Revisions to Chapter 8 of the MAP Guide

Mortgage Credit Underwriting and Processing Requirements

Frequently asked questions, such as the one below have prompted the following revisions to Chapter 8 of the MAP Guide:

1. The MAP Guide at Section 8.9 states the amount of grants/loans attributable to replacement cost items are deducted in the calculation of Form HUD-92264A mortgage Criteria 3, 7 or 10 under Section 223(f). Section 8.10 B 1 a. permits secondary financing by governmental loans to equal 100% of the Fair Market Value. Please clarify whether secondary financing is permitted to cover equity.

What instructions do we follow to process applications that involve governmental grant/loan secondary financing under MAP Section 221(d) and other MAP programs?

A. You are correct that clarification is needed. After further consideration, the following revised policy on secondary financing (loans), grants, tax credits and gifts applies to MAP profit and nonprofit insurance applications that have not been endorsed as of this FAQ posting date.

<u>Government Sources</u>

1. **Secondary financing, grants and tax credits from a Federal, State, or local government agency or instrumentality, may be used to cover up to 100% of the applicable Section of the Act equity requirement.**

2. **Secondary financing, grants, and tax credits from a Federal, State or local government agency or instrumentality, may also be used to finance non-mortgageable costs. Such funds covering non-mortgageable cost, when added to the HUD mortgage and required equity contribution, may exceed 100% of the project's Fair Market Value (FMV) or Replacement Cost.**

3. **Subordinated liens against the property that result from secondary loans from a Federal, State or local governmental agency or instrumentality to cover non-mortgageable costs and/or equity, in combination with HUD's primary lien, may exceed 100% of the property's FMV or Replacement Cost.**

4. **Non-mortgageable costs or non-HUD replacement cost items, covered by secondary loans, grants and tax credits must be certified by the source provider to be required to complete the project and that the related costs are reasonable. Documentation to this effect must be included with the application submission.**

<u>Private Sources</u>

1. Secondary financing in the form of a promissory note is permitted to cover a portion of the equity requirement under Section 223(f). The aggregate amount of the FHA insured first loan and the private second loan cannot exceed 92.5% of FMV. Therefore, the amount of a private loan may range from 7.5% of FMV (the difference between 85% and 92.5% of FMV) to a larger percentage if a mortgage criteria lower than 85% of FMV controls.

This rule also applies to Sections of the Act that are pursuant to Section 223(f), i.e., Section 232 pursuant to Section 223(f). However, this allowance should not be used to circumvent our existing policies which do not permit equity take-out on Section 232 refinance transactions or on purchase transactions, a way to finance costs that otherwise would not be permitted. For example, seller take backs on property acquisition costs that are not supportable by market data should not be approved.

Secondary financing from private sources are not permitted under other Sections of the Act.

2. When private secondary financing is combined with Federal, State or local government agency secondary financing, like in #1 above, the aggregate amount of the HUD insured first loan and the private second loan cannot exceed 92.5% of FMV. However the governmental loan, in aggregate with the HUD first and private second, may exceed the property's FMV. The addition of the governmental loan may result in total liens that exceed the property's FMV.

3. Private secondary financing may be used to cover non-mortgageable costs in combination with equity or solely for one purpose or the other. Whatever option is decided upon, as stated under #1 above, the aggregate of the HUD first and private second cannot exceed 92.5% of FMV.

4. Non-mortgageable costs or non-HUD replacement cost items, covered by secondary financing from private sources must be certified to be reasonable and required to complete the project by the provider of sources in documentation included with the application submission.

MAP Guide Book Changes

(1) The following sections of the MAP Guide currently require grants/loans to be deducted to calculate Form HUD 92264-A mortgage criteria. As a result of this revised policy grants, loans, gifts and tax credits are <u>no longer</u> deducted from these mortgage criteria. Instead, grants, secondary financing, gifts and tax credits must be deducted from the new mortgage Criteria 11 as instructed below.

Ignore these instructions to deduct grant/loans from mortgage criteria.

8.7 A 1 b,	**8.8 A 2 c**	**8.9 A 2 b (2) (g) (ii)**
8.7 A 2 b	**8.8 A 2 d**	**8.9 B 1 c (2)**
8.8 A 1 b (2)	**8.9 A 1 b**	**8.9 B 1 e (7) (b)**
8.8 A 1 d	**8.9 A 1 e (7) (b)**	**8.9 B 2 b (2) (b) (7) (b)**

(2) In accordance with the above revised policy on governmental and private secondary financing the loan limitations expressed under the current MAP Guide Section 8.10 B 1 and 2 no longer apply. As stated above, for Section 223(f) and all Sections of the Act, a Federal, State or local government loan can exceed the difference between the HUD insured mortgage and the HUD FMV of the project or Project Replacement Cost if that is applicable.

The aggregate amount of the insured first loan and the private second loan still cannot exceed 92.5% of FMV, however, governmental loans may be used in combination with private secondary financing and exceed FMV.

MAP Form Book Changes

Form HUD 92264-A

1. **Under MAP, amounts for grants/loans/tax credits/gifts are not deducted from Criteria 3, 6, 7 or 10 as the form currently request. Disregard these line items for all Sections of the Act.**

2. **Complete Criteria 11 for all Sections of the Act when secondary financing applies.**

Criteria 11- Amount Based on Deduction of Grant(s), Loan(s), Tax Credit(s) and Gift(s) for Mortgageable Items:

a. 100% Project (Replacement) Cost * $ _________
b. (1) Grants/loans/gifts _________
(2) Tax Credits _________
(3) Value of Leased _________
(4) Excess Unusual Land Improvement Cost _________
(5) Cost Containment Mtge Deduction $ _________
(6) Unpaid Balance of Special Assessment _________
(7) Sum of Lines (1) through (6) _________
c. Line a. minus line b. (7) $ _________

*** Project Cost applies to Criteria 7 and 10 under Section 223(f) and applications pursuant to 223(f). Project Replacement Cost applies to Section 221(d) and other Sections of the Act mortgages limited by Replacement Cost. (10/07/03)**