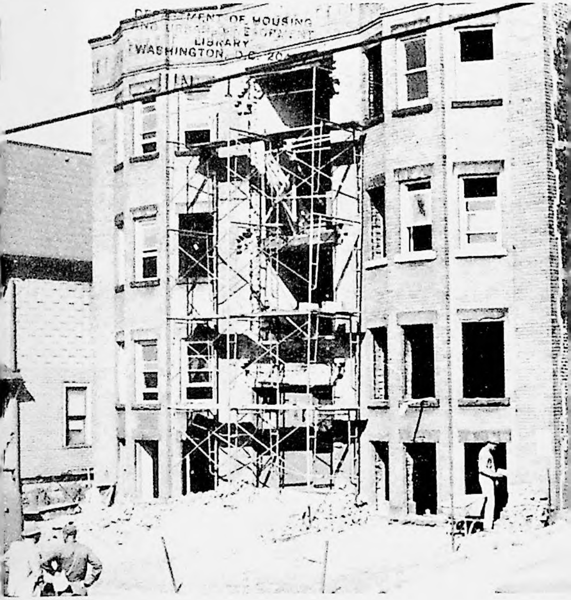
NSUMER BULLETIN

How to Develop Rent Supplement Proposals



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Robert C. Weaver, Secretary
FEDERAL HOUSING ADMINISTRATION
Washington, D.C. 20410

"Last year the Congress enacted the rent supplement program into law . . . a program to make it economically possible for private enterprise for the first time to take a direct hand in meeting the housing needs of 7 million American families that are living now in substandard dwellings."

Lyndon B. Johnson

The owner of rent supplement housing developed under the rent supplement program of the Department of Housing and Urban Development must be one of the following:

- A private nonprofit organization.
- A limited distribution organization or individual.
- A cooperative ownership housing corporation.

A project may be sponsored by an organization that intends to create a separate mortgagor entity to own and operate the project.

A sponsor interested in providing housing for low-income families should arrange a meeting with the director of the Federal Housing Administration insuring office that serves his area, to discuss the several mortgage insurance programs available for low-income housing, the market to be served, probable construction costs and rent levels, etc. This discussion should take place before the sponsor obligates funds for a site or for architectural services. If the rent supplement program appears feasible for the sponsor's purpose, the director will furnish a copy of the FHA rent supplement handbook and other pertinent information.

The development of a proposal for a rent supplement project can be divided into stages. The decisions listed under Stage 1 should be considered before the first formal conference on the project is arranged with the FHA office.

Stage 1 covers the period of the sponsor's initial planning of the proposal.

Decisions that should be made in this stage concern:

- The income group and neighborhood from which tenants will be selected.
- Who is to form and join in the sponsorship.
- The type of owner-mortgagor organization to be formed.
- The neighborhood in which the project should be built.
- The type of construction to be used.
- How many units of what size and type are needed.
- How much land should cost in the chosen location.

When these questions are decided the sponsor should write a letter or arrange a meeting with the director of the FHA insuring office that serves the area in which the project would be located.

Stage 2 begins when the sponsor first confers with FHA and ends when he formally asks FHA for a preapplication analysis of the proposal.

In this stage:

(1) All the points in Stage 1 are discussed at the first conference with FHA. This conference is attended by those involved in the sponsorship and the ownership and by any attorney, management agent, lender, architect, or builder who may be involved.

(2) The sponsor makes tentative estimates, with FHA assistance, of the amount of rent supplements that will be needed; the approximate cost of land, buildings, and money; approximate time schedules;

and the nature and amount of his preliminary expenses.

(3) The FHA director outlines the FHA procedures, and later sends the sponsor a copy of the minutes of the conference meeting and a statement as to whether rent supplements have been set aside for the project.

(4) The sponsor plans the project with the help of his consultants. The site is tentatively selected. Plans and costs are discussed with the manager.

(5) All members of the sponsorship and the consultants work out the form the proposal will take. This includes the number of units of each type and size planned, the rentals that would be required, the mortgage amount needed, the probable cost.

(6) The sponsor fills in FHA Form 2012 and required exhibits and sends them to the local FHA office. At the same time he sends in the proposed management plan and a list of the persons who will be active in working out the project and the professional or technical people who will be involved.

Stage 3 runs from the time FHA receives the formal proposal for the project to the time it receives an application for mortgage insurance on the project.

In this stage:

(1) FHA decides whether the proposal is feasible and, if it is, sends a letter inviting the sponsor to submit a formal application for FHA mortgage insurance through a mortgage lender selected by the sponsor.

(2) After receiving this letter the sponsor:

- Takes a formal option on the land.
- Contracts with the architect for sketch plans and outline specifications.
- Arranges construction financing and permanent financing with the lender.
- Retains a management agent.

• Gets the architect and the management agent to work jointly with the FHA on plans for units that will meet the market to be served.

• Obtains an estimate for operating expenses from the management agent.

• Arranges for the lender to send FHA the formal application for mortgage insurance along with required exhibits.

Stage 4 begins when FHA starts to process the mortgage insurance application and ends when it issues the commitment to insure.

In this stage:

(1) FHA completes its analysis of the proposal and informs the sponsor of the FHA-estimated market price of the site and of FHA's tentative estimates of project cost, insurable mortgage amount, and rent supplement funds required per year.

(2) After receiving this information, the sponsor:

• Authorizes the architect to prepare preliminary working drawings, cost estimates, and specifications, and to clear them with the manager.

(3) FHA calls a precommitment conference and:

• Gives details of the commitment it is prepared to issue.

• Outlines any conditions, changes, or further work required before the loan is closed.

• Tells the sponsor what is needed to close the loan, what the procedures are for making changes during construction, what the prevailing wage requirements are, and so on.

(4) FHA issues its commitment to insure the loan. A rent supplement contract, unsigned, is attached to the commitment. In

the contract the FHA agrees to make monthly rent supplement payments to the housing owner on behalf of eligible tenants.

Stage 5 covers the time from receipt of the FHA insurance commitment through the initial closing of the loan.

In this stage:

(1) The sponsor's attorney draws up the closing documents.

(2) The mortgagor corporation that will own and operate the project is legally formed, if this has not been done before.

(3) Final working drawings and specifications are prepared and submitted for FHA review prior to closing.

(4) The mortgagee requests a date for the initial closing.

(5) The rent supplement contract is signed, subject to later adjustments after a trial rent-up period (time allowed for the project to become operative with the units rented in accord with the FHA-approved rent schedule).

Stage 6 is the time between initial closing and final closing of the loan.

In this stage:

(1) FHA assigns an inspector to the project, and the builder starts construction.

(2) FHA insures advances of mortgage proceeds during construction and makes inspections during construction to see that the building conforms to the approved plans and specifications.

(3) As construction progresses and a section is finished, the sponsor obtains FHA permission to rent the finished units on the basis of the FHA-approved rent schedule.

(4) The manager begins taking applications for apartments. He checks the eligibility of those who apply for rent supplements and helps them fill in necessary forms.

(5) When the construction is finished, the lender, the sponsor, and FHA schedule final closing. At this closing, final papers are signed, and final payment is made to the builder. After the trial rent-up period, FHA looks at the actual rent supplement needs and sets the final contract amount. This may not occur until some time after final closing.

Equal Opportunity in Housing

FHA regulations under the President's Executive Order 11063 of November 20, 1962, require that housing provided with FHA assistance be made available without discrimination because of race, color, creed, or national origin.

The regulations prohibit any person, firm, or group receiving the benefits of FHA mortgage insurance or doing business with FHA from practicing such discrimination in lending or in the sale, rental, or other disposition of the property. Violations may result in discontinuation of FHA assistance.

One- or two-family dwellings which have been occupied by the owner are exempt from the regulations; but if the purchaser of such a home wishes to finance it with an FHA-insured mortgage the lender may not refuse to make the loan because of the buyer's race, color, creed, or national origin.

The FHA in Brief

Since its establishment in 1934, the Federal Housing Administration has written mortgage and loan insurance in a total amount of well over a hundred billion dollars. This amount covers mortgage insurance on millions of homes, on more than a million living units in multifamily projects, and on many millions of property improvement loans. Altogether, FHA has helped between 35 million and 40 million families to improve their housing standards and conditions.

Congress provided the FHA mortgage and loan insurance system to help improve housing standards, to promote the use of sound financing methods, and to help keep the mortgage market steady. FHA supports itself through income derived from fees, insurance premiums, and investments. Its insurance reserves are well over a billion dollars.

All loans insured under FHA programs are made by private FHA-approved lenders. FHA does not lend money or build housing.

The first FHA programs dealt with insured home improvement loans, home mortgage loans, and rental housing mortgage loans. Through its 76 field offices FHA now also insures mortgages to develop land, and to provide homes for servicemen and their families, housing for people of low and moderate income, housing in urban renewal areas, housing for the elderly or handicapped, nursing homes, cooperative housing, condominiums, experimental housing, housing at or near military centers; and long-term loans for major home improvements.

FHA has had a marked influence on the location, volume, and kind of housing built in the United States. It has helped to make the low-downpayment, long-term, fully amortized mortgage the standard in mortgage lending.

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