fees must be identified at the bottom of the HUD Amendment. (See Appendix 12B)

5. HUD shall not be incorporated into any specific provision of the Agreement. The required inclusion of the HUD Amendment in Article 12 is sufficient to incorporate HUD requirements. No modification of the HUD Amendment is permitted.
 6. The Lender's architectural analyst shall review the agreement for compliance with these instructions.
- E. Architectural Considerations in Industrialized Housing. Architectural and engineering services are involved in the development of industrialized housing. The fees for such services are part of the cost of each manufactured unit. The Lender's analyst must contact the Hub Director to approve the use of industrialized housing. The Lender's analysis must then determine the acceptability of such services by examining the drawings and specifications.
1. These exhibits shall be equal in quality to the typical construction documents prepared by Architects engaged in designing the type of housing proposed. The exhibits should include the working drawings and specifications for the typical industrialized housing unit, along with an assembly plan and proper manufacturer's warrantee document.
 2. Additional professional services may be required to provide a complete set of construction documents. The additional amount of professional services required must be determined by the Lender's architectural analyst for each project based on how much of the total is provided by the housing manufacturer. Usually, the Architect will integrate the manufacturer's drawings into his/her set of drawings and specifications, adapting them to the particular project.
 3. The manufacturer (packager) shall provide complete professional design services. If his/ her services meet in all respects the quality required, the construction documents shall be accepted.
 4. Owner-Architect Agreement, AIA Document B-181, shall be required only to cover the services provided by the Architect. No Owner-Architect Agreement is required for professional services provided within or by the housing manufacturer.
 5. In all cases, an independent Architect with no identity of interest shall provide general administration of the construction contract.

5.3

Architectural Standards and Other Criteria

- A. The principal architectural standards for MAP are the Minimum Property Standards for Housing (MPS) in HUD Handbook 4910.1 and local building codes or nationally recognized building codes accepted by the Hub. See Appendix 5 for complete standards.
- B. Accessibility for persons with disabilities.
 1. The Fair Housing Amendments Act of 1988 applies to all housing in the United States available for first occupancy after March 13, 1991. (See Appendix 5-A.)
 2. Part 504 of the Rehabilitation Act of 1973, which is implemented by the Uniform Federal Accessibility Standards (UFAS), applies only to housing receiving Federal financial

assistance. Part 504 does not apply to projects where the only HUD involvement consists of FHA mortgage insurance. (See Appendix 5A and 5E)

C. Energy efficiency.

1. New Construction. HUD energy efficiency standards for new construction are adopted by the Secretary and incorporated by reference into the MPS. (See Appendix 5A, Paragraph O)
2. Substantial Rehabilitation. See Appendix 5B, paragraph I for rehabilitation energy guidelines.

SECTIONS 221(d) AND 220

5.4

Lender Architectural Processing – New Construction

A. Lender's Architectural Analyst's Duties

1. Review the mortgagor's Architectural/Engineering exhibits (Appendix 5I) for compliance with local code and HUD requirements.
 - a. Drawings and specifications must be complete and correct.
 - b. Acceptable evidence must be provided that the project has or will have necessary utility services and pedestrian and vehicular access.
 - (1) Adequate assurance of continuing service by local utility companies and/or local public authorities, or
 - (2) Construction documents and contract for completion by mortgagor's contractor.
2. Visit the site and prepare a written report on physical aspects of on-site and offsite features.
 - a. Observe physical features such as existing construction, topography, soil conditions, drainage, vegetation, etc.
 - b. Include unusual site conditions and necessary demolition and offsite construction.
 - c. Determine and comment on HUD environmental conditions and criteria which may affect the proposal.
3. Provide for continuous architectural liaison with the mortgagor's Architect.
4. Maintain a processing record of all architectural/engineering actions when the proposal is first assigned.
 - a. File all forms, reports, decisions, and documents relevant to architectural actions in chronological order.

- b. Record all architectural actions, counteractions by others, or actions that may affect design or construction.
 - c. Record the receipt of forms and documents, the issuance of letters and memoranda, the completion of forms and worksheets, contacts with the Architect, etc.
 - d. Log and briefly describe contacts, including telephone calls, with the Architect.
 - e. Keep journal of architectural actions. Include:
 - (1) Application for Firm Commitment, Form HUD-92013.
 - (2) Reports of site visit (including technical specialist's if made).
 - (3) Drawings and specifications, identified and dated. (If filed elsewhere, reference in journal.)
 - (4) Owner-Architect Agreement, including HUD Amendment. (See Forms Appendix.)
 - (5) Data used to process. (If filed elsewhere, reference in journal.)
 - (6) Liaison meetings and telephone calls with Architect (Remarks in journal or notes).
 - (7) Letters, memoranda, notes and worksheets.
 - (8) Soil borings report or other soil exploration data.
 - (9) Invitation Letter.
 - (10) Form HUD-92264 with any memorandum for Firm Commitment.
 - (11) Firm Commitment approval.
 - (12) Surveyor's Report, Form HUD-2457 (Initial Endorsement).
5. Guide and assist the mortgagor's Architect (Architect) during design development to expedite orderly processing and avoid delays.
- a. Assure that the Architect is licensed to practice within the State where the project is to be constructed.
 - b. Assure that the Architect and the mortgagor execute AIA Document B181, including HUD Amendment.
 - c. Provide the Architect a copy of the MAP Guide, applicable HUD program Handbook(s), HUD Minimum Property Standards (MPS) (Handbook 4910.1), and other applicable guides and publications, including reference material for all applicable accessibility laws, especially the Fair Housing Act Design Manual.
 - d. Discuss with Architect:
 - (1) Lender procedures;
 - (2) HUD procedures;

- (3) Architect's responsibilities.
 - e. Discuss with Architect any available housing design data and all HUD-developed or industry norms which are applicable and beneficial to the project.
 - f. Review drawings and specifications during design development and identify questionable design concepts, elements or deficiencies early to avoid costly revisions at advanced stages of exhibit development. Special attention should be paid to accessibility for persons with disabilities. Because no accessibility review is done at Pre-Application stage, it is entirely the responsibility of the Architect to produce a building and site design at Firm stage that fully conforms to all applicable accessibility laws.
6. Request assistance by the Technical Specialist, e.g., engineers, when necessary.
 - a. Review and use the Technical Specialist's Report.
 - b. Furnish the Architect with consolidated design requirements, including recommendations or requirements of Technical Specialists.
7. Work with Lender's cost analyst to assure that project cost will fall within the established budget:
 - a. Supply cost analyst with a current Davis Bacon wage rate schedule. The HUD Office will include, as part of its Firm Commitment invitation letter, the current Davis Bacon wage rate schedule applicable to the proposed project. Lender processing staff must keep in contact with HUD labor relations staff to obtain any updates (modifications) to the Davis Bacon wage rate schedule before the Lender submits the Firm Commitment application to HUD. Once the Firm Commitment application is submitted, HUD labor relations staff will provide any Davis Bacon modifications which may be published and applicable to the construction of the project.
 - b. Evaluate appropriateness of type of structure, construction methods and materials considering initial costs and future maintenance.
8. Report any deviations from accepted concepts or HUD requirements which cannot be resolved with the mortgagee's Architect to the Lender's underwriter.
9. Be aware of design development progress in relation to established target dates and inform the Lender's underwriter of possible or actual delays or problems.
10. Review architectural/engineering exhibits submitted with the Firm Commitment application.
 - a. Assure exhibits are as agreed to during design development, meet conditions of the previous stage, and comply with all HUD standards and criteria.
 - b. Prepare the architectural/engineering portions of Form HUD-92264, Rental Housing Project Income Analysis and Appraisal (See Forms Appendix), upon completion of architectural analysis.

11. Furnish information to the Lender's cost analyst as to the scope of the Architect's work as a basis for the estimation of the Architect's fee.
12. Assure that drawings and specifications are complete prior to submission of a Firm commitment application to HUD.
13. Review experience and qualifications of general contractor.
14. Prior to initial endorsement: (See Paragraph 5.7)
 - a. Review contractor's Progress Schedule.
 - b. Review the legal survey and Surveyor's Report/ Certificate.
 - c. Assure that HUD's sets of drawings and specifications are sealed and signed.
15. Consult with Technical Specialists. While the Lender's architectural analyst should report obvious errors or omissions (such as a lack of dimension to show the depth of a footing below grade) to the mortgagor's Architect, the analyst is not required to review, nor is the analyst responsible for, the accuracy of structural dimensions or other details that would require a professional structural review. When engineering review, advice and guidance on specific projects or problems is required, the Lender's architectural analyst should request the services of the appropriate engineers (mechanical, structural, sanitary, site, etc.).
16. Negotiations.
 - a. The Lender's architectural analyst provides guidance to the mortgagor's Architect. The Lender's analyst will request the assistance of the mortgagor if the Architect is reluctant to follow such guidance.
 - (1) Suggestions for improvement or betterment should not be pursued if unacceptable to the mortgagor.
 - (2) HUD mandatory standards and criteria may not be modified or waived.
 - b. Report to the Lender's underwriter when resolution is not possible.
 - (1) Recommend rejection only if the design fails to comply with prescribed requirements, laws, ordinances or restrictions, or is inadequate in some major respect.
 - (2) Request intervention and assistance, describing the deficiency or inadequacy that the Architect and/or sponsor are unwilling or unable to correct.

B. Mortgagor's Architect's Duties

1. Services. Provides architectural and engineering services in accordance with the Owner-Architect Agreement. (See Paragraph 5.2.)
 - a. Develops documents that conform to concept of the sponsors program and proposal.
 - b. Produces drawings and specifications that comply with local requirements and HUD standards and criteria.

2. Data. The Architect's work is shaped by data such as: codes, transportation, parking, space and mechanical requirements. The Architect develops data through surveys and research.
3. Lender Assistance. There must be continuous consultation between the mortgagor's Architect and the Lender's architectural analyst.
4. Pre-application Stage. The Architect must:
 - a. Visit the site.
 - b. Evaluate the mortgagor's and user's needs.
 - c. Become familiar with applicable codes, restrictions, and requirements.
 - d. Develop preliminary sketches.
5. Firm Commitment Stage. The mortgagor's design Architect, from the preliminary sketches, must:
 - a. Prepare final construction documents after the basic exhibits are approved. These include contract drawings and specifications with:
 - (1) Current wage decision,
 - (2) Current edition of AIA Document A201, General Conditions of the Contract for Construction, and
 - (3) Form HUD-2554, Supplementary Conditions of the Contract for Construction.
 - b. Submit the final construction documents to the mortgagor for approval and submission to the Lender, and to HUD.
6. Construction Documents must be complete and:
 - a. Clearly fix the scope of work.
 - b. Define and describe the materials to be used.
 - c. Illustrate the construction and methods of assembly.
 - d. Contain all necessary information for bidding (if applicable) and constructing the project.
7. Alternates. The Architect may include alternates if they are of equal quality, safety, and performance, and within the budget. Alternates must be selected before a Firm Commitment is issued. Selection of alternates should be coordinated with the general contractor so as not to delay the bidding.

5.5**Architectural/Engineering Exhibits – New Construction**

- A. Pre-application stage for HUD review. The mortgagor shall submit the following Pre-application exhibits to the Lender to be forwarded to HUD.

1. Form HUD-92013, Application for Project Mortgage Insurance
2. Location map with property clearly defined.
3. Sketch plan of the site showing overall dimensions of main building(s), major site elements, e.g. parking lots, and location of existing utilities, e.g. water, sewer, electric, gas, in the streets adjacent to the site. Contour lines and elevations are not required in the sketch site plan.
4. Sketch plans of main building(s): Sketch plans of main building(s) must show overall dimensions of:
 - a. Typical floor plan(s) showing apartment types and placement;
 - b. Ground floor plan(s) showing common areas;
 - c. Sketch floor plan(s) of typical dwelling unit(s);
 - d. Typical wall section(s) showing footing, foundation, wall and floor structure. Notes must indicate basic materials in structure, floor and exterior finish.

Sketch plan dimensions must be sufficient to allow the HUD architectural analyst to calculate the Gross Floor Area for the entire project and the Net Rentable Areas for all the apartment units in the project.

B. Firm Stage. The mortgagor shall submit the following Firm stage exhibits for the Lender's architectural analyst to review.

1. Form HUD-92013, Application for Project Mortgage Insurance.
2. Owner-Architect Agreement, AIA Document B-181 (and HUD Amendment to the B181 where required), fully defining the services and fees for each prime professional with which the mortgagor/owner contracts directly. Additional contracts must be submitted for any part of the basic design services with more than one prime professional, e.g. for site, civil, mechanical, electrical engineering services, etc., or supervisory architectural services. The mortgagor's Architect shall have the authority to coordinate multiple prime professional contracts.
3. Legal survey;
4. Completed Surveyor's Report, Form HUD-2457;
5. Engineering and specialty reports, e.g. geotechnical, environmental, noise, flood hazard, toxic hazard, termite control, structural integrity (for Existing or Substantial Rehabilitation projects), heat gain/loss calculations, etc.
6. Municipal and utility company letters of confirmation for the provision of services and/or offsite improvements.
7. Any documents necessary to establish:
 - a. Site ingress and egress, utilities service and other general acceptability criteria in MPS 4910.1, Chapter 2.

- b. Binding maintenance agreements where common use easements (e.g. driveways) are used.
8. Certifications from mortgagor's Architect that:
 - a. Foundation designs reflect site soils limitations and design recommendations included in the foundation soils report and any other geotechnical reports (may be submitted by soils engineer);
 - b. All project structures, amenities, and site improvements are in full compliance with all applicable accessibility laws.
9. Description of any identity of interest that exists between the prime professional providing supervisory architectural services, the owner, and the general contractor.
10. Contract drawings and specifications. (See Appendix 5I)
11. Offsite Construction: Describe all work outside the boundaries of the property essential to the project (See Appendix 5I, Paragraph S).

5.6

Lender Deliverables – New Construction

- A. Pre-application Stage for HUD review. Mortgagor's architectural/engineering exhibits (See Section 5.5.A).
- B. Firm Stage.
 1. Mortgagor's Architectural/Engineering exhibits for Firm Stage (See Section 5.5.B and Appendix 5I);
 2. Review Report prepared by Lender's architectural analyst. Report must state that all exhibits are acceptable without condition and all deficiencies have been acceptably corrected. Report should address the following:
 - a. Completeness of contract documents;
 - b. Conformance to local building codes and HUD Standards;
 - c. Accessibility for persons with disabilities:
 - (1) From property line to main entrance(s) to main building(s);
 - (2) To all areas throughout the project site;
 - (3) Within all residential structures:
 - (a) Path of travel to all public areas;
 - (b) Path of travel to all dwelling units required to be accessible under applicable accessibility laws.
 - (c) Within accessible dwelling units, full accessibility to all areas within, and full usability of all areas, including kitchens and bathrooms.

- d. Site design:
 - (1) Placement of buildings, roads, walks and parking on the site;
 - (2) Site erosion and drainage;
 - (3) Soil borings report.
- e. Building design:
 - (1) Building circulation:
 - (a) Adequacy of elevators;
 - (b) Number and placement of stairs;
 - (c) Adequacy of lobbies and corridors;
 - (d) Adequacy of fire egress.
 - (2) Typical dwelling units: Adequacy of room sizes and circulation within.
 - (3) Fire safety: Provision of adequate fire safety measures, e.g. fire sprinklers, firewalls, fire doors (if required).
 - (4) Structural adequacy: Review of building structure and structural details.
 - (5) Mechanical and electrical adequacy: Review of mechanical and electrical plans.
 - (6) Energy efficiency. Review utility combination for energy efficiency and determine acceptability of utility combination. If HUD has required a life cycle utility analysis to be included in the Firm Commitment application (see Section 5.8.B.1.b), review utility analysis to determine acceptability of utility combination. See Appendix 5A, Paragraph O for energy efficiency standards.
3. Prepared architectural portion on Form HUD-92264, signed by Lender's architectural analyst under "Architectural Processor".
4. Copies of Lender's architectural analyst's project files and logs only at the request of the HUD Office.
5. Standard certification by Lender's architectural analyst, see Section 11.2.J.

5.7

Firm Commitment Through Initial Endorsement – New Construction

A. Changes After Firm Commitment. Prior to initial endorsement:

1. Drawings and specifications may be amended by addendum when the change(s) will have no effect on cost or value. The Lender's analyst must review the addenda for acceptability.

- a. Addenda must clearly state or show the change with specific reference to the location of the item on the drawings or in the specifications.
 - b. Amendments shall be clearly noted and dated.
 - c. Addenda are not to be used to correct errors noted during firm commitment processing.
2. Firm Commitment reprocessing is required for major changes adding or deleting work, or affecting cost or value. Drawings and specifications affected must have sheets and pages revised and replaced.
- B. Contractor's Estimated Progress Schedule. Article 3.10.1 of the AIA General Conditions requires the general contractor to prepare and submit an "estimated progress schedule for the work" to the mortgagor and Architect.
1. The mortgagor or Architect must submit a copy to the Lender's analyst at least 30 days before initial endorsement.
 2. The Lender's analyst must review the Schedule to assure it relates to the entire project to the extent required by the contract documents. (Inclusive dates for stages of construction.)

Copies of the approved schedule are given to the HUD representative (HUD Inspector) to determine scheduled progress at each site visit.
 3. The Lender uses the schedule to determine when construction is falling behind, triggering a meeting of all parties to the contract, including the bonding company. The meeting is to determine the reason for delays, advise of the consequences of the delay and develop a plan to get construction back on schedule.
- C. Contract Documents. The Lender shall submit the following contract documents to HUD's architectural staff for **HUD review** prior to initial endorsement:
1. Building Loan Agreement, Form HUD-92441, and Construction Contract, Form HUD-92442 or 92442A.
 - a. Correct identification of drawings and specifications on forms.
 - (1) Project name, HUD project number, and design Architect's name.
 - (2) Drawings and specifications by sheets, pages and date or by index with date of last revision of sheet and page.
 - (3) Addendum by number and date.
 - b. Compliance with any architectural requirement or condition.
 2. Survey and Surveyor's Report, Form HUD-2457, must be reviewed:
 - a. For compliance with Survey Instructions and Certificate.
 - b. To confirm that legal description and survey property boundaries agree.

- c. To assure that the surveyor's report is complete per instructions.
 3. Drawings and Specifications, three sets. Confirm that:
 - a. Master Set No. 1 and Sets No. 2 and 3, are the same as accepted and identified in the Firm commitment. Indicate total number of pages in the drawings and specifications.
 - b. Cover sheets are signed by representatives of design Architect, Architect administering contract, owner, contractor, Lender, and bonding company, if any.
 - c. Master set is initialed by signatories on face of each sheet and page. (Signatories initial opposite any "last minute" revisions not covered by Firm Commitment or addendum.)
- D. If contract documents are correct, the HUD Team Leader will recommend Initial Endorsement. In the event of errors or inconsistencies, the contract documents will be returned to the Lender for correction and resubmission.
- E. Distribution of Drawings and Specifications. After initial endorsement, the HUD Office will distribute drawings and specifications as follows:
 1. Set No. 1, Master Set is the legal contract document. The HUD Office will:
 - a. Retain this Set until the last guarantee inspection.
 - (1) Add copy of each Change Order, Form HUD-92437.
 - (2) Add copy of each Architect's Supplemental Instruction.
 - b. Package specifications in a tightly rolled bundle with drawings on the outside, attach memo indicating HUD project number, and send to the Regional Federal Records Center 1 year after completion of construction.
 2. Set No. 2 is the HUD Office's review set.
 - a. HUD staff will use this set for processing change orders, review of inspections, and similar functions. Do not use Master Set.
 - b. Dispose of this set after final endorsement.
 3. Set No. 3 is the HUD Office's job site set.
 - a. The HUD Inspector uses this set for inspection of the project.
 - b. HUD Inspector conforms it to the contractor's "record set." (Contractor is required to maintain at the site a record set for the Owner.)
 - c. HUD Inspector returns this set to the HUD Office upon completion of construction. This set is the HUD "as-built" set.
 - d. Use this set for guarantee inspections.
 - e. Send HUD "as-built" set to the Hub Director, 1 year after completion of construction, for use in project servicing.

5.8**HUD Procedures - Pre-Application Stage – New Construction**

- A. Lender will submit Pre-application deliverables (Paragraph 5.6) to the HUD Office.
- B. HUD architectural analyst will examine the Architectural/Engineering (A/E) exhibits and will recommend either acceptance or rejection of the A/E portion of the Pre-application submission. Using the application and the sketch plans, the HUD architectural analyst will review:
 1. Conformance to HUD Standards.
 - a. HUD Minimum Property Standards.
 - b. Energy efficiency. Using the application, the analyst will review the proposed utility selection for the project to determine conformance with the HUD standard cited in Appendix 5A, Paragraph O. If it is determined that the utility selection is energy inefficient, the analyst will include a recommendation in the written report (See Appendix 5L) that the Hub Director require a life cycle utility analysis to be included in the Firm Commitment application.
 2. Site conditions including:
 - a. Placement of building(s) on the site;
 - b. Unusual site features;
 3. Residential building(s), including:
 - a. Circulation within the building(s);
 - b. Typical apartment layouts;
 - c. Typical apartment sizes. HUD appraisal staff will determine whether the apartment sizes are marketable for the proposed rents.
 - d. Overall structure and exterior finish.
- C. HUD architectural analyst will issue a written report (See Appendix 5L) containing recommendations and forward a copy to the HUD Team Leader.

5.9**HUD Procedures: Firm Stage – New Construction**

- A. Lender will submit Firm deliverables (Paragraph 5.6) to the HUD Office. The HUD architectural analyst will examine the Lender's review, the underwriting summary and the A/E exhibits. The HUD analyst will review the quality of the Lender's review and the transaction itself. The HUD analyst will not reprocess the case. However, if the HUD analyst determines that certain underwriting conclusions are not supportable and affect HUD's risk, the analyst

may recommend that the Lender modify the application or recommend a rejection. The Team Leader will approve, reject or modify the recommendation of the HUD Architectural analyst.

B. HUD architectural analyst:

1. Will review the Firm deliverables for completeness;
2. Will examine the Review Report and the A/E exhibits and will recommend either acceptance or rejection of the A/E portion of the Firm submission. HUD A/E recommendations will be based on areas of concern in the Review Report not covered at Pre-application stage, including:
 - a. Detailed site soils information resulting from test borings, including the presence of unstable soils or soil contaminants (See Appendix 5-A, paragraph L);
 - b. Detailed examination of accessibility for persons with disabilities from the street throughout the site and into and throughout the residential and common non-residential structure(s) and space(s), with respect to the Fair Housing Act requirements and any other accessibility laws and HUD requirements that apply;
 - c. Site design, including placement of buildings and parking, erosion containment measures and site drainage; and
 - d. Building design, especially involving fire safety and structural adequacy.
3. Will review the A/E portion of completed Form HUD-92264 for accuracy with respect to the A/E exhibits.
4. Will review portions of the A/E exhibits for consistency with the Review Report. Check the following:
 - a. Sitework and elevations;
 - b. Foundation design and placement;
 - c. Accessibility for persons with disabilities, from the street throughout the site and into and throughout the residential and common nonresidential structure(s) and space(s).
 - d. Any design features that are unusual for the particular structure type and or system.
 - e. Utility analysis if required by Hub Director at Pre-application review.

C. HUD architectural analyst will issue a written report (See Appendix 5L) containing recommendations and forward a copy to the HUD Team Leader.

5.10

HUD Procedures - Firm Commitment Through Initial Endorsement – New Construction

- A. HUD architectural staff will review contract documents as indicated in Paragraph 5.7.C prior to initial endorsement.

- B. If contract documents are correct, the HUD Team Leader will recommend Initial Endorsement. In the event of errors or inconsistencies, the contract documents will be returned to the Lender for correction and resubmission.
- C. The contract drawings and specifications will be distributed as indicated in Paragraph 5.7.E.

5.11**General Lender Procedures – Substantial Rehabilitation**

All of the previous instructions in this Chapter apply to substantial rehabilitation projects unless otherwise modified therein.

5.12**Definitions – Substantial Rehabilitation**

- A. Substantial Rehabilitation - required repairs, replacements and improvements:
 - 1. Involve the replacement of two or more major building components or,
 - 2. Costs of which exceed the greater of:
 - a. 15 percent (exclusive of any soft costs) of the property's replacement cost (fair market value) after completion of all required repairs, replacements, and improvements, or
 - b. \$6,500 per dwelling unit (adjusted by HUD's authorized high cost percentage).

NOTE: Estimates for determining the cost for substantial rehabilitation must include general requirements and fees for contractor's general overhead and profit, bond premium, mortgagor's and contractor's other fees and design architect and supervisory architect. However, when determining the eligibility of Section 223(f) projects, include only the repair costs; do not add general requirements and fees.
- B. Major Building Component. Roof structures; wall or floor structures; foundations; and plumbing, central heating and air conditioning systems, or electrical systems.
 - 1. Major refers to the importance of the component and the extent of replacement.
 - a. The element must be significant to the building and its use, normally expected to last the useful life of the structure, and not minor or cosmetic. Examples: Major: roof sheathing, rafters, framing members. Minor: shingles, built-up-roofing.
 - b. Total replacement is not required, but the greater part (at least 50 percent) must be replaced.

5.13**Standards – Substantial Rehabilitation**

Substantial rehabilitation must comply with applicable local codes and ordinances. For a full listing of standards and guidelines for substantial rehabilitation projects, see Appendix 5B and 5D.

5.14**Architectural/Engineering Exhibits – Substantial Rehabilitation - Firm Stage**

In addition to the exhibits indicated in Paragraph 5.5, the mortgagor shall submit the following exhibits for the Lender’s architectural analyst to review:

- A. Detailed scope of rehabilitation work resulting from joint inspection. (See Paragraph 5.16)
- B. If an abnormal amount of time has elapsed since the joint inspection, or if property damage may have occurred, reinspect the property to determine current physical condition and provide any necessary additional conditions for Firm Commitment.

5.15**Lender Deliverables – Substantial Rehabilitation**

In addition to the deliverables indicated in Paragraph 5.6, the Lender will present the following deliverables to the HUD Office:

- A. Pre-application Stage (for HUD review):
 - 1. Sketch plans of the existing building(s) “as-is”.
 - 2. Basic Work Writeup: Description of the proposed rehabilitation (from preliminary inspection of the property conducted by mortgagor’s Architect), including post-rehabilitation sketch plans. This precedes the joint inspection and the Detail Work Writeup. (See Paragraphs 5.16 and 5.17)
 - 3. LBP and asbestos test reports for projects constructed prior to 1978. (See LBP and asbestos standards in Appendix 5B, paragraphs G and H, and Sections 9.4.D and 9.7.B.)
- B. Firm Stage: Mortgagor’s A/E exhibits for substantial rehabilitation as indicated in Paragraph 5.14.

5.16**Joint Inspection – Substantial Rehabilitation**

As soon as possible after the pre-application approval is issued by HUD, the lender should schedule an on-site inspection with the mortgagor.

- A. Team Members.
 - 1. Must include architectural and cost staff employed by the Lender, the mortgagor’s Architect, and the general contractor. A representative of the local building department

should be present. If not, the team must have a copy of the latest official inspection for compliance with local codes and ordinances.

B. Purpose.

1. Determine the project's condition, particularly concerning major defects, deterioration, and obsolescence.
2. Determine type and extent of work that would:
 - a. Appropriately rehabilitate the project for the intended occupants.
 - b. Result in reasonable operating costs.
 - c. Ensure continued marketability after rehabilitation.

C. Scope. Since the joint inspection is the basis for the detail work write-up, cost estimate, commitment conditions and required exhibits, the inspection must be thorough and include:

1. All features of the project site; buildings and improvements, utilities, roads and parking, underground storage tanks, and surroundings.
2. Sufficient living units to ascertain all necessary rehabilitation. This may range from selected typical units to all units depending on physical conditions.

5.17

Detail Work Write-up – Substantial Rehabilitation

The mortgagor or its Architect prepares the detail work write-up reflecting the work agreed to, based on the joint inspection. However, the mortgagor's Architect may prepare drawings and specifications that describe clearly the work agreed to in lieu of a work write-up. Because there is no initial deposit to the Reserve for Replacements for substantial rehabilitation, the scope of work must provide for the replacement of all doors, windows roofs, cabinets, and mechanical/conveyance systems (e.g. elevators, plumbing, boilers/furnaces, ventilation/air conditioning, electrical) which are at or near the end of their useful lives. The rehabilitation must result in a structure which will require no complete replacement of doors, windows, roofs, cabinets, or mechanical/conveyance systems for at least five years.

- A. The detail work write-up must describe in narrative form the required rehabilitation. Divide as follows:
1. General Requirements. Include work items applicable to all elements in the project, for example: site work, exterior work; painting and decorating; rehabilitation of kitchens, bathrooms, roofs, mechanical systems, electrical systems, interior walls, floors, windows and doors, etc.
 2. Special Requirements. Describe work for a specific item, room, space, unit, or building.

- B. All requirements must be specific and state the location, type and amount of work to be done. Do not use general phrases, such as, “repair or replace” or “as required”.
- C. In case of a complete gut rehabilitation project, where only the structure will remain and the drawings and specifications will be as detailed as for new construction, the detail work write-up need only to be detailed enough to be a basis for the cost estimate and serve as a memorandum of understanding between the Field Office and the mortgagor.
- D. Historic requirements including State Historic Preservation Office (SHPO) review, etc.

5.18**Contract Documents – Substantial Rehabilitation**

Because the nature and extent of rehabilitation may vary widely among individual projects, the requirements for specific contract documents cannot be determined by the Lender's architectural analyst until the joint inspection and work write-up are complete.

- A. Drawings. When required, drawings must clearly define the concept and detail of the rehabilitation, any demolition or removal, and repairs and replacements.
 - 1. Require complete drawings and details similar to those for new construction if the structure will be gutted, or there will be structural modification or addition to the existing structure.
 - 2. For projects with minor changes in space arrangement, structural or mechanical systems, require only drawings sufficient to show existing conditions and proposed work.
 - 3. Do not require drawings if the rehabilitation can be clearly and completely described in specification format.
- B. Specifications. Work write-up/specifications are always required and must clearly define the scope of the rehabilitation, establish the quality of materials and workmanship, and the conditions of construction.

5.19**Engineering Reports – Substantial Rehabilitation**

Surveys or special technical reports may be required of the mortgagor by the Lender for proper evaluation of the project.

- A. Notify the mortgagor by letter immediately after the joint inspection of any requirement for such report.
- B. Clearly state the exact nature of the engineering or technical investigation and the items to be covered.

- C. Specify any special tests, such as pressure or flow tests of plumbing or cutting of pipe for examination.
- D. Specify seismic resistance for substantial rehabilitation projects. Structures in seismic zones 3 and 4 must be capable of resisting three fourths (3/4) of the seismic forces contained in the FEMA-273, NEHRP Guidelines for Seismic Rehabilitation of Buildings, and FEMA-274, NEHRP Commentary on the Guidelines for Seismic Rehabilitation of Buildings.
 - 1. A seismic hazard analysis of the building(s) should be conducted by a registered engineer familiar with lateral force design, where applicable code requirements at the time of construction did not equal or exceed the referenced seismic standards.
 - 2. The analysis should include an examination of the structure for continuity, ductility, and resistance to lateral forces.
 - 3. Structural elements and connections between elements should be strengthened and retrofitted as required, if the existing structure does not provide three fourths (3/4) of the seismic force level resistance required. The objective is to prevent major failures, collapse or loss of life due to earthquake forces.
- E. Work write-up cannot be completed until all required engineering reports are analyzed by the Lender's architectural analyst and a determination made in regard to the need for additional rehabilitation requirements.

5.20**Required Professional Services – Substantial Rehabilitation**

The services of an architect or engineer, licensed to practice architecture or engineering in the state in which the project is located, will be required for design and construction of a rehabilitation project, when:

- A. Working drawings and specifications are necessary to properly define the scope and concept of the rehabilitation.
- B. Change of building use is proposed, existing spaces are to be altered, or structural changes are necessary, or
- C. An addition is proposed to the existing structure.

5.21**HUD Procedures - Pre-application Stage – Substantial Rehabilitation**

- A. Lender will submit pre-application deliverables (Paragraphs 5.6 and 5.15) to the HUD Office.

- B. In addition to procedures in Paragraph 5.8.B, the HUD architectural analyst will examine the Basic Work Write-up.
- C. HUD architectural analyst will issue a written report (Appendix 5L) containing recommendations and forward a copy to the HUD Team Leader.

5.22**HUD Procedures: Firm Stage – Substantial Rehabilitation**

- A. Lender will submit Firm deliverables (Paragraphs 5.6 and 5.15) to the HUD Office.
- B. In addition to procedures in Paragraph 5.9.B, the HUD architectural analyst will examine the detail Work Write-up.
- C. HUD architectural analyst will issue a written report (Appendix 5L) containing recommendations and forward a copy to the Lender’s architectural analyst and the HUD Team Leader.

SECTION 223F**5.23****In General – 223(f)**

In general, all the previous instruction in this chapter apply to projects insured pursuant to Section 223(f), except as modified herein.

5.24**Standards – 223(f)**

Eligible properties are existing construction. The criteria for acceptance are not the same as for proposed construction. See Appendix 5-C for a complete description of architectural standards for 223(f) projects.

A. Fair Housing Act Accessibility Considerations for Section 223(f):

If a project containing 4 or more units available for first occupancy after March 13, 1991 contains Fair Housing Act violations, the violations must be corrected as a condition of mortgage insurance. See Appendix 5C, paragraph E.

5.25**Lender Deliverables – 223(f)**

The Lender will present the following deliverables to the HUD Office:

- A. A complete Project Capital Needs Assessment and Replacement Reserve Escrow (PCNA) Report (See Appendix 5M) prepared by the Lender and described in Paragraph 5.26 below.

- B. Lender's Review of PCNA Report.
- C. A completed A/E portion of Form HUD-92264.
- D. Mortgagor's Exhibits. The mortgagor shall submit the following exhibits for the Lender's architectural analyst to review:
 - 1. Form HUD 92013.
 - 2. Certificate of Occupancy or Final Inspection Report, if available or a statement from the jurisdiction of authority recognizing conforming use.
 - 3. Municipal Code Violation Report/Clear Report and Fire Marshall's Report/Clear report.
 - 4. City/County Health Officer's report/clear report where private water supply or sewage treatment systems are involved.
 - 5. Latest State medical/personal care facility agency's report on the project's operation, where a residential care facility is involved.
 - 6. "As Built" Survey, Form HUD-2457, Surveyor's Report; and Title Report.
 - 7. Set of as built plans, if available.
 - 8. Location map.

5.26**Project Capital Needs Assessment and Replacement Reserve Escrow – 223(f)**

The Lender prepares the PCNA and Replacement Reserve Escrow in accordance with Appendix 5M.

- A. Date of PCNA. The PCNA must be prepared and dated no earlier than 120 days prior to the submission of the application for Firm Commitment.
- B. The PCNA consists of the following:
 - 1. A Physical Inspection Report (PIR) containing detailed information about:
 - a. The condition of the project.
 - b. Identification of the project's:
 - (1) Immediate repair needs; and
 - (2) Expected repair, replacement, and major maintenance needs over a specified time period such as ten years.
 - c. An estimated cost, adjusted for inflation, to complete such items.
 - 2. A Statement of Resources and Needs which discusses:

- a. The Lender's review of and possible adjustment to the PIR;
 - b. Identifies:
 - (1) All critical repairs which must be completed before initial/final endorsement and the associated cost of doing the work.
 - (2) Non-critical repairs to be completed after final endorsement and the associated cost to be escrowed.
- C. Repairs to be completed after Initial/Final Endorsement. Repairs may be completed after loan closing under certain conditions:

Note: It is the Department's preference that non-critical repairs be completed before closing. If the mortgagor wishes to defer non-critical repairs until after closing, the following instructions set specific conditions that the mortgagor must meet.

1. General.
 - a. Only non-critical repairs may be deferred. Non-critical repairs are those that will not:
 - (1) Endanger the safety and well-being of tenants, visitors and passersby;
 - (2) Adversely affect ingress or egress; or
 - (3) Prevent the project from reaching sustaining occupancy.
 - b. The repair deferral provision may be used only with the approval of the Hub or HUD Program Center Office.
 - c. Operating deficit determinations must consider occupancy disruptions to any units due to deferral of repairs.
 - d. After initial/final endorsement, work on deferred repairs must begin immediately.
2. Escrow Agreement (Form HUD-92476-1).
 - a. The costs of the deferred repairs (including materials, labor, permits, profits, etc., trended to the start of repairs) must be estimated and withheld *in cash* from mortgage proceeds and placed in escrow. A letter of credit may *not* be substituted for this 100 percent escrow.
 - b. An additional cash amount (or letter of credit, at the option of the Lender) of not less than 50 percent of the repair cost estimate will also be placed in escrow.
 - c. The Lender may release funds from the mortgage proceeds portion of the escrow in proportion of the cost of work completed, less a 10 percent holdback. The holdback amount must be held until all work is completed and found acceptable.
 - d. Funds remaining in the escrow account, including the holdback portion, may be released when:
 - (1) All repairs have been satisfactorily completed;
 - (2) Evidence of clear title has been provided to the HUD Office; and

- (3) Latent defects assurances have been provided by one of the following:
- (a) An escrow in cash, or letter of credit at the option of the Lender, equal to 2 ½ percent (or greater percentage as warranted) of the repair cost maintained for 15 months from completion of repairs to cover situations where the defect is discovered in the twelfth month and additional time is necessary to correct it.
 - (b) A Surety Bond covered by FHA Form 3259 from a surety on the accredited list of the U.S. Treasury for at least 10 percent of the repair cost. (The bond runs for a period of two years from the date of completion of repairs.)
3. Completion of Repairs.
- a. All repairs except those described in Section III.E of Appendix 5M must be completed by the mortgagor within twelve (12) months of endorsement (or such shorter period as HUD and the Lender may specify).
 - b. If the mortgagor has not completed all repairs by the end of the repair period (including any approved extensions), the Lender will complete the repairs using the escrowed funds. The Lender will provide the mortgagor with a breakdown of these repairs and the cost(s) of completion (including administrative expenses). Funds remaining in the escrow account after completion of the repair work will be returned to the mortgagor less reasonable administrative costs incurred in completing the repairs. (See Section 13.15.D.5)
4. Requirements After Completion of Repairs. In cases where actual costs are less than estimated, the maximum insurable loan amount must be recalculated. If the maximum insurable mortgage is cut due to lower actual costs, the mortgagor must prepay the mortgage:
- a. In amounts equal to the scheduled monthly principal payments, to the extent possible; with
 - b. Any remainder going to the Reserve for Replacements Fund.
5. Exemption for Repairs for Tax-Exempt Bond Financed Projects. Project repairs which are required to satisfy tax code requirements but not required for Section 223(f) program compliance are exempt from Provisions 1 through 4 above, but must meet the following:
- a. The costs of the repairs cannot be considered in the determination of the value of the project (for mortgage insurance) or the computation of the maximum insurable mortgage.
 - b. The repairs must not be necessary for the project (or any unit in the project) to command the rent levels used in processing.
 - c. The repairs must not delay or interrupt the occupancy of any unit in the project.
 - d. Repairs must be paid from sources other than mortgage proceeds, secondary financing, or the required repair escrows.
 - e. Funds for these repairs must not be commingled with the Section 223(f) escrow.

- A. Lender will submit deliverables (Paragraph 5.25) to the HUD Office. The HUD architectural analyst will examine the Lender's PCNA Report, the underwriting summary and the mortgagor's exhibits. The HUD analyst will review the quality of the Lender's report and the transaction itself. The HUD analyst will not reprocess the case. However, if the HUD analyst determines that certain underwriting conclusions are not supportable and affect HUD's risk, the analyst may recommend that the Lender modify the application or recommend a rejection. The Team Leader will approve, reject or modify the recommendation of the HUD architectural analyst.
- B. The HUD architectural analyst:
1. Will examine:
 - a. The Project Capital Needs Assessment and Replacement Reserve Escrow (PCNA) Report;
 - b. Lender's review of PCNA Report;
 - c. A/E portion of completed Form HUD-92264;
 - d. Mortgagor's Exhibits.
 2. Will recommend either acceptance or rejection of the A/E portion of the submission. HUD A/E recommendations will be based on a comparison of selected areas of concern in the PCNA Report with the Mortgagor's Exhibits. At a minimum, consider Critical Repairs covering health and safety (and accessibility for persons with disabilities for projects built after March 13, 1991).
- C. HUD architectural analyst will issue a written report (Appendix 5L) containing recommendations and forward a copy to the HUD Team Leader.

SECTION 232

5.28

General Lender Procedures – Section 232

For new construction and substantial rehabilitation, follow instructions for Section 221(d) and 220, with additions and modifications as indicated below.

5.29

References for Section 232

- A. Qualifications of the Lender's architectural analyst are as indicated in Paragraph 5.1.
- B. Responsibilities of the Lender's architectural analyst are as indicated in Paragraphs 5.1 and 5.4.
- C. Deliverables of the Lender's architectural analyst are as indicated in Paragraph 5.6.
- D. Additional architectural standards for projects to be built under Section 232 can be found in Appendix 5E through 5-H.

5.30**Narrative Program for Section 232 Projects**

The mortgagor must submit a narrative program as part of its application. The Lender uses the program as a reference for reviewing building designs, work write-ups and joint inspections for substantial rehabilitation, acquisition, and refinance projects. The work write-up must include any waiver or deficiencies cited by the State Health Department or local Fire Marshall, or local building code non-compliance. The narrative program must provide the following:

- A. Describe the following for all projects:
 - 1. Type of project
 - 2. Profile of residents
 - 3. Beds/Units:
 - a. Number and type of accommodation
 - b. Furnishings
 - c. Design
 - 4. Services
 - a. Maintenance
 - b. Laundry (dirty/clean/washing/drying)
 - c. Housekeeping (employees/lounge/offices/equipment)
 - d. Nurses Station or Work Station
 - e. Examining/treatment/therapy rooms and equipment
 - f. Other proposed spaces
 - 5. Community and resident spaces
 - a. Dining/kitchen/storage
 - b. Lounges
 - c. Activity spaces and other proposed spaces
 - 6. Commercial
 - 7. Offsite and shared facilities, e.g., central kitchens
 - 8. Administration work area
 - 9. Therapy
 - a. Physical therapy

- b. Occupational therapy
 - c. Speech therapy
- B. Describe the following for all Nursing Homes, ICF's, Board and Care Homes, and/or Assisted Living Facilities:
- 1. Each function or service;
 - 2. Operational space required for each function;
 - 3. Staffing patterns;
 - 4. Number of staff or occupants for each space;
 - 5. Administrative /operational systems;
 - 6. Interrelationships of various functions and spaces; and
 - 7. Major design features.
- C. Board and Care Homes and/or Assisted Living Facilities
- 1. Describe the number and type of each type of residential accommodation (including square footage).
 - 2. Common/community space (including square footage).
- D. Non-resident Day Care Centers. If proposed, additionally describe:
- 1. Type of program(s) to be offered, e.g. geriatric, child care;
 - 2. Number of participants;
 - 3. Hours of operation;
 - 4. Services provided.

5.31**Nonrealty Equipment – Section 232**

Appendix 5K lists typical major and minor movable equipment and classifications for a 120-bed nursing home, and may be used as a general guide.

- A. Major Movable Equipment may not be included in the general construction contract. It must be purchased, outside the construction contract, by separate purchase order(s) or contract(s).
- 1. The mortgagor must provide descriptions for the list of major movable equipment. The list and descriptions are used to monitor work completion.
 - 2. List of Major Movable Equipment.

- a. Identify the list(s) of Major Movable Equipment in Section P of Form HUD-92264-HCF.
 - b. All major movable equipment, regardless of how provided, must be listed to assess its adequacy for the intended project and to provide an inventory in the event of default.
 - c. The list(s) must separately identify major movable equipment and provide the estimated cost for each item.
- B. Minor Movable Equipment and Supplies.
1. Expendable nonrealty items, e.g. china, flatware, utensils and instruments, linens, etc., may not be included in the mortgage amount. Accordingly, they may not be included in the general construction contract nor in major movable equipment.
 2. Estimate of Minor Movable Equipment and Supplies. The estimate is used to establish an escrow for the mortgagor's purchase of these items from outside mortgage proceeds. For minimum amount see Section 8.8.B.1. An itemized list is not required for Minor Movable Equipment.
 - a. Check for adequacy for the intended project;
 - b. Identify the list of Minor Movable Equipment and Supplies in Section P of Form HUD-92264-HCF.

5.32**Realty Items – Section 232**

All realty items, consisting of all built-in or attached construction and equipment, must be included in the general construction contract. The mortgagor may not contract or purchase it directly, nor lease it without HUD's permission. The mortgagor cannot serve as a subcontractor to the general contractor. Realty items and nonrealty major movable equipment will be included in the project mortgage.

5.33**HUD Procedures - Firm Stage – Section 232**

- A. Lender will submit: In addition to submission package required for Sections 221(d) and 220, submit the following:
1. Completed Form HUD-92264-HCF in lieu of Form HUD-92264;
 2. Mortgagor's construction document package including:
 - a. List of Major Movable Equipment;
 - b. Mortgagor's Narrative Program.

- B. HUD architectural analyst will review the Lender and mortgagor packages. In addition to the review procedures indicated for Sections 221(d) and 220, the HUD review will include the list of Major Movable Equipment, and the Mortgagor's Narrative Program.
- C. HUD architectural analyst will issue a written report (Appendix 5L) containing recommendations and forward a copy to the Team Leader.

SECTION 232 PURSUANT TO SECTION 223(f)

5.34

General – Lender

For Section 232 projects pursuant to Section 223(f), follow instructions for Section 232 and existing projects pursuant to Section 223(f), with additions and modifications as indicated below.

5.34.1

Accessibility Considerations for Section 232 Pursuant to Section 223(f)

A. Fair Housing Act:

If a health care facility containing 4 or more units available for first occupancy after March 13, 1991 contains Fair Housing Act violations, the violations must be corrected as a condition of mortgage insurance. See Appendix 5E, paragraph C.

B. UFAS Requirements: See Appendix 5E, paragraph B.

5.35

Municipal Authorizations

The Lender's architectural analyst will review permission to occupy, use permits, identified violations of zoning ordinances, codes, etc. Also review the latest state agency operational reviews in regard to the property's condition and proposed use defined in the application Form HUD-92013-HCF, and Narrative Program. Where necessary for complete information or confirmation of submitted information, phone or visit municipal authorities. All variances must be justified in writing. HUD will make the determination if the variances are acceptable.

5.36

Additional Narrative Program Requirements - Section 232 Projects Pursuant to Section 223(f)

- A. Narrative on marketability of project. The narrative must address any functional obsolescence of the existing facility, especially regarding accessibility, number of residents per room, and private access to bathrooms. Any decision on the part of the owner to retain

features considered functionally obsolete must be justified from a market standpoint not only for the present, but for the entire term of the mortgage.

- B. PCNA and Replacement Reserve Escrow report in accordance with Appendix 5M. See Paragraph 5.26.
- C. For blended rate projects, the existing structure must meet the general intent of the Minimum Property Standards (MPS). The existing portion in its present condition, must meet the general criteria for livability without the necessity of substantial rehabilitation. The objective is to assure an acceptable risk through only repair requirements.

To ensure an acceptable risk, the lender must provide a Project Capital Needs Assessment (PCNA) report for the existing portion of the project, prepared by an experienced needs assessor. The report must be provided at the time of submission of the application for mortgage insurance.

(Include these requirements in addition to the Narrative Program detailed in Section 5.30.)

5.37

Major Movable And Minor Movable Equipment

- A. An itemized list of Major Movable Equipment (MME) is supplied by the mortgagor. The list of MME must be divided into existing equipment to be retained and new equipment to be purchased. See Appendix 5K for an example.
- B. List of existing MME equipment to be retained must itemize all equipment, listing (for each item), estimated remaining useful life, and estimated replacement cost.
- C. Lender's architectural analyst examines the MME list for completeness and adequacy and forwards the accepted list to the Lender's cost estimator for inclusion in the Reserve for Replacement.
- D. The mortgagor is not required to submit an itemized list of Minor Movable Equipment.

5.38

HUD Procedures - Firm Stage – 232/223(f)

- A. Lender will submit: In addition to submission package required for Section 232 and existing projects pursuant to Section 223(f), submit:
 - 1. List of Major Movable Equipment itemized according to:
 - a. Existing equipment to be retained (listed by room), and
 - b. Newly purchased equipment (listed by room).

2. Mortgagor's narrative program.
 - B. HUD architectural analyst will review the Lender and mortgagor packages. In addition to the review procedures indicated for Section 232 and existing projects pursuant to Section 223(f), the HUD review will include the list of Major Movable Equipment, itemized according to existing and newly purchased equipment.
 - C. HUD architectural analyst will issue a written report (Appendix 5L) containing recommendations and forward a copy to the HUD Team Leader.

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