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CHAPTER 3. HUD PROCESSING AND PROCEDURES

- 3-1. FORMAL APPLICATION. An initial formal application, FHA Form 2013-HOSP., with a fee equal to \$1.50 per \$1,000 of the mortgage amount requested, will be submitted to the HUD Office through a HUD-FHA approved mortgagee, after review and approval of the feasibility of the proposal by the HEW Regional Office (initial HEW application). The HUD office will be notified of the HEW approval either directly or by copy of the HEW feasibility approval letter to the sponsor.
- a. Nonprofit processing. The application will not be reviewed by HUD. It will be numbered and the fee deposited as set out in the fiscal instructions. The fee will be transferred to HEW by the Office of the Comptroller, HUD-FHA, and is not thereafter refundable. A feasibility letter, using the format set forth in 1-6.b.(1) of this handbook, will also be issued to the sponsor by HUD. Copies of the numbered application and copies of the feasibility letter will be sent to the HEW regional office and to the Director, Office of Unsubsidized Insured Housing, HUD-FHA, for their files. FHA form 2530 Previous Participation Procedure is not applicable to nonprofit facilities in this program. Approval of non-profit sponsors or mortgagors has been delegated to HEW.
  - b. Proprietary (Profit-motivated) processing. FHA Form 2530, Previous Participation Procedure is required on proprietary proposals. Proprietary sponsors prior to filing initial HEW application will submit a completed FHA Form 2530 to the local HUD Field Office with a covering letter stating that the proposal will be for a proprietary hospital. Upon clearance of the sponsors the HUD office will notify the sponsors by letter that they may file application with the HEW Regional Office. (A copy of this letter will be sent to the HEW Regional Office.) During the HEW processing of the initial application, communication between HEW and HUD may have been made on proprietary facilities. (HEW will, if necessary, have communicated with the HUD office to determine the amount of real estate taxes during construction and the amount after completion to be used in processing the proposal.) The initial formal HUD-FHA application will not be processed by HUD. The application will be numbered and the fee

deposited as set out in the fiscal instructions. The fee will be transferred to HEW by the Office of the Comptroller, HUD-FHA, and is not thereafter refundable. A feasibility letter, using the format set forth in 1-6.b.(1) of this Handbook, will be issued to the sponsor. Copies of the numbered application and copies of the feasibility letter will be sent to the HEW regional office and to the Director, Office of Unsubsidized Insured Housing, HUD-FHA, for their files.

NOTE: In some instances, HEW may desire assistance from the local HUD office in making their determination as to the market values of land. If HEW requests assistance from a HUD office, the HUD office will provide such technical consultation and advice on the valuation of the site as may be necessary. (The final determination as to value remains the responsibility of HEW.)

3-2. HEW FINAL APPROVAL LETTER.

a. This letter will furnish:

- (1) The individual dollar amounts applicable to all estimated replacement cost items including land.
- (2) The maximum mortgage amount (debt service mortgage) that can be amortized from the estimated hospital income. HUD will not issue a commitment in excess of this amount. (HEW will indicate this maximum mortgage amount if HEW determines that debt service is the controlling criterion.)
- (3) Land at the appraised "as-is" value. Off-site construction is usually included in the construction contract and covered by the payment and performance bonds. If not included in the construction contract, it will be shown under Item (3) Other Costs, and completion assured in accordance with current HUD-FHA requirements.

b. Prior to issuing the final approval letter, the HEW Regional Office will:

- (1) If applicable, have reported to the areawide planning group as required by Section 204 of the Demonstration Cities and Metropolitan Development Act of 1966.

- (2) Have checked for ineligible contractors and subcontractors. Normal HEW procedure provides for review as to ineligibility as designated by the Comptroller General of the United States. The HEW Regional Office will communicate with the Director Office of Multifamily Housing Development in Headquarters to see if contractors or subcontractors are on the HUD ineligible list.
- (3) On proprietary facilities determine the amount of the annual deposit to the Reserve Fund for Replacement.
- (4) Indicate the amount of real estate taxes, if any, during construction and upon final completion. (On proprietary facilities real estate tax figures will be calculated by HEW during the HEW feasibility processing, if necessary, they may ask assistance of the HUD Field Office in determining the amount of real estate taxes.)
- (5) Operating deficit, if any, during the period of initial operation will be determined by HEW. If such a deficit is contemplated a provision for such contingency will be set forth in the HUD commitment.
- (6) The amounts, if any, determined by HEW for (3), (4), and (5) will be entered on the HEW Final Approval Letter.

3-3. COMMITMENT. Upon receipt of the final approval letter and the amended HUD application, the case will be processed by the Mortgage Credit staff of the HUD office. Upon completion of processing, a firm commitment to insure a mortgage will be issued to the mortgagee. The commitment will require the mortgagor to provide assurance of completion and prevailing wage certifications. It will also include a statement of the financial requirements to be met by the mortgagor and will specify conditions under which advances of the mortgage proceeds will be made. Within 30 days from the date of the commitment, a commitment fee must be paid which, when added to the application fee, will aggregate \$3.00 per \$1,000 on the amount in the commitment. The commitment fee is retained by HUD.

- a. HUD underwriting processing is limited to the estimation of carrying charges, financing expense, title and recording expense; establishing the maximum insurable mortgage amount and financial requirements for closing; and processing requests for advances of mortgage proceeds. (On proprietary facilities, in addition to the foregoing, the HUD Field Office will handle the Previous Participation Certificate, Form FHA 2530 and may assist HEW in determination of real estate taxes.)

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- (3-3) Mortgage Credit procedures and analysis are to be completed in accordance with the following instructions, using Forms FHA 2264 (Hosp) 2283 (Hosp) 2448 (Hosp), 2403, 2451, and 2580. (See reference (1) of the Foreword for instructions.)
- b. Amount and amortization period of loan. The mortgage shall involve a principal obligation in an even multiple of \$100 and a term not in excess of 25 years from the commencement of amortization. Monthly payments to principal and interest shall be based on the Level Annuity Monthly Payment Plan.
- c. Amount of loan.
- (1) New construction - not involving rehabilitation or reconstruction of existing structures. The insurable mortgage amount shall not exceed the lowest of:
- (a) \$50,000,000.
- (b) 90% of the total estimated replacement cost including mortgageable equipment and furnishings. (Less 90% of value of the leased fee, if leasehold, and/or 100% of the principal amount of special assessments if applicable.)
- (c) 100% of the total estimated replacement cost including mortgageable equipment and furnishings, minus the amount of any loans, grants or gifts from other sources which are of a nature that is intended to offset cost and mortgage financing. (Less value of the leased fee, if leasehold, and/or 100% of the principal amount of special assessments, if applicable.)
- (2) Rehabilitation - Defined in paragraph 1-7.b. The insurable mortgage shall not exceed the lowest of:
- (a) The amounts set forth under new construction
- (b) Property owned. 100% of the estimated current cost of rehabilitation plus the lesser of (a) principal amount of existing indebtedness against property, if any, or (b) 90% of the estimated market value of property before rehabilitation (less 90% of value of leased fee, if leasehold, and/or 100% of the principal amount of special assessments, if any).
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NOTE: When the hospital involves an expansion primarily of existing facilities requiring additional land, the mortgage shall not exceed the sum of:

- (1) The lesser of the amount of the existing indebtedness against property, or 90% of the "as is" value of the existing facilities (less 90% of value of the leased fee, if leasehold, and/or principal amount of special assessments, if applicable), plus
  - (2) The cost of new improvements (including the cost of mortgageable items of equipment) closing charges, fees, etc., plus
  - (3) 90% of the lesser of cost of additional land or "as is" value of additional land.
- (c) Property to be acquired. 90% of the estimated cost of rehabilitation and new mortgageable equipment, plus the lesser of (a) 90% of the actual purchase price of property, or (b) 90% of the market value of property before rehabilitation (less 90% of value of leased fee, if leasehold, and/or 100% of the principal amount of special assessments, if any).
- (d) Five times the sum of the cost of new improvements and cost of mortgageable equipment which is not in excess of the cost of new improvements.

NOTE: The word "property" as used in the foregoing limitations means both real estate and mortgageable items of equipment, And the word "indebtedness" means an indebtedness against the real estate and mortgageable items of equipment.

- (3) If the maximum insurable mortgage is higher than the amount approved by HEW, the commitment shall be issued in the lower amount. When HEW approves a higher amount than arrived at as shown above, it must be resolved between the HEW Regional Office and HUD office.

- d. Over and above money for nonprofit hospitals. Because nonprofit hospitals traditionally receive gifts and donations during construction and, in the case of existing hospitals which are being rehabilitated, income during construction, in this program it is permissible, as set out in the FHA Regulations, for the mortgagee to accept an unconditional, irrevocable letter of credit in lieu of cash for over and above money. (See paragraph 3-4. b.) (This provision is not applicable to proprietary facilities, over and above money on proprietary proposals must be in cash.)

3-4. INSURANCE OF ADVANCES.

- a. Initial closing. If the project involves insurance of advances during construction, there will be an initial closing of the loan prior to beginning of such construction. In cases where the parties cannot go to initial endorsement immediately, the HUD office director may grant permission to start construction prior to initial endorsement (after receiving clearance from the HEW regional office) upon execution of FHA Form No. 2415, Request for Permission to Commence Construction Prior to Initial Endorsement for Mortgage Insurance. This permission may be given upon a showing that there are valid reasons why an immediate closing is not practicable; there is every reasonable assurance that closing will take place in the near future; and early start of construction will not act to the detriment of the Assistant Secretary-FHA Commissioner's interest.

FHA Form No. 1022, FHA Legal Requirements for Closing is used to show the required documents. As required by the commitment, a prior review of the documents will be made by HUD and HEW to assure that they will be in order at initial closing. A representative of HEW will attend the closing to approve any document involving HEW participation. The designated HUD HEW liaison man will coordinate in setting the closing date. When all financial and other requirements called for in the commitment have been met, HUD will initially endorse the mortgage for insurance.

- b. Construction. Construction of the project may begin immediately after initial closing.

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- (3-4) (1) Advances of mortgage proceeds will be requested on Form FHA-2403, Application for Insurance of Mortgage Proceeds, and processed in the same manner as under other programs with the following exceptions:
- (a) When the mortgagee accepts a letter of credit in lieu of a cash deposit for over and above money on a nonprofit project, all mortgage proceeds may be approved for advance prior to any demand being made under the letter of credit for additional funds necessary to complete the project.
  - \* (b) Requests for construction advances from either mortgage proceeds, the mortgagor's cash deposit, or letter shall reflect a 10 percent holdback. In those instances where a construction manager administers the construction contract, the requirement for a 10 percent holdback may be modified as follows:
    - 1 Where a subcontractor has completed work, and the supervisory architect so certifies, the 10 percent holdback for such work may be released with the surety's consent. The portion of the holdback attributable to the construction manager's fee may not be released. \*
    - 2 Under a Hill-Burton Grant, payments are made to the mortgagor by the Hill-Burton State agency. The mortgagor retains 10% of the amounts advanced until final completion and acceptance of all work covered by the construction contract(s); provided, however, that the architect may at any time after 50% of the work has been completed, if he/she finds that satisfactory progress is being made and written consent of the surety has been obtained, recommend that any of the remaining partial payments be paid in full. Upon written advice from the Department of Health, Education and Welfare Regional Office that 50% or more of construction has been satisfactorily completed; that the surety's written consent has been received; and that the remaining Hill-Burton \*
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payments (if applicable) will be made to the contractor in full without a 10% deduction, the HUD office will also approve advances from the remaining mortgage amount without a 10% holdback. See Form FHA-2403 (Hosp.) Contractor's Requisition.

- 3 Timing of Hill-Burton payments. Hill-Burton payments are usually made at the 10%-25%-50%-75%-95% and 100% completion stages, after an inspection by the Hill-Burton State agency.

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This method of payment and inspection will not affect approval of mortgage advances on the usual monthly basis by HUD, nor the method of computing the pro-rata HEW and HUD share of the amount requested by the contractor on Form FHA-2448 (Hosp.).

- (c) Non-realty equipment included in mortgage proceeds.
  - 1 Not delivered to mortgagor by date of substantial completion. Any equipment item not delivered by date of substantial completion shall be treated as "incomplete on-site" and included in Form FHA-2456, Escrow Deposit Agreement, as revised. The required cash escrow will be the dollar amount applicable to the undelivered items.
  - 2 When an advance is requested only for mortgageable equipment not included in the construction contract, the request will be made separately on Form FHA-2403 without an accompanying Form FHA-2448 and without a 10% holdback being required.
- (d) During the construction period, an HEW Regional Office representative will visit the site from time to time to inspect the work being done. The commitment may provide for payment of an inspection fee of \$5.00 per \$1,000 of the mortgage amount set forth in the commitment which must be paid to HUD at the time of initial endorsement. The inspection fee will be transferred by the Office of Finance and Accounting, HUD to HEW

- (e) Any discrepancies on Form FHA-2403 must be satisfactorily explained before approval of the advance by HUD. If problems arise during construction, the HEW Regional Office, assisted by the HUD office to the extent possible, will try to resolve the matter. If the problem results in a hold up of advances, or a work stoppage, the Director, Office of Multifamily Housing Development, HUD, and the Director, Health Care Facilities Service, HEW, will be immediately advised by their respective offices.

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- (3-4) (f) Construction changes. The insurable amount is set at initial endorsement. Therefore, construction changes are expected to be held to a minimum. All construction changes must be reviewed and approved by HEW. Generally, it is expected that the mortgagor will pay for any change order resulting in an increase in cost. If the cumulative net effect of approved changes is in excess of \$2,500, the mortgagor must show proof of payment or deposit the necessary funds with the mortgagee.
- 1 Mortgage increase due to construction changes. There may be some instances where a change will involve a significant betterment, as determined by HEW. If the mortgagor requests an increase in the insurable mortgage because of a significant betterment, which has the approval of HEW, the HEW Regional Office will advise HUD of its approval of the mortgage increase, giving the new construction contract amount and/or equipment cost, and increase in architect's fee if any. The HUD office will recompute the maximum insurable mortgage amount, and advise the mortgagor and mortgagee, in writing of the amount of increase that will be recognized, and that the increase will be disbursed at final endorsement. When construction has been substantially completed, and no further changes are anticipated, the mortgagee may submit an amended application, and the HUD office issue a Letter Agreement Authorizing Reopening of Mortgage Transaction. (See reference (2) of the Foreword.) Approval of the increase is subject to payment of the usual application,

commitment and inspection fees on the increase.

- a Upon return by the mortgagee of the letter agreement, endorsed to evidence its acceptance, one copy shall be forwarded to the HEW Regional Office and one copy to the Director of Unsubsidized Insured Housing Programs.

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    - b The mortgage increase will be accomplished with no change in the interest rate or amortization plan or in the maturity date of the mortgage.
    - (g) AMPO (Allowance for Making Project Operational) for nonprofit projects. This fund, as set out in the Mortgagee's Certificate, FHA Form No. 2434, is primarily for accruals during the course of construction for mortgage insurance premiums, taxes, ground rents, property insurance premiums and assessments, when funds available for these purposes under the Building Loan Agreement have been exhausted; and also for allocation to such accruals after completion of construction if the income from the hospital at that time, is insufficient to meet such accruals. This fund may also be used for such other purposes as approved by HEW. Any balance remaining unused in the fund at final endorsement will be released to the mortgagor for deposit in its general funds.
    - (h) Working Capital - Proprietary. Working capital deposit not to exceed 2% of the amount of the mortgage is required at initial endorsement to provide a contingency fund to protect against delay in completion of the project. It is to cover costs which may accrue due to taxes, mortgage insurance premiums, and assessments required by the mortgage during the period between initial endorsement and final endorsement of the mortgage for insurance, which costs were not included in the proceeds of the mortgage. (This deposit required only in cases of insurance of advances. It is not required in cases of insurance upon completion.)
  - (2) Completion of Construction. When construction is completed, as determined by HEW, a completion date will

be established by HEW. The mortgagor must submit a revised Hill-Burton application reflecting the final, actual, project costs including all carrying charges and financing and discounts. If a straight loan project is involved, the information will be submitted by certified statement from the mortgagor.

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- (3-4) (a) The HEW regional office will advise the HUD office of completion of construction, together with the date of completion, the actual project costs (in the same format as the final approval letter) and the dollar amounts of any incomplete on-site and off-site items. Normal HUD-FHA cost certification procedures are not applicable to this program.
- 1 The maximum insurable mortgage to be finally endorsed by HUD will be the lesser of the mortgage amount initially endorsed (committed upon in insurance upon completion cases) or:
    - a New construction. 90% of the actual costs.
    - b Rehabilitation.
      - (i) Property owned. The actual cost of the new work plus the lesser of outstanding indebtedness or 90% of the fair market value of the property before rehabilitation.
      - (ii) Property to be acquired. 90% of the actual cost of the new work plus the lesser of 90% of the purchase price or 90% of the fair market value of the property before rehabilitation.
  - 2 Incomplete off-site and on-site facilities will be covered by a cash deposit with the mortgagee under FHA Form 2456, Escrow Deposit Agreement Except for landscaping and exterior improvements which cannot be completed because of weather, the amount of the escrow must be at least two times the HEW Regional Office's estimate of the cost of completion. The escrow for landscaping and exterior improvements must be not less than the estimate of cost of completion.

- (3) Final advance. The final advance on nonprofit projects will include any unused AMPO funds. These unexpended funds will be released to the mortgagor for deposit in its general funds. The sum to be approved for advance

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is the balance of the mortgage proceeds based on the maximum insurable mortgage as redetermined (FHA Form 2580) in accordance with the limitations set forth above under Completion of Construction.

- c. Final closing. FHA Form No. 1022, Legal Requirements for Closing shows the documents required for final endorsement of the mortgage note for insurance. A representative of HEW will attend the closing to approve any document involving HEW participation. The designated HUD-HEW liaison men will coordinate in setting the closing date. Among other things, the mortgagor will provide HUD and the mortgagee with a survey showing the completed project, and a title insurance policy, showing that the insured mortgage is a valid first lien on the mortgagor's property and that the mortgagor's title is free of all other liens (except any approved secondary financing). If the non-realty items necessary for the operation of the project are not covered by the lien of the real estate mortgage, the mortgagor will furnish the mortgagee with an appropriate chattel security instrument covering such items. When all required closing documents have been submitted and all commitment conditions met, the FHA will place its final endorsement on the mortgage note showing the amount approved for insurance.
- d. Supplemental Certifications - FHA Forms Nos. 2023 and 2455. The supplemental certifications on these two forms concerning the submission of evidence of unpaid items need not be furnished in this program.
- 3-5. INSURANCE UPON COMPLETION. If the project involves insurance upon completion, construction of the project may begin when approved in accordance with the commitment conditions. Prior to the approval of the commencement of construction, the payment of an inspection fee in the amount of \$5.00 per \$1,000 of the amount of the mortgage set forth in the commitment must be paid on new construction (on rehabilitation or modernization, the inspection fee is \$5.00 per thousand on the cost of rehabilitation or modernization).

- a. Over and above money. In an insurance upon completion case, mortgage advances during construction are not insured. The mortgage is insured when the project is satisfactorily completed, free and clear of all liens, (except any approved secondary financing). Therefore, there is no requirement for a deposit of cash or irrevocable letter of credit for

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the difference between total project cost and the mortgage amount. However, assurances in a form satisfactory to HEW may be required to show that the mortgagor has the financial capacity to meet this difference.

- b. Construction changes. The procedure set out in paragraph 3-4.b.(1) will be followed except that, in lieu of the Letter Agreement authorizing Reopening of Mortgage Transaction, an amended commitment will be issued.
  - c. Completion of construction. The procedure set out in paragraph 3-4.b.(2) will be followed.
  - d. Closing. The procedure set out in paragraph 3-4-c. will be followed. The first mortgage insurance premium of 1/2 of 1% of the mortgage amount must also be paid at this time.
- 3-6. OPERATION OF HOSPITAL. Unless a default occurs, the HUD office will have no servicing function. The annual financial report will be requested from the mortgagor by HUD Central Office in the usual manner, for submission to the HEW regional office. HUD will not receive or file a copy of this report.
- a. In the event of a default, the HUD office will immediately call upon the HEW regional office for a joint review of the causes of default and for assistance in suggesting to the mortgagor possible ways to cure the default.
  - b. Releases from Reserve Fund for Replacements (proprietary) will be handled by the HUD Field Office. On any unusual request for release the office may ask advice of the HEW Regional Office.
- 3-7. CORRESPONDENCE AND DOCUMENTS. Plans and specifications, and copies of the HEW processing documents will be maintained by the HEW Regional Office. However, all other pertinent correspondence and forms, whether originated or received by HEW or HUD will be furnished each office. This will include copies of all approved significant construction changes and construction inspection

reports being furnished to HUD, and copies of the application, commitment and related processing documents, and each FHA Forms No. 2403 and 2448 (Hosp) being furnished to HEW. In the event of assignment or foreclosure, the plans, specifications and processing documents will be made available to HUD.

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3-8. COMBINATION FINANCING

The Housing and Community Development Amendments of 1979 prohibit the use of combination financing (FHA mortgage insurance, GNMA mortgage-backed securities and tax exempt bonds) with certain limited exceptions. Instructions for dealing with those limited number of applications which may fall under either of the exemption categories are contained in the following paragraphs.

- a. Eligibility for exemption to the prohibition of combination financing can be met in two ways:
  1. An application for combination financing was submitted to HEW (now HHS) prior to March 29, 1979, or
  2. The hospital is a nonprofit entity; and
    - (a) Prior to June 7, 1979 written notification was made to HHS or HUD of the hospital's interest in combination financing; and
    - (b) Prior to June 7, 1979 the hospital had engaged an investment banker for, or had undertaken or arranged for, the undertaking of a market or feasibility study with respect to the advisability of combination financing; and
    - (c) The hospital receives from Medicare or Medicaid a percentage of its total revenue which is greater than 125 percent of the national average for hospitals.
- b. Applications for approval of combination financing under the above exemptions will be processed by the HUD Field Office having jurisdiction. In addition to the documentation normally required for such approvals, the following material shall be submitted:
  1. A financial comparison of the current and proposed financing plans, showing the nature and amount of the

savings to the hospital to be achieved by the conversion.

2. For applicants under exemption number 2 above, documentation demonstrating that prior to June 7, 1979,

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the borrower engaged an investment banker or undertook or arranged for a market or feasibility study of combination financing.

- c. After receipt of an application for restructuring, properly documented, the HUD field office shall request written verification of the hospital's eligibility under the statutory exemptions from the Director, Office of Multifamily Housing Development, in Headquarters.
- d. After receipt of an application and written verification from Headquarters indicating that the hospital proposal is eligible, the field office will determine that:
  1. There is in fact a savings to the hospital.
  2. Fees in the restructuring are not excessive.
  3. Fees are to be paid from an acceptable source; i.e., cash, bond proceeds, or discounts realized on purchase of existing GNMA securities.
  4. The amount of the tax exempt issue does not exceed the outstanding mortgage balance.
- e. If the proposal meets all of the above, the HUD Office will advise the mortgagor/mortgagee that we will approve the restructuring provided the bond rate does not exceed that rate stated in the application for restructuring.
- f. If the nonprofit applicant requests permission to modify the mortgage to prohibit prepayment for the first 10 year period in order to facilitate the bond transaction, such request may be approved. Language changes must be reviewed and approved by the Area Counsel.
- g. Upon completion of the tax exempt bond issue, the applicant shall submit for HUD review a copy of the bond counsel opinion and a copy of the No Arbitrage Certificate. Field Offices shall review such documents to verify the fees, charges, and other costs previously approved with respect to the debt restructuring. Any instance where the information

disclosed in the aforementioned opinion and certificate varies significantly from that contained in the application shall be reported to the Director, Office of Multifamily Housing Development for such action as may be necessary.

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- h. To satisfy GNMA processing requirements, once the above findings are made, the mortgagee of record (GNMA issuer) shall be furnished with a letter which provides the revised interest rate and states that the application satisfies the Section 315 requirements as set forth in the Housing and Community Development Amendments of 1979.
- i. Additional Requirement. Any excess proceeds realized from the repurchased CLC's or PLC's after payment of expenses shall be placed in the Sinking Fund which was required to be established by HHS in conjunction with the initial financing. Funds in this sinking fund, required by HHS, can only be used for purposes approved by HHS and HUD.
- j. Increase in Mortgage Amount with Combination Financing. Section 242 of the National Housing Act was amended in 1981 and provided that where combination financing was involved, the Secretary has authority to approve an increase in the mortgage amount at any time prior to final endorsement of the loan. However, no increase in the mortgage amount may be approved for the cost of constructing any improvements not included in the original plans and specifications approved by HHS unless approved by the Secretary of Health and Human Services and the Secretary of HUD. If an increase is applied for by the mortgagee for construction costs which were not covered under the original plans and specifications, the request must be sent to the Director, Office of Multifamily Housing Development, in Headquarters in order to obtain the approval of the Secretary of HHS and the Secretary of HUD. Increases of this type are for minor cosmetic changes only. No increases will be considered for structural changes, additions, etc., nor for any increase in refinancing costs.
- k. GNMA Requirements. The mortgagee also must satisfy any requirements established by GNMA.
- l. Departmental Processing. While HHS is the primary processing agency in the Section 202 proposals, combination financing processing will be handled by HUD since the proposals will previously have been found feasible by HHS and the debt service will be reduced.

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