



Louisiana Housing
Corporation

Board of Directors

Agenda Item #7

Resolution authorizing the re-activation of Multifamily Risk-Sharing by the Louisiana Housing Corporation throughout the State of Louisiana in accordance with the Risk-Sharing Pilot Loan Initiative; and to provide for other matters in connection therewith.

September 11, 2019

The following resolution was offered by Board Member _____ and seconded by Board Member _____:

RESOLUTION

A resolution authorizing the re-activation of Multifamily Risk-Sharing by the Louisiana Housing Corporation throughout the State of Louisiana in accordance with the Risk-Sharing Pilot Loan Initiative; and providing for other matters in connection therewith.

WHEREAS, pursuant to Section 542(c) of the Housing and Community Development Act of 1992, Congress established the Federal Housing Agency (FHA) - Housing Finance Agency (HFA) Multifamily Risk-Sharing program ("**Risk-Sharing Program**") to increase and speed up FHA's multifamily mortgage production by allowing state housing finance agencies ("**HFA**s") that meet rigorous financial standards to underwrite FHA multifamily loans in return for sharing the risk of losses on those loans; and

WHEREAS, the Louisiana Housing Corporation ("**LHC**") as successor in interest to the Louisiana Housing Finance Agency ("**LHFA**") is a qualified HFA pursuant to that Section 542(c) Risk Sharing Agreement ("**Agreement**") entered into with the Secretary of U.S. Department of Housing and Urban Development ("**HUD**") acting through the Assistant Secretary for Housing-Federal Housing Commissioner ("**Commissioner**") on the 29th day of November, 1996 pursuant to which LHC may arrange for the Commissioner through the Federal Housing Administration ("**FHA**") to provide for full mortgage insurance ("**FHA Insurance**") of loans originated by LHC; and

WHEREAS, pursuant to the Agreement, LHC is authorized to process, underwrite, and service loans under the Risk-Sharing Program in accordance with applicable regulations and administrative procedures and to submit projects to the HUD Area Office with jurisdiction for HUD-retained reviews for FHA Insurance endorsement; and

WHEREAS, LHC now desires to re-activate the Risk Sharing Program pursuant to the "*Overview Louisiana Housing Corporation Risk Sharing Pilot Loan Initiative*" attached hereto as **Exhibit "A"** (the "**Risk-Sharing Pilot Initiative**") which has been reviewed and approved by HUD; and

WHEREAS, in order to implement the Risk-Sharing Initiative in 2019 and to mitigate risks in the initial roll-out of the Risk-Sharing Pilot Initiative, LHC proposes to initially refinance existing affordable multifamily housing developments throughout the State of Louisiana and to finance the acquisition, recapitalization and moderate rehabilitation of existing affordable multifamily housing developments throughout the State of Louisiana; and

WHEREAS, limiting the initial roll-out of the Risk Sharing Pilot Initiative to existing affordable multifamily housing developments nullifies construction, lease-up, and/or sustaining occupancy risks associated with new construction and substantial rehabilitation with relocation;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors (the “**Board**”) of the Louisiana Housing Corporation that:

SECTION 1. The Board hereby authorizes and directs the implementation of the Risk-Sharing Pilot Initiative described in **Exhibit A** hereto pursuant to which LHC will initially refinance affordable multifamily housing developments throughout the State of Louisiana or finance the acquisition, recapitalization and moderate rehabilitation of existing affordable multifamily housing developments throughout the State of Louisiana.

SECTION 2. LHC Staff, Financial Advisor, and Program Counsel (“**Risk-Sharing Team**”) are hereby authorized and directed by the Board (i) to re-activate Multifamily Risk-Sharing by the Louisiana Housing Corporation throughout the State of Louisiana in accordance with the Risk-Sharing Pilot Loan Initiative, (ii) to post the Risk-Sharing Pilot Initiative to LHC’s web-site for public review, (iii) to implement the Risk-Sharing Pilot Initiative described in **Exhibit A** within the parameters specified therein and to conduct such workshops as may be necessary to explain the benefits and protocols for participation by lenders and developers of existing affordable multifamily housing developments, and (iv) to prepare such documents, agreements as may be necessary, to implement the Risk Sharing Pilot Initiative.

SECTION 3. The Board hereby further directs the Risk Sharing Team to submit periodic reports to the Board (at least at a Board meeting in each calendar) quarter to update the Board as to progress made in implementing the Risk Sharing Pilot Initiative and to discuss the continued viability of the Risk Sharing Pilot Initiative.

This resolution having been submitted to a vote, the vote thereon was as follows:

YEAS:

NAYS:

ABSENT:

ABSTAIN:

And the resolution was declared adopted on this, the 11th day of September 2019.

Chairman

Secretary

DRAFT

STATE OF LOUISIANA

PARISH OF EAST BATON ROUGE

I, the undersigned Secretary of the Board of Directors of the Louisiana Housing Corporation (the "**Board**"), do hereby certify that the foregoing two (2) pages constitutes a true and correct copy of a resolution adopted by said Board on September 11, 2019 titled: "A resolution authorizing the re-activation of Multifamily Risk-Sharing by the Louisiana Housing Corporation throughout the State of Louisiana in accordance with the Risk-Sharing Pilot Loan Initiative; and providing for other matters in connection therewith."

IN FAITH WHEREOF, witness my official signature and the impress of the official seal of LHC on this, the 11th day of September, 2019.

Secretary

(SEAL)

OVERVIEW

LOUISIANA HOUSING CORPORATION

RISK SHARING PILOT LOAN INITIATIVE

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OVERVIEW

LHC RISK SHARING PILOT LOAN INITIATIVE

A. How the LHC Risk Sharing Pilot Loan Initiative Works

LHC and its Teaming Partner will underwrite and process loans to finance the acquisition, recapitalization, refinancing and/or rehabilitation of existing affordable multifamily housing developments throughout the State of Louisiana. HUD will provide full mortgage insurance on such affordable multifamily housing projects processed by the LHC under this initiative. LHC will contract to reimburse HUD for 50 percent of any loss from defaults that occur while HUD insurance is in force.

B. Program Requirements under the LHC Risk Sharing Pilot Loan Initiative

1. ***Affordable Housing Requirements.*** All projects insured under the Risk-Sharing Program, including the LHC Risk Sharing Pilot Loan Initiative, must qualify as affordable housing.
 - a. Affordable housing must meet the standards of the Risk Sharing Program, (as is generally consistent with the requirements of the Section 42 Low Income Housing Tax Credit program). Specifically, projects financed with Risk Share loans must be:
 - i. Projects in which 20 percent or more of the units are rent-restricted and initially occupied by families whose income is 50 percent or less of the area median income, with adjustments for household size; or
 - ii. Projects in which 40 percent or more of the units are rent-restricted and initially occupied by families whose income is 60 percent or less of the area median income with adjustments for household size.
 - b. These affordability requirements will be satisfied primarily through an affordability restriction placed on title. Rent-restricted units will be required to bear rents that are consistent with the above requirements and must be occupied by households whose income at the time of occupancy makes them eligible for such units. No ongoing income recertification of a given renter household will be required after initial income eligibility has been established.

2. ***Eligible Projects.***

Risk-sharing loan guarantees in the LHC Risk Sharing Pilot Loan Initiative will be limited as follows:

- (a) existing residential rental developments in which at least seventy five percent (75.0%) of the units are subsidized with project based rental assistance subsidies or
- (b) existing residential rental developments that
 - (i) are sponsored by a development team (including consultants, developer, and manager of the development) which is in good standing with HUD, OCD and LHC,

- (ii) are beyond their initial 15-year Compliance Periods associated with the prior allocation of LIHTCs and/or
 - (iii) are beyond their periods of affordability if the project previously received any assistance with HOME Funds
- a. *Project Size.* Projects must consist of at least twenty (20) rental dwelling units on one site. The site may consist of two or more noncontiguous parcels of land situated so as to comprise a readily marketable real estate entity within an area small enough to allow convenient and efficient management. These units may be detached, semi-detached, row houses, or multifamily structures.
- b. *Loan Size.* Loans will be limited to eighty percent (80%) or less of the development's post-completion appraised value (LTV Limit)
- c. *Substantial Rehabilitation.* Substantial Rehabilitation is any combination of the following work to the existing facilities of a project that aggregates to at least 15 percent of project's value after the rehabilitation and results in material improvement of the project's economic life, livability, marketability, and profitability:
 - i. Replacement, alteration and/or modernization of building spaces, long-lived building or mechanical system components and/or project facilities.
 - ii. Substantial rehabilitation may include but not consist solely of any combination of minor repairs, replacement of short-lived building or mechanical system components, cosmetic work, and/or new project additions.
- d. *Existing Projects.* Financing of existing properties without substantial rehabilitation is permitted if the property to be refinanced has an existing LHC financing component (e.g., LHC HOME loan, TCAP Loan, 1602 Investment or LHC or OCD CDBG loan) and such refinancing will result in the preservation of affordable housing. Refinancing is permissible only when (1) project occupancy is not less than 93 percent, including consideration of rent in arrears, based on the average occupancy in the project over the most recent 12 months, and (2) the mortgage does not exceed an amount supportable by (a) the lower of the unit rents being collected under an existing rental assistance agreement or (b) the unit rents being collected at unassisted projects in the market area that are similar in amenities and location to the project for which LHC Risk Sharing Pilot Loan insured by HUD is being requested.
- e. *Single Room Occupancy (SRO).* SRO projects are eligible for insurance in the Risk Sharing initiative. Units in SRO projects must be subject to 30-day or longer leases, but rent payments may be made on a weekly basis in SRO projects.
- f. *Board and Care/Assisted Living Facilities.* Board and Care/Assisted Living Facilities that provide continuous protective oversight and assistance with the activities of daily living for frail elderly or other persons needing such assistance may be insured. These facilities typically provide room and board as well as oversight and assistance and contain a central kitchen and dining area, although meals may be catered off site.

- g. *Elderly Projects.* Projects specifically designed for the use and occupancy by elderly families are eligible. An elderly family means any household in which the head or spouse is 62 years of age or older, and also any single person who is 62 years of age or older.

3. ***Ineligible Projects.***

- a. *Transient Housing or Hotels:* Rental for transient or hotel purposes. For purposes of this initiative, rental for transient or hotel purposes means:
 - i. Rental for any period less than 30 days, or
 - ii. Any rental, if the occupants of the housing accommodations are provided customary hotel services such as room service for food and beverages, maid service, furnishing and laundering of linens, and valet service.
 - b. *Projects in Military Impact Areas:* If the HUD local Office determines that a project is located in a military impact area, the project shall not be insured under this program.
 - c. *Retirement Service Centers:* Projects designed for the elderly with extensive services and luxury accommodations and that provide for central kitchens and dining rooms with food service or mandatory services are not permitted in the Risk-Sharing Program.
 - d. *Nursing Homes or Intermediate Care Facilities:* Nursing homes and intermediate care facilities licensed and regulated by State or local government and providing nursing and medical care are prohibited.
4. ***Local Land Use Requirements.*** Projects insured under this initiative must meet applicable zoning and other State/local government requirements.
5. ***Prohibition on GNMA Securitization.*** Issuance of Government National Mortgage Association (GNMA) mortgage-backed securities is currently prohibited for projects insured under the Risk Sharing Program.
6. ***Appraisal Standards.*** Certified General Appraisers licensed in the State in which the property is located must complete all appraisal functions. All appraisal functions must also be completed in accordance with the Uniform Standards of Professional Appraisal Practices.
7. ***Labor Standards.*** LHC is responsible for routine labor standards administration and enforcement functions. In performing these functions, LHC uses policies and procedures in HUD Handbook 1344.1 Rev 2 – Federal Labor Standards Compliance in Housing and Community Development Programs. All laborers and mechanics employed by contractors or subcontractors on a Risk-Sharing project shall be paid not less than wages prevailing in the locality in which the work is performed for corresponding class of laborers and mechanics employed in construction of a similar character, as determined by the Secretary of Labor in accordance with the Davis-Bacon Act, as amended, where the project meets the following conditions:
- (a) The project involves new construction or substantial rehabilitation;

- (b) Advances are insured; and
 - (c) The project will contain 12 or more dwelling units
 - (d) Projects that do not meet these conditions must also comply with Davis-Bacon if it is required as a condition for Federal assistance.. Risk Sharing Handbook 45901.1 5-3.B for additional guidance including LHC duties and responsibilities.
8. **Byrd Amendment (Lobbying).** The Byrd Amendment requires disclosure by mortgagors of lobbying activities for programs involving loan guarantees by the Federal government.
9. **Reinsurance.** LHC may obtain reinsurance for the portion of the risk of loss assumed by LHC subject to the following requirements:
- a. Neither HUD's nor LHC's position shall be subordinated to the rights of the reinsurer;
 - b. The reinsurance may not be used to reduce any reserve or fund balance requirements that are required to be maintained under this initiative; and
 - c. Such reinsurance does not incur an obligation to the Federal Government.
10. **Nondiscrimination and Equal Opportunity in Housing and Employment.** The mortgagor must certify to LHC that, so long as the mortgage is insured under the Risk Sharing Program, it will:
- a. Not use tenant selection procedures that discriminate against families with children, except in the case of a project that constitutes housing for older persons as defined in Section 807(b)(2) of the Fair Housing Act ([42 U.S.C. 3607\(b\)\(2\)](#));
 - b. Not discriminate against any family because of the sex of the head of household and;
 - c. Comply with the Fair Housing Act, as implemented by [24 CFR Part 100](#); Titles II and III of the Americans with Disabilities Act of 1990, as implemented by [28 CFR Part 35](#); section 3 of the Housing and Urban Development Act of 1968 ([12 U.S.C. 1701u](#)), as implemented by [24 CFR Part 135](#); the Equal Credit Opportunity Act, as implemented by [12 CFR Part 202](#); Executive Order 11063, as amended, and implemented by [24 CFR Part 107](#); Executive Order 11246, as implemented by [41 CFR Part 60](#); other applicable Federal laws and regulations issued pursuant to these authorities; and applicable State and local fair housing and equal opportunity laws. In addition, a mortgagor that receives Federal financial assistance must also certify to the LHC that, so long as the mortgage is insured under this part, it will comply with Title VI of the Civil Rights Act of 1964, as implemented by [24 CFR Part 1](#); the Age Discrimination Act of 1975, as implemented by [24 CFR Part 146](#); and Section 504 of the Rehabilitation Act of 1973, as implemented by [24 CFR Part 8](#).

Such certification does not preclude HUD, LHC, or a HUD-delegated agent from monitoring or reviewing the project's compliance with nondiscrimination or equal opportunity requirements including, but not limited to, preparing or updating an Affirmative Fair Housing Marketing Plan or maintaining records of housing applicant or resident race, national origin, or disability status.

C. Asset Management

All Projects Participating in the LHC Risk Sharing Pilot Loan Initiative will be subject to asset management by the LHC's Teaming Partner until the Risk Sharing Pilot Loan is completely paid and discharged.

FIRM APPROVAL LETTER PROCESSING

LHC RISK SHARING PILOT LOAN INITIATIVE

A. General

The LHC will submit as part of its request for issuance of a firm approval letter, a request for the HUD-retained reviews and other findings to the Multifamily Hub or Program Center with jurisdiction for the location of the project, to include:

1. LHC's HUD mortgagee number,
2. Sufficient information about the project for the HUD Office to conduct the previous participation, intergovernmental and other HUD-retained reviews.

Successful completion of the HUD retained reviews results in issuance by HUD of a Firm Approval Letter.

B. Processing

1. *Initial Processing*

- a. *LHC's Mortgagee Number.* The FHA mortgagee number is the identifier for the LHC in the Federal Housing Administration Subsidiary Ledger (FHASL) system, and in the Development Application Processing (DAP) System. The Multifamily Hub or Program Center will use the mortgagee identification number on all correspondence.
 - b. *New Application Processing.* The Multifamily Hub or Program Center is responsible for entering basic project data in the DAP system to create a new application and FHA project number when the request for Firm Approval Letter is received. (See Chapter 3, Entering and Tracking FHA and Risk Sharing Applications, of the DAP User Guide for HUD Staff). LHC will provide detailed information related to the project's location, number of units, and other identifying materials necessary.
 - c. *Project Number.* The project number is based on the location and program identifier (Section of Act Code) and contains the following identifying information:
 - i. *Office Prefix.* 3-digit prefix identifies the specific geographic location of the project.
 - ii. *Number Series.* Projects insured under Section 542(b) will have project numbers beginning at the number 98001 and proceeding to 98999.
 - iii. *Program identifier.* Use either YQE for existing projects, or YQR for new substantial rehabilitation as the Section of Act code.
2. *Intergovernmental Review.* LHC will send the form SF-424 to the appropriate State Single Point of Contact (SPOC) if the State has selected the mortgage insurance programs for review under the intergovernmental State Review Procedure (SRP) and the project proposes insured

advances. Substantial rehabilitation projects with insured advances are covered only if there is (1) a change in land use, (2) an increase in project density, or (3) a change from rental housing to cooperative housing. The Catalog of Federal Domestic Programs number for the Risk-Sharing Program is 14.189. Note: Many States do not review insured projects under these procedures. If the State has not elected the mortgage insurance programs for review, the LHC should submit a statement to that effect. If comments are received from the SPOC, the following applies:

- a. When the SRP results in favorable comments or a recommendation for approval:
 - i. The Office may issue the Firm Approval Letter if all other HUD-retained review requirements are met.
 - ii. The Office must apply the “non-accommodation” procedures if, for other reasons, the Office will not issue the Firm Approval Letter (e.g., adverse environmental review).
- b. When the SRP results in negative comments or a recommendation for disapproval:
 - i. If the Office agrees with the SRP, it will tell LHC what changes are necessary before the Firm Approval Letter may be issued, or that no Firm Approval Letter may be issued.
 - ii. If the Office disagrees, paragraph 3 below applies and the Office will advise the LHC that the Firm Approval will be held until the 15-day “Non-accommodation” period ends.
- c. “Non-accommodation” of SRP comments. The Office must notify the State and provide a 15-day period before the Office may approve and issue a Firm Approval Letter, or disapprove a project if:
 - i. The Office does not accept an SRP recommendation, or
 - ii. LHC notifies HUD that it elects not to approve the project.

HUD will notify LHC at the same time, stating when the 15-day period ends and that a Firm Approval Letter may be issued or the project rejected after the 15-day period ends. Note: All notifications between the LHC and the Multifamily Hub or Program Center must be in writing.

3. *Issuance of Firm Approval Letter.*

- a. *Firm Approval Letter.* Upon positive completion of the HUD-retained reviews, the Multifamily Hub or Program Center will issue a Firm Approval Letter.
 - i. *Contents.* The Firm Approval Letter will, among other things, identify the risk levels to be assumed by the LHC as 50 percent, and by HUD as 50 percent.
 - ii. *Endorsement upon Completion of Closing Docket.* The Firm Approval Letter also states that, absent fraud or material misrepresentation by the LHC, provided the LHC

is in good standing at the time of the requested endorsement, and subject to reduction of the mortgage amount, if required, HUD will endorse the project mortgage upon receipt of the complete closing docket;

- iii. *Possible Conditions for Approval.* Finally, the Firm Approval Letter may contain conditions for approval. The LHC and mortgagor must evidence their acceptance of the Firm Approval Letter and any conditions by signing and returning the Firm Approval Letter to the Multifamily Hub or Program Center.
 - iv. *Expiration.* The Firm Approval Letter will expire after 1 year if the project has not reached initial endorsement for insured advances projects, final endorsement for existing projects, or start of substantial rehabilitation for insurance upon completion projects,
4. ***Extension of Firm Approval Letter.*** The Hub or Program Center may extend a Firm Approval Letter upon written request of the LHC with supporting documentation.
- i. *Transmittal of Addendum to Risk Sharing Agreement (RSA).* The Multifamily Hub or Program Center will prepare and transmit with the Firm Approval Letter, an addendum to the RSA reflecting the insurance risk share to be borne by the LHC and HUD, in the amount of 50 percent each.
 - ii. *Required Documentation.* In cases where the subsidy layering review is not delegated to the Housing Credit Agency and HUD review is required, the Firm Approval Letter will require the LHC to submit the required documentation for that review before the LHC approves the loan under its own procedures if that documentation was not submitted with the request for HUD-retained reviews.
 - iii. *Copy to LHC.* The Multifamily Hub or Program Center shall send a copy of the Firm Approval Letter to the LHC.
5. ***Rejection of Project.*** The Multifamily Hub or Program Center must notify the LHC in writing if the project is not approvable due to location in a military impact area or for an adverse environmental condition requiring rejection that cannot be mitigated.

PROGRAM PROCESSING

LHC RISK SHARING PILOT LOAN INITIATIVE

LHC Processing, Underwriting, and Substantial Rehabilitation: The LHC will use its own underwriting standards and loan terms and conditions to underwrite and approve loans without further underwriting by HUD.

1. ***LHC Responsibilities.*** The LHC is responsible for the performance of all functions except the HUD-retained functions previously specified. After acceptance of an application for a loan to be insured under this initiative, the LHC must, among other things:
 - a. Determine that a market for the project exists, taking into consideration any comments from the Hub/PC relative to the potential adverse impact the project will have on proposed or existing Federally insured and assisted projects in the area;
 - b. Establish the maximum insurable mortgage and review plans and specifications for compliance with LHC standards;
 - c. Determine the acceptability of the proposed mortgagor and management agent;
 - d. Ensure the project is in compliance with all applicable nondiscrimination and equal opportunity laws (see program requirement 11 under Section VI of this notice);
 - e. Make any other determinations necessary to ensure acceptability of the proposed project;
 - f. Ensure that any required subsidy layering review is completed by the applicable Housing Agency or HUD prior to loan approval.
2. ***Substantial Rehabilitation Period.*** The LHC is responsible for inspections during substantial rehabilitation, processing and approving advances of mortgage proceeds during substantial rehabilitation, review and approval of cost certification, and closing of the loan.
3. ***Inspections during Substantial Rehabilitation.*** The LHC must inspect projects at such times during substantial rehabilitation as the LHC determines. The inspections must be conducted to ensure compliance with the contract documents.
4. ***Lead-Based Paint.*** Risk-Sharing projects must comply with the lead-based paint requirements in [24 CFR Part 35](#), specifically subparts A, B, G, and R (Lead Disclosure Rule and Lead Safe Housing Rule), as applicable, as well as [40 CFR Part 745](#) Lead: Renovation, Repair, and Painting Program. LHCs are responsible for monitoring and for ensuring that lead-based paint requirements are followed.
5. ***Insurance of Advances.*** Periodic advances are permitted in the Risk-Sharing Program. In periodic advances cases, progress payments approved by the LHC and both an Initial and Final endorsement on the mortgage are required.

- a. Advances may only be used for projects involving substantial rehabilitation.
 - b. In approving advances, the LHC must ensure that the loan is kept in balance, and advances are approved only if warranted by substantial rehabilitation progress evidenced through LHC inspection, as well as in accord with plans, specifications, work write-ups and other contract documents. LHCs must also make certain that other mortgageable items are supported with proper bills and/or receipts before funds can be approved and advanced for insurance.
6. **Insurance upon Completion.** In insurance upon completion cases, only the permanent loan is insured and a single endorsement is required after satisfactory completion of substantial rehabilitation or repairs. Existing projects without the need for substantial rehabilitation are only insured upon completion.
- a. **Substantial Rehabilitation.** The LHC approval of insurance upon completion project must prescribe a designated period during which the mortgagor must start substantial rehabilitation. If substantial rehabilitation is started as required, the approval will be valid for the period estimated by the LHC for substantial rehabilitation and loan closing, including any extension approved by the LHC.
 - b. **Existing Projects without Substantial Rehabilitation.** Existing projects with or without repairs are insured upon initial closing. LHCs may permit noncritical repairs to be completed after endorsement upon establishment of escrows acceptable to the LHC. Noncritical repairs are those repairs that do not:
 - i. endanger the safety and well-being of tenants, visitors and passersby.
 - ii. adversely affect ingress and egress, or
 - iii. prevent the project from reaching sustaining occupancy.
7. **Cost Certification.** To ensure that the final amount of insurance is supported by certified costs. The mortgagor and general contractor, if there is an identity of interest with the mortgagor must execute a certificate of actual costs, in a form acceptable to the LHC, when all physical improvements are completed to the satisfaction of the LHC.
- a. **Auditing.** The cost certification provided by the mortgagor must be audited by an independent public accountant in accordance with requirements established by HUD.
 - b. **HUD review.** HUD will not review cost certifications prior to Final Endorsement. Cost certification documents will be looked at as part of HUD's periodic, programmatic monitoring of the LHC's Risk Sharing activities.
8. **Other Requirements:** The mortgagor must furnish:
- a. Assurance of completion in accordance with any requirements of the LHC as to form and amount, and
 - b. Latent defects escrow or other form of assurance as required by the LHC to ensure that latent defects can be remedied within the time period required by the LHC.

9. **Recordkeeping.** The mortgagor and the substantial rehabilitation contractor, if there is an identity of interest with the mortgagor, must keep and maintain records of all costs of any substantial rehabilitation or other cost items not representing work under the general contract and to make available such records for review by the LHC or HUD, if requested.
10. **Project Information.** LHC is responsible for providing information about Risk Sharing projects to HUD for statistical, programmatic, and monitoring purposes. The project information is submitted with the closing docket at initial closing for insurance of advances cases, and/or final closing for insurance upon completion cases. When a substantial rehabilitation project will be insured upon completion (i.e. no initial endorsement), project information must be submitted to the Multifamily Hub or Program Center when substantial rehabilitation begins. The cover letter should specify the substantial rehabilitation start date.

CLOSING AND LOAN ENDORSEMENT

LHC RISK SHARING PILOT LOAN INITIATIVE

LHC Closing and HUD Endorsement of Loan. Before disbursement of loan advances in periodic advances cases, and in all cases after completion of repairs or substantial rehabilitation (or completion of processing for existing projects requiring no repairs), the LHC must hold a closing and submit a closing docket with required documentation to the Multifamily Hub or Program Center (Hub/PC) with jurisdiction for the project's location. The submission will include, among other things, the mortgage note which the Hub/PC Director will endorse for insurance. Prior to closing, the LHC must ensure that the following property and mortgage requirements have been met:

1. ***Property Requirements—Real Estate.*** The mortgage must be on real estate held:
 - a. In fee simple;
 - b. Under a renewable lease of not less than 99 years; or
 - c. Under a lease executed by a governmental agency, or other lessor approved by the LHC, that has a term at least 10 years beyond the end of the mortgage term.
2. ***Title.***
 - a. *Eligibility of Title.* Marketable title to the mortgaged property must be vested in the mortgagor on the date the mortgage is filed for record.
 - b. *Title Evidence.* The LHC must receive a title insurance policy (or other acceptable title evidence in the jurisdiction if title policies are not typical) that ensures that marketable title is vested in the mortgagor, that a survey acceptable to the LHC has been performed, and that no existing impediments to title concern, or exist on, the property.
3. ***Mortgage Provisions.***
 - a. *Form.* The mortgage and note must be executed on a form approved by the LHC for use in the jurisdiction in which the property is located. The note must provide that the mortgage is insured under Section 542(c) of the Housing and Community Development Act of 1992. The note must also specify the risk of loss assumed by the LHC and by HUD, at 50 percent and 50 percent each.
 - b. *Mortgagor.* The mortgage must be executed by a mortgagor determined eligible by the LHC.
 - c. *First Lien.* The mortgage must be a single first lien on property that has first priority for payment and that conforms to property standards prescribed by the LHC.
 - d. *Single Asset Mortgagor.* The mortgage must require that the mortgagor is a single asset, sole purpose mortgagor.

- e. *Amortization.* The mortgage must provide for complete amortization (i.e., regularly amortizing) over the term of the mortgage. Commencement of amortization must be the month following HUD's endorsement of the loan. Amortization may not commence prior to HUD loan endorsement.
- f. *Use Restrictions.* The mortgage must contain a covenant prohibiting the use of the property for any purpose other than the purpose intended on the day the mortgage was executed.
- g. *Hazard Insurance.* The mortgage must contain:
 - i. A covenant acceptable to the LHC that binds the mortgagor to keep the property insured by one or more standard policies for fire or other hazards which are stipulated by the LHC;
 - ii. A standard mortgagee clause making loss payable to the LHC must be included in the mortgage;
 - iii. The LHC is responsible for ensuring that insurance is maintained in force and in the amount required by this paragraph and by the mortgage;
- h. The LHC must ensure that the insurance coverage is in an amount which will comply with the coinsurance clause applicable to the location and character of the property, but not less than 80 percent of the actual cash value of the insurable improvements and equipment. If the mortgagor does not obtain the required insurance, the LHC must do so and assess the mortgagor for such costs; and
- i. These insurance requirements apply as long as the LHC retains an interest in the project and final claim settlement has not been completed or the contract of insurance has not been otherwise terminated.
- j. If the property is located in a Special Flood Hazard Area identified by the Federal Emergency Management Agency and in which the sale of flood insurance has been made available under the National Flood Insurance Act of 1968 (NFIA), LHC must ensure that the property is covered by flood insurance during the term of the mortgage in an amount equal to or greater than the least of the following: (1) the development or project cost less estimated land cost; (2) the maximum limit of coverage made available for the type of property under the NFIA; or (3) the outstanding principal balance of the mortgage.
- k. *Modification of Terms.* The mortgage must contain a covenant requiring that, in the event the LHC and owner agree to a modification of the terms of the mortgage (e.g., to reflect a reduction of the interest rate if reductions are realized in the underlying bond rates for the project), any subsidized rents would be reduced in accordance with HUD guidelines in effect at the time.
- l. *Regulatory Agreement.* The mortgage must contain a provision incorporating the Regulatory Agreement by reference.

4. *Mortgage Lien and Other Obligations.*

- a. *Liens*: At the initial and final closing of the loan, the mortgagor and the LHC must certify, and the LHC must determine, that the property covered by the mortgage is free from all liens other than the insured mortgage, except that the property may be subject to an inferior lien(s) as approved by the LHC, as long as the insured mortgage has first priority for payment.
 - b. *Contractual Obligations*: At the final closing of the loan, the mortgagor and the LHC must certify, and the LHC must determine, that all contractual obligations in connection with the mortgage transaction, including the purchase of the property and the improvements to the property, are paid. An exception is made for obligations that are approved by the LHC and determined by the LHC to be of a lesser priority for payment than the obligation of the insured mortgage.
5. *Execution of Regulatory Agreement*. The LHC and the mortgagor must execute and record a Regulatory Agreement in a form acceptable to HUD, a standard form of which will be developed. The Regulatory Agreement must include an addendum requiring the mortgagor to comply with the requirements of the Risk-Sharing Program for as long as the Commissioner insures the mortgage.
6. *Submission of Closing Docket*. The LHC must submit the closing docket, representations and certifications, to the Hub/PC, transmitted by letter signed by an authorized official identified in the Risk-Sharing Agreement. An original and one electronic copy must be submitted. The closing docket, each page numbered in the upper right corner with the HUD project number, must contain specific project information, and accompanied by a check for the first year's Mortgage Insurance Premium.
 - a. *Project Information*. Project information concerning the mortgage amount, location, number and type of units, income and expenses, rents, rents as a percentage of area median income, project occupancy percentage, value/replacement cost, interest rate, type of financing, tax credit use (if applicable), and similar statistical information will be provided.
 - b. *Initial Closing for Insured Advances*. If an initial closing docket is required, it should be submitted by the LHC and must include the information and certifications requested in this notice. The Hub/PC will review the initial closing docket in a manner similar to its review of the final closing docket.
 - c. *Final Closing*: After substantial rehabilitation completion of the project or completion of critical repairs (noncritical repairs may be made after final endorsement with establishment of appropriate escrows acceptable to the LHC) and execution of a certificate of actual cost (for both insurance of advances and insurance upon completion), the LHC will submit a closing docket to the Multifamily Hub or Program Center for final endorsement. The final closing docket must include the information and certifications required by this notice along with the LHC's updated project information if submitted for initial endorsement.
7. *Local HUD Office Review of Closing Dockets*. The Hub/PC has primary responsibility for review of closing dockets and ensuring that projects are endorsed for insurance. The Hub/PC has 5 working days to complete this process except for the sample of projects that the Office

chooses for pre-endorsement monitoring, which has a 10-day deadline. However, every effort should be made to endorse projects as quickly as possible.

8. **Certifications.** Multifamily Housing staff will review all closing dockets for completeness, including the LHC's certifications that:
 - a. Written approval was obtained for all HUD-retained reviews; and
 - b. All nondiscrimination, equal opportunity, and equal employment opportunity requirements were followed;
 - c. The LHC reviewed and approved the mortgagor's Affirmative Fair Housing Marketing plan;
 - d. Processing, underwriting (including a determination that a market exists for the project), cost certification (at final closing only) and closing were all performed according to the LHC's standards and requirements;
 - e. For insurance of advances cases, advances were made proportionate to substantial rehabilitation progress;
 - f. The property is free of all liens other than the first mortgage except for inferior liens approved by the LHC; and
 - g. All contractual obligations are paid.
9. **Other Information.** The Hub/PC will review each closing docket for among other things, the presence of the LHC's project information, amortization schedule; a copy of the Risk-Sharing Agreement with any prior amendments or addendums; certified copies of the mortgage, mortgage note (with the risk of loss to be assumed by the LHC and HUD specified on the face sheet); a copy of the LHC-approved cost certification; a copy of the Regulatory Agreement between the LHC and the mortgagor; and a hazard insurance policy (and flood insurance policy where required) with a clause making the loss payable to the LHC; (for final endorsement of insured advances), a copy of the LHC-approved schedule of insured advances equal to the Risk Sharing mortgage documenting the date and amount of each of disbursement during the substantial rehabilitation period. The Hub/PC will also determine that certifications and other documents committing the LHC were signed by LHC officials identified in the Risk-Sharing Agreement.
10. **Local HUD Office Monitoring Functions.** The Hub/PC will perform pre-endorsement monitoring by reviewing a limited sample of the first three insured advances cases and cost certifications. The Office has a total of 10 working days to review the submission and endorse the mortgage for insurance for these sample cases. In the case of these initial submissions HUD has the authority to make an appropriate adjustment to the amount of mortgage insurance up to and including final endorsement. However, it is anticipated that adjustments would be made only in very rare cases (as they are rare for HUD-processed projects). The review is to ensure that the LHC has used its own procedures for insured advances and cost certification. Except where Headquarters has required a particular LHC to use HUD's procedures for advances and/or cost certification, LHCs do not have to comply with HUD's handbooks and instructions.

- a. *Insurance of Advances.* Check to see whether advances were consistent with substantial rehabilitation progress, whether the loan remained in balance by comparing actual disbursements against a project completion schedule, and whether disbursements were supported by bills and/or receipts.
 - b. *Cost Certification.* Review the LHC's cost certification to ensure that the amount to be insured is supported by costs actually incurred and approved by the LHC.
11. **HUD Endorsement.** After review of the closing docket and other materials, the Multifamily Hub or Program Center must do the following:
- a. *Endorsement:* Unless the loan is one of the first three initial cases submitted for HUD review before endorsement, the Hub/PC Director will endorse the credit instrument within 5 workdays after accepting the closing docket. The original endorsed credit instrument must be returned by certified mail, return receipt requested.
 - b. *Mortgage Insurance Premium (MIP):* The Hub/PC must issue an Official Receipt for the initial year's MIP from the LHC (mortgagee). The MIP for the Risk-Sharing Program is different than HUD's other mortgage insurance programs.
 - c. *"Closing Memorandum."* The Hub/PC staff is responsible for preparing the HUD-290 in DAP based on project data consistent with the closing docket. The Hub/PC Director, Operations Officer, or a person officially delegated to act for the Director signs the HUD-290.
 - i. Include original with the original closing docket to be transmitted to Headquarters.
 - ii. Include a copy with the conformed closing docket to be transmitted to the Hub/PC for the monitoring phase.
 - d. *Contents of HUD-290 Closing Submissions:* Within 5 workdays of endorsement, the Hub/PC must submit copies of the following documents to the HUD Headquarters Office of Multifamily Insurance Operations:
 - i. "Closing Memorandum" form HUD-290 signed by Director or designee;
 - ii. "Official Receipt" form HUD-27038 for the first mortgage insurance premium;
 - iii. Schedule of Collections form HUD-3416 documenting the deposit of the first mortgage insurance premium;
 - iv. Mortgage note including endorsement panel signed by officials of the LHC and HUD;
 - v. Amortization schedule consistent with the terms described on the mortgage note;
 - vi. Copy of the Risk Sharing Agreement with any prior amendments, and Addendum to the Risk Sharing Agreement for the subject project; and

- vii. For final endorsement of insured advances only, a copy of the LHC-approved schedule of insured advances.

- 12. ***Transmittal of Washington Closing Docket.*** The Risk Sharing original closing docket is processed in the same manner as the Washington Docket is for projects insured under the National Housing Act except that the contents of the docket, including amortization schedule, must comply with the requirements of the Risk Sharing Program. The closing docket must be delivered within 30 workdays of endorsement to Headquarters, Office of Housing, Chief, Records Management Branch (HOAMP), B-264, including:
 - a. The cover memorandum and original HUD-290; and
 - b. The closing docket prepared by LHC, with each page numbered.

- 13. ***Recordation.*** At the time of Initial Endorsement, in the case of insurance of advances, or at the time of Final Endorsement in the case of insurance upon completion, the LHC shall make certain that the mortgage, the Regulatory Agreement, and the Uniform Commercial Code financing statements are properly recorded, and filed in all required locations.

PROGRAM MONITORING

LHC RISK SHARING PILOT LOAN INITIATIVE

Periodic program monitoring will be performed at two levels: (1) The Multifamily Hub or Program Center (Hub/PC) with jurisdiction for the LHC, and (2) HUD Headquarters. HUD will conduct compliance monitoring in accordance with the LHC's own approved procedures for origination, underwriting, processing, servicing, management and disposition procedures, as well as compliance with HUD regulations and guidelines. Annual certifications will be required to verify that the necessary staffing, procedures, and measures of financial capacity addressed in the LHC's application for participation in the initiative remain in effect. Other HUD offices may monitor LHCs and projects in accordance with their delegated authority including compliance with nondiscrimination, equal opportunity, labor, and environmental protection requirements. Monitoring will be performed on a remote and on-site basis primarily consisting of post-endorsement compliance reviews. The HUB/PC with jurisdiction for the LHC will have primary responsibility to conduct periodic on-site monitoring to determine overall compliance with program requirements.

HUD Headquarters' primary responsibility will be overall program evaluation and the review of documentation pertaining to continued compliance of the LHC with program eligibility requirements, including monitoring of the dedicated account, where applicable, and other financial requirements. As appropriate, HUD Headquarters, including the Lender Qualification and Monitoring Division, the Multifamily Office of Asset Management, and the Multifamily Claims Branch may also be involved in conducting reviews of specific LHCs to determine compliance with applicable requirements.

PROJECT MANAGEMENT AND SERVICING

LHC RISK SHARING PILOT LOAN INITIATIVE

The LHC is responsible for providing loan servicing and project management in conformance with the Risk-Sharing Agreement and the terms of the required Regulatory Agreement. Through its Teaming Partner and using the AMEC Model, the LHC will perform Asset Management until maturity of LHC Risk Sharing Pilot Loan.

1. **LHC Responsibilities.** As it relates to project management and loan servicing, the responsibility of the LHC shall include, but not be limited to:
 - a. *Execution and Enforcement of Regulatory Agreement.* Execution and enforcement of a Regulatory Agreement between the mortgagor and the LHC that is recorded upon the closing of the Risk Sharing Pilot Loan and which:
 - i. Includes a description of the property;
 - ii. Is binding upon the mortgagor and any of its successors and assigns and upon the LHC and any of its successors for the duration of the insured mortgage. The LHC may not assign the Regulatory Agreement;
 - iii. Requires the project owner to make all payments due under the mortgage and, where necessary, establish escrows and reserves for future capital needs;
 - iv. Requires the project owner to maintain the project as affordable housing;
 - v. Requires the project owner to maintain the project in good physical and financial condition;
 - vi. Requires the project owner to maintain complete project books and financial records, and provide the LHC with annual audited financial statements after the end of each fiscal year;
 - vii. Requires the project owner to comply with the Fair Housing Act, Titles II and III of the Americans with Disabilities Act of 1990; section 3 of the Housing and Urban Development Act of 1968, the Equal Credit Opportunity Act, Executive Orders 11063 as amended by Executive Order 12259; Executive Order 12246, other applicable federal laws and regulations issued pursuant to these authorities, and applicable state and local fair housing and equal opportunity laws; and, if the mortgagor receives federal financial assistance, requires the project owner to comply with Title VI of the Civil Rights Act of 1964, the Age Discrimination Act of 1975, and Section 504 of the Rehabilitation Act of 1973, and HUD's regulations issued pursuant to these laws;
 - viii. Requires the project owner to operate as a single asset mortgagor entity; and
 - ix. Requires the project owner to make project books and financial records available for HUD's Inspector General and FHA Commissioner and his/her duly authorized agents, and/or Government Accountability Office (GAO) for review with appropriate notification.

- b. *Physical Inspections.* Performing annual physical inspections of the project and providing a copy of the inspection reports upon request to the local Hub/Program Center. If the project receives a less than satisfactory rating and/or if the project is not in safe and sanitary condition, the LHC must provide a summary to HUD of actions required, with target dates to correct unresolved findings.
 - c. Analyzing project annual audited financial statements and providing HUD with a summary of any unresolved or negative findings, including a summary of corrective actions planned, with target dates. Providing HUD with an annual audited financial statement of the LHC in accordance with the requirements of 24 CFR § 85.26 Non-Federal audit and OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations".
2. **Record Retention:** Records pertaining to the mortgage loan origination and servicing of the loan must be maintained for as long as the mortgage insurance remains in force. Records pertaining to a mortgage default and claim must be retained from the date of default through final settlement of the claim and for a period of no less than 3 years after final settlement.

MORTGAGE INSURANCE PREMIUMS AND FINANCIAL SYSTEMS

LHC RISK SHARING PILOT LOAN INITIATIVE

LHC is responsible for processing Risk Sharing project applications and approving them for HUD mortgage insurance. The Hub/PCs record project information in the Development Application Processing (DAP) system and provide HUD Headquarters with data needed to establish the insured case in the FHA Subsidiary Ledger (FHASL) System. The Multifamily Insurance Operations Branch (MFIOB) is responsible for tracking the portfolio of HUD insured projects and managing the collection of Mortgage Insurance Premiums (MIP). The MFIOB will bill LHCs for all premiums and applicable late fees and interest charges due subsequent to the MIP payment made at Initial Endorsement.

1. *Establishing the Insurance in Force Record.*

a. *Projects with Insured Advances*

- i. *General*—Projects endorsed with insured advances provide for HUD mortgage insurance coverage of funds disbursed during the substantial rehabilitation period.
- ii. *Initial Endorsement*—The Initial Endorsement of the mortgage note is performed by the Hub/PC and normally occurs prior to the start of substantial rehabilitation. Projects become part of the HUD- insured portfolio at this time.

(1) *LHC Responsibilities Prior to Initial Endorsement Include:*

- (a) *Collecting the Initial MIP*—Prior to submitting projects to the Hub/PC for Initial Endorsement, the LHC will collect an MIP payment equal to the prescribed percentage of the insured amount as required by the Percentage Share of Risk. The LHC will instruct the mortgagor to make the MIP check payable to the U.S. Department of Housing and Urban Development;
- (b) *Preparing the Closing Docket*—The LHC will prepare a closing docket in accordance with instructions contained in this notice. The closing docket will include the mortgage note, amortization schedule, and risk-sharing agreement; and
- (c) *Submitting the Endorsement Request to the Hub/PC*—The LHC will mail the MIP along with the Closing Docket to the Hub/PC for endorsement of the mortgage note. These must be mailed within 15 days of closing.

(2) *Multifamily Hub/Program Center Initial Endorsement Responsibilities Include:*

- (a) *Preparing the Official Receipt*—The Hub/PC will deposit the MIP on the day received and prepare and distribute the Official Receipt, form HUD-27038 documenting the MIP payment and form HUD-3416 “Schedule of Multifamily Project Collections” documenting the deposit of the MIP payment;
- (b) *Updating the DAP System*—The Hub/PC will update the project data in the DAP system within 2 days of Initial Endorsement and prepare the form HUD-290 “Multifamily Closing Memorandum” to create the FHASL insurance in force file;

- (c) Reporting to the Multifamily Insurance Operations Branch (MFIQB)—Within 5 days of receipt of the Closing Docket from the LHC, the Hub/PC must forward documents required to establish the insurance record to the MFIQB. One copy each of the form HUD-290 “Multifamily Closing Memorandum”, amortization schedule, mortgage note, copy of the Risk-Sharing Agreement, form HUD-27038 “Official Receipt” and form HUD-3416 “Schedule of Multifamily Project Collections”; and
 - (d) Copies of these documents will also be incorporated in the official Docket that the Hub/PC must submit to Headquarters. The Hub/PC will submit the Official Receipt for the initial premium payment to the Office of Finance and Accounting (OFA).
- (3) *MFIQB Action.* The MFIQB will process information received from the Hub/PC to establish the project in the FHASL System. The creation of a newly insured project in FHASL also requires certain information from the official receipt issued by the Hub/PC for receipt of the initial insurance premium. The FHASL record will be used to generate the annual MIP billings.
- iii. *Final Endorsement*—Projects with insured advances will be finally endorsed by the Hub/PC after completion of substantial rehabilitation. The terms of the mortgage note may be modified at this time as a result of substantial rehabilitation and cost certification.
- (1) *LHC Responsibilities Prior to Final Endorsement:*
- (a) Preparing the Closing Docket—The LHC will prepare closing docket and submit project information in accordance with instructions contained in this notice. The docket will include the mortgage note, amortization schedule, Risk-Sharing Agreement and any modifications to the original note, copy of the LHC-approved schedule of insured advances equal to the risk-sharing mortgage; and
 - (b) Submitting the Endorsement Request to the Local HUD Office—The LHC will mail the Closing Docket to the Hub/PC for Final Endorsement of the note.
- (2) *Multifamily Hub/Program Center Final Endorsement Responsibilities:*
- (a) Preparing the Closing Memorandum—The Hub/PC will update the DAP System and prepare the form HUD-290 within 2 days of endorsement. The form HUD-290 will reflect any changes to the mortgage terms that existed at the time of the Initial Endorsement; and
 - (b) Reporting to MFIQB—Within 5 days of receipt of the Closing Docket from the LHC, the Hub/PC must forward one copy each of the Final Endorsement HUD-290, Mortgage Note, Amortization Schedule, Schedule of Insured Advances equal to the final mortgage, Risk-Sharing Agreement and Modification Agreement, if applicable

- (3) *MFIOB Actions.* The MFIOB will process closing docket information received from the Hub/PC to process the final endorsement in FHASL.

b. *Projects Insured Upon Completion*

- i. *General*—Projects endorsed with insurance upon completion are processed for insurance after completion of substantial rehabilitation, or purchase, or refinance with or without repairs for existing projects. Initial and Final endorsement of these cases occurs simultaneously.
- ii. *Initial/Final Endorsement*—Insured upon completion projects become HUD-insured at the initial/final endorsement.

iii. *LHC Responsibilities Prior to Initial/Final Endorsement:*

- (1) *Collecting the Initial MIP*—Prior to submitting projects to the Hub/PC for Initial/Final endorsement, the LHC will collect an MIP payment equal to the “Prescribed Percentage for Calculating LHC’s Annual MIP” times the loan amount. The LHC will instruct the mortgagor to make the MIP check payable to the U.S. Department of Housing and Urban Development;
- (2) *Preparing the Closing Docket*—The LHC will prepare a Closing Docket in accordance with instructions contained in this notice. The docket will include the mortgage note, amortization schedule and Risk-Sharing Agreement; and
- (3) *Submitting the Endorsement Request to the Hub/PC*—Within 15 days of closing, the LHC will submit the MIP along with the Closing Docket to the Hub/PC for endorsement of the mortgage note.

iv. *Multifamily Hub/Program Center Initial/Final Endorsement Responsibilities:*

- (1) *Preparing the Official Receipt*—The Hub/PC will deposit the MIP on the day received and prepare and distribute the Official Receipt and Schedule of Collections documenting the MIP payment in accordance with Handbook 4110.1, REV-1;
- (2) *Preparing the Closing Memorandum*—The Hub/PC will update project data in the DAP System within 2 days of the Initial or Final Endorsement and prepare the form HUD-290;
- (3) *Reporting to MFIOB*—Within 5 days of receipt of the Closing Docket from the LHC, the Hub/PC must forward documents required to establish the insurance record to the MFIOB;
- (4) *Copies of Documents*—Submitting one copy each of the form HUD-290, mortgage note, amortization schedule, the Risk-Sharing Agreement, Official Receipt, and Schedule of Collections to MFIOB; and
- (5) *Official Docket*—Copies of these documents will also be incorporated in the official Docket that the Hub/PC must submit to Headquarters. The Hub/PC will submit the

Official Receipt for the initial premium payment to the Office of Finance and Accounting (OFA) in accordance with instructions contained in Handbook 4110.1 Rev.

- v. *Processing Closing Docket Information.* The MFIOB will process the closing docket information received from the Multifamily Hub/Program Center to establish the project in the FHASL System.
2. ***Annual Premium Billing and Record Change:*** Official records on HUD-insured multifamily projects are maintained by the MFIOB in the FHASL System at HUD Headquarters. This organization also is responsible for billing and collecting annual mortgage insurance premiums. MIP is billed and collected in advance and under certain circumstances, in connection with termination of FHA mortgage insurance or prepayments, refunds of unearned premiums will be made to the LHC for the mortgagor's account. All modifications to the mortgage that take place after final endorsement, as well as mortgage servicer changes, will be recorded in the FHASL system.
- a. *Annual Premiums:* LHCs will be billed for all annual premiums due after the initial premium. All premium payments will be made through pay.gov in accordance with Mortgagee Letter 2012-16.
 - i. *Interim Premiums Pre-Amortization*—Premiums calculated on the total insured amount will be due on the first day of the month of each anniversary of the initial endorsement that occurs prior to the date of first payment to principal. These interim premiums are only relevant for projects with insured advances where the first payment to principal date is more than 12 months after initial endorsement. The due date for interim premiums will be the first day of the month in which the anniversary of the initial endorsement occurs.
 - ii. *Annual Premiums Post-Amortization*—The annual MIP payments, beginning with the first payment to principal, will be calculated in accordance with the amortization schedule prepared by the LHC and supplied to HUD and the MIP Percentage taken from the Closing Memorandum prepared by the Hub/PC. The first regular annual premium will be due on the first day of the month in which the first payment to principal occurs. This first billing (as well as subsequent annual premiums) will be calculated by multiplying the “Prescribed Percentage for Calculating LHC's Annual MIP” by the average outstanding principal balance during the upcoming 12 months following first payment. This payment will reflect an adjustment to deduct any portion of the last interim premium paid that covers a period after first payment.

Example:

Mortgage Amount = \$2,000,000

MIP Percentage = .45

% Commitment Type = Insured Advances

Initial Endorsement—1/2/2012

Initial premium for period 1/1/2012-12/31/2012 ($\$2,000,000 \times 0.45\%$) = \$9,000

Date of First Payment to Principal 7/1/2012

Post amortization MIP due 7/1/2012 covering period 7/1/2012-6/30/2013

MIP due equals average outstanding balance from amortization schedule ($\$1,950,000$) \times 0.45% = \$8,775

Less amount of initial MIP for 7/1/2012-12/31/2012 = -\$4,500

Total Due 7/1/2012 = \$4,225

Thereafter, until maturity or termination in this notice, MIP payments will be due on the first day of the month of each anniversary of the first payment to principal. The billings will be mailed to the servicing mortgagee of record approximately 45 days before the due date.

- b. *Billing Statement and Reconciliation.* A sample billing statement is shown as in HUD Handbook 4590.1, Appendix 16. This form is to be returned along with the payment.
3. *Method of Payment:* Annual mortgage insurance premium payments must be made through pay.gov.
 4. *Late Fees and Interest Changes:* All payments must be received no later than 15 days after the due date. Payments received after this will incur additional charges.
 - a. *Late Fees*—All premiums received by HUD more than 15 days after the due date will be assessed a 4 percent late charge.
 - b. *Daily Interest Charges*—Premiums that remain unpaid more than 30 days after the due date will accrue daily interest from the due date until paid at the rate prescribed by the Treasury Fiscal Requirements Manual.

HUD will bill for interest and late fees each month until the charges are paid.

5. *Post Final Endorsement Modifications*

- a. The Applicant will provide the Hub/PC with a copy of the Modification Agreement along with a copy of the revised Amortization Schedule;
- b. Updating the DAP System—The Hub/PC will update the DAP System within 2 days of receipt of notification of the modification agreement;
- c. The Hub/PC will forward copies of the modification agreement and amortization schedule, and revised form HUD-290 to MFIOB;
- d. The MFIOB will update FHASL to reflect the modified mortgage terms. Future premium billings will be calculated on the new terms; and

- e. The Applicant will be responsible for notifying HUD of any change in the project Servicing Mortgagee. Up-to-date mortgagee information is needed in order for HUD to properly direct premium billings and other project related correspondence. Mortgage changes will be accomplished by completing and forwarding form HUD- 92080, "Mortgage Record Change" to: U.S. Department of Housing and Urban Development, Multifamily Insurance Operations Branch, PO Box 44124, Washington, DC 20026-4124.
6. ***Termination of Insurance:*** The Applicant must remit annual Mortgage Insurance Premiums until the mortgage reaches maturity or is terminated through one of the following actions:
- a. The mortgage is paid in full;
 - b. A deed to the HFA is filed for record;
 - c. An application for initial claim payment is received by the Commissioner; or
 - d. The contract of insurance is otherwise terminated.
7. ***Cessation of Obligation to Pay MIP.*** The obligation to pay MIP will cease upon receipt by HUD of either of the following:
- a. A completed "Insurance Termination Request for Multifamily Mortgage" form HUD-9807. Requests for voluntary termination must be accompanied by the original credit instrument. When the termination is approved, the insurance endorsement will be cancelled and the credit instrument returned to the LHC. The instructions on form HUD-9807 are to be followed;
 - b. The obligation to pay MIP will cease in the event a deed is filed for recordation, or an application for initial claim payment is received by the Commissioner; or
 - c. If the Contract of Insurance is terminated by payment in full or is terminated by the LHC on a form prescribed by the Commissioner, after the date of first payment to principal, the Commissioner shall refund any unearned MIP paid for the period after the effective date of the termination of insurance. The unearned portion of MIP will be refunded to the LHC for credit to the mortgagor's account.