

---

**CHAPTER 1. INTRODUCTION**

- 1-1. Introduction. HUD Handbook 4350.1 is the primary handbook used by Field Office Loan Management multifamily staff in carrying out their asset management and loan servicing responsibilities in monitoring and assisting owners/managing agents to maintain projects in good physical and financial condition. The Office of Multifamily Housing Management administers most of the program activities discussed in this handbook, but the Office of Elderly and Assisted Housing has responsibility for administering direct loan and capital advance programs for the elderly and disabled. This handbook provides general guidance for most of the tasks associated with HUD's involvement in the affairs of multifamily projects. The main focus of this handbook is on the HUD/mortgagor/managing agent relationship, while other handbooks listed at the end of this Chapter provide more specific guidance for most of the tasks associated with HUD's involvement in the activities of multifamily projects. The chapter is divided into four sections. Section One gives a general description of certain goals, responsibilities, and relationships. Section Two reflects changing concepts that have occurred in the housing industry and describes HUD Field Offices' role in loan servicing and asset management in general terms. Section Three combines the concepts developed in Sections One and Two and adds a discussion of project residents in the context of asset management. Section Four outlines the new organization of HUD Handbook 4350.1 and mentions other references used by HUD multifamily management staff.

**SECTION 1. GOALS, RESPONSIBILITIES, AND RELATIONSHIPS**

- 1-2. Mission. In administering their responsibilities, HUD's Office of Multifamily Housing Management and Office of Elderly and Assisted Housing have the following goals as applicable to their respective programs:

- 
- A. Maintain housing for those it is intended to serve.
  - B. Protect the Federal Housing Administration's insurance funds.
  - C. Assure that project management is satisfactory.
  - D. Assure that the project is physically sound and financially solvent.
  - E. Assure compliance with HUD's rules and regulations that pertain to projects with HUD-insured and HUD-held mortgages.  
NOTE: The Office of Fair Housing and Equal Opportunity (FHEO) has the overall responsibility of ensuring compliance with the equal opportunity aspects of HUD's rules and regulations.
  - F. Administer various subsidy contracts.
- 1-3. Monitoring. In carrying out this mission, HUD monitors and works with mortgagors, managing agents, mortgagees, subsidy contract administrators, and other clients to assure compliance with the requirements of HUD's programs.
- 1-4. Responsibility of Housing. The Office of Multifamily Housing Management and the Office of Elderly and Assisted Housing exercise responsibility toward the taxpayer as applicable to their respective programs by:
- A. Assuring safe, sanitary, and decent housing for those the housing was constructed to serve. HUD is charged with the responsibility to help provide and preserve an adequate supply of affordable housing.
  - B. Minimizing losses in the multifamily insured and direct loan and capital advance and property disposition programs.

- C. Maximizing collections of all funds due HUD, with particular emphasis on the collection of delinquent debt.
- D. Enforcing statutes and regulations.
- E. Allocating, administering, and monitoring subsidy-based programs in a cost-effective manner.

1-5. Interrelationships. HUD, through the Office of Housing, works with mortgagors, managing agents, and mortgagees to form a team whose objective is to provide an adequate supply of well maintained, financially solvent, affordable housing. This housing must be provided on a nondiscriminatory basis. Effective teamwork is essential to achieve the intent of HUD's multifamily programs and the HUD/owner/managing agent/ lender relationship is interdependent. For example, HUD and a mortgagee must jointly decide and may agree to modify an existing FHA-insured Note and Mortgage upon a request from a mortgagor; if the insured Note and the Mortgage are to be modified, neither HUD nor the mortgagee may do it independently of the other.

1-6. Cooperation. As with any team, the extent of cooperation among its members is as important in achieving excellence as are the skills of each member. The formal relationships among the housing team members are contractually controlled, while the day-to-day relationships are complex, diverse, and sometimes conflicting. Mutual respect for the other team members and an appreciation of their points of view are essential for the satisfactory fulfillment of the goals. When HUD intervenes to help resolve the occasional conflicts between borrowers and lenders, HUD protects its interests as the insurer of the loan and attempts to improve the working relationships among the other members of the housing team.

1-7. Mortgage Insurance Programs. Through its various programs of mortgage insurance, HUD eases the flow of capital from lenders to borrowers by enabling loans that have lower

---

equity requirements for borrowers than loans that are conventionally financed. HUD's non-recourse loans stimulate sponsors to borrow money to develop and own projects; lenders, limited exposure to loss further stimulates lending. HUD also provides direct loans and capital advances to sponsors of housing for elderly and disabled/handicapped.

- 1-8. HUD/Mortgagor/Managing Agent Relationship. HUD's relationship with the mortgagor/managing agent involves many duties and responsibilities for both HUD and the mortgagor/managing agent. While protection of the contingent liability of the Secretary is paramount in all asset management activities taken by HUD, HUD exercises care to prevent undue, unwarranted, or unauthorized intervention in the affairs of the mortgagor and the managing agent. The terms of the Mortgage, Regulatory Agreement (or Corporate Charter in some older projects), Mortgagor's Certificate, and the provisions of HUD regulations, subsidy contracts, and handbooks set forth the rights and responsibilities of both parties. HUD encourages good asset management by providing friendly and cooperative assistance to the mortgagor/managing agent, but the business relationship between HUD and the mortgagor and its managing agent requires strict adherence to their respective responsibilities by all parties to fully discharge their duties and obligations in a professional manner. HUD also encourages positive, constructive interactions among Loan Management Branch staff and associations of housing managing agents and project owners to foster new ideas, to resolve conflicts, and to develop mutually agreeable solutions to problems that may arise.
- A. Among many asset management duties, HUD is responsible for authorizing releases from the Reserve Fund for Replacements and Residual Receipts accounts, for authorizing alterations, modifications, or additions to physical structures, for authorizing partial releases of security and changes in ownership, for establishing rental rates in most

projects, for reviewing Management Improvement and Operating (MIO) plans and for administering the Operating Assistance and Capital Improvement Loan components of Flexible Subsidy. HUD also administers various other subsidy programs such as Section B.

- B. HUD also may intercede with the mortgagee on behalf of the mortgagor when it determines it is appropriate to do so. It is the practice of HUD to keep the mortgagee informed about the asset management actions taken by HUD or requested by the mortgagor.
- C. HUD staff conducts management reviews of most projects and works with the owner/managing agent to assure well maintained and financially solvent projects and to assure satisfactory project operations.
- D. HUD, through the Office of Fair Housing and Equal Opportunity (FHEO), conducts equal opportunity monitoring and civil rights compliance reviews. FHEO also provides technical assistance and an early identification of problems to owners in order to assist owners/managing agents in developing and administering their practices consistent with non-discrimination and equal opportunity requirements.
- E. By these actions HUD attempts to protect the physical security of projects, to preserve the financial soundness of project mortgagors where financial conditions relate to the project operations, and to assure that the projects, residents have affordable, safe, sanitary, and well maintained housing. As one of the conditions of HUD's mortgage insurance, project owners agree to furnish HUD with audited annual financial statements, to provide for the effective management and maintenance of their projects, and to comply with other

program requirements, including non-discrimination and equal opportunity requirements.

1-9. HUD/Mortgagee Relationship. The relationship between HUD and the mortgagee is based on obligations in which each party has specific rights and responsibilities. The operating requirements and administrative practices of individual mortgagees differ widely. In many instances a mortgagee may not desire that it be kept advised of all actions between HUD and the mortgagor; the opposite may be true on the part of another mortgagee. Mutual cooperation and assistance between the mortgagee and HUD has great value for both parties. While the mortgagee has specific rights under each of the Sections and Titles of the National Housing Act and related statutes and regulations which HUD must safeguard, the mortgagee also has definite responsibilities it must exercise. HUD is responsible for review of the conduct of certain mortgagee responsibilities and for insistence that those responsibilities be discharged adequately. On the other hand, HUD will not intervene unnecessarily in the mortgagee-mortgagor relationships established under the terms and conditions of the Note and the Mortgage unless the parties' inability or unwillingness to reach an understanding appears likely to jeopardize the Secretary's interests. This does not preclude HUD's assistance to the mortgagor or the mortgagee when either party specifically requests such assistance, when it appears likely that HUD's action on such requests will produce positive, constructive results, or when a claim on the insurance funds can be prevented.

1-10. Mortgagee/Mortgagor Relationship. Mortgagees exercise their contractual rights between themselves and mortgagors through the Mortgage and the Note. Because notes and mortgages are agreements between mortgagors and mortgagees, mortgagees are chiefly responsible for obtaining compliance with the covenants of these instruments. With regard to the Regulatory Agreement, which is incorporated into the mortgage by reference, HUD encourages

mortgagees to inform HUD when mortgagees become aware of Regulatory Agreement infractions and to work with HUD and mortgagors to correct these Regulatory Agreement violations. However, the Regulatory Agreement is an agreement between a mortgagor and HUD and HUD considers enforcement of its provisions to be a matter between mortgagors and HUD itself. Mortgagees and mortgagors also must follow HUD regulations contained in Title 24 of the Code of Federal Regulations. For examples:

- A. The mortgagor must pay sums due under the controlling instruments, must maintain the physical condition of the property, and must use it as intended.
- B. Mortgagors must keep fire and other hazard insurance in force.
- C. Mortgagors are required by HUD to furnish annual financial statements to mortgagees for review to classify asset values and make risk assessments. HUD encourages mortgagees to comment on obvious discrepancies that come to their attention.
- D. Mortgagees must conduct annual physical inspections of most projects.
- E. Mortgagees must furnish mortgagors with confirmations of mortgage accounts in time for mortgagors to prepare and submit audited annual financial statements.
- F. Mortgagees must provide mortgagors with a Satisfaction of Mortgage upon full payment of the Note, its interest, money advanced, late charges, commissions, etc.
- G. Mortgagors may not use tenant selection criteria that discriminate against persons because race, color, religion, sex, familial status, national origin, age, or handicap, nor may they refuse to sell the property or a unit of the

property (e.g., cooperatives, condominiums) to persons for the same reasons.

SECTION 2. CHANGING CONCEPTS AND ASSET MANAGEMENT

1-11. Perspective. The need for private sector asset management services originated in the 1970s when pension funds, life insurance companies, commercial banks, and public syndications began holding real estate portfolios and when the nature of real estate investment became increasingly more complex. Real estate asset management is a relatively new profession in the private sector of the economy and became widely recognized in the middle to late 1980s. In the public sector of the economy, HUD staff are involved not only with the management of real estate assets but also with the management of financial assets, including the management of loans held by HUD i.e., direct loans/ capital advances, assigned mortgages, and purchase money mortgages.

1-12. Description. HUD asset management can be thought of as the art of combining the management of the physical property and the management of its financial aspects to achieve the goals of HUD, owners, managing agents, and lenders. HUD staff give weight to the social and financial goals of project owners and their managing agents, to the financial interests of lenders, and to the social and financial objectives of the Federal Housing Administration.

A. HUD-insured projects serve a social purpose: Provide good housing at affordable prices.

HUD-insured projects generally have financial goals:

1. Profit motivated and limited distribution owners seek to assure a reasonable rate of return on investments while keeping properties well maintained.



2. Profit motivated and limited distribution owners are desirous of income tax shelters.
3. Nonprofit owners need to keep properties well maintained and in good physical condition and to take special care to have sufficient cash reserves on hand in order to continue to be able to provide housing at the lowest possible costs.

1-13. HUD Asset Management Functions. To a varying degree, HUD Field Office Loan Management (Asset Management) Branch staff are involved in the following asset management functions:

- A. Development of Projects: Management input into the approval or disapproval of ownership structure and management and the proposed practices during the development stage of the project.
- B. Transfers of Physical Assets (TPAs): Review proposed changes in ownership when under management.
- C. Property Management:
  1. Review proposed added capital improvements or refinancing proposals, including projections of performance, when under management.
  2. Conduct property management reviews and assist owners and managing agents to achieve effective property management.
  3. Conduct physical inspections of projects.
  4. For most projects, establish rental rates.
  5. Analyze insurance coverage for adequacy.

6. Where applicable, assure that the model form of lease is used.
7. Monitor rental market conditions.
8. Monitor Management Improvement and Operating (MIO) plans.
9. Approve additional forms of subsidy, such as Flexible Subsidy Operating Assistance, Capital Improvement Loans, and Loan Management Set Aside Section 8 assistance.

D. Performance Monitoring of All Projects:

1. Analyze annual and monthly financial statements.
2. Analyze the project's overall performance and potential.
3. Analyze subsidy requirements, types, usages, reserves, and availability.
4. Analyze long term capital needs.
5. Assure the owners analyze property tax assessments.
6. Consider mortgage relief when appropriate.
7. Ensure owners provide adequate housing at the lowest possible cost.

E. Additional Performance Monitoring of Projects With HUD-Held Mortgages, including direct loans:

1. Assist in escrow analyses.
2. Analyze causes of default and/or delinquency.
3. Combine the results of analyses and

work with owners/managing agents in developing reinstatement plans, including modification or restructuring of indebtedness.

4. Collect all debt, particularly delinquent debt.
5. Initiate foreclosure when necessary.

1-14. Loan Servicing/Asset Management Skills: Loan Specialists/Asset Managers must be real estate generalists. This profession requires the development of a broad range of skills, some of which are described below. Loan Specialists need the following skills to be effective:

- A. Negotiating. Loan Specialists/Asset Managers need to be able to negotiate as actions are taken or decisions made. Negotiation skills result in generally less time consuming and more effective results being achieved. Asset Managers should try to gain voluntary cooperation from owners and lenders to comply with program requirements when possible. In turn, the same skills should be expected of the mortgagees, owners, and managing agents with whom HUD is involved.
- B. Legal. Although Field Offices have attorneys, Asset Managers need to be conversant with the legal requirements and terms used in the industry. They should be able to read and understand the statutes and regulations that establish policy and requirements. Asset managers need to be able to understand and apply the provisions of Regulatory Agreements, mortgages, notes, leases, etc. However, Asset Managers should never attempt to provide legal advice, explanations, or interpretations of statutes or regulations. When legal expertise is needed, the Loan Specialist/Asset Manager should arrange for the Field Office

attorney to be present during meetings or to concur on correspondence when appropriate.

- C. Architectural and Engineering. Asset Managers are not expected to be architects, engineers, or construction analysts or to provide architectural/engineering advice, but they should have a working knowledge of building construction, structures, building components, and building and construction terminology in order to conduct physical inspections of projects and to evaluate Reserve Fund for Replacements requests, Flexible Subsidy loan applications, etc.
- D. Financial Analysis and Accounting. Loan Specialists/Asset Managers need strong skills in the financial area, because many decisions are based on applications of quantitative methods and procedures.
- E. Appraisal. Loan Specialists/Asset Managers should have a general understanding covering appraisals and have an appreciation for the principles that determine property values,
- F. Taxation. Loan Specialists/Asset Managers should have an awareness of the effects of property and income taxes on project performance and on the communities in which projects are located.
- G. Economics and Marketing. Loan Specialists/Asset Managers need to understand the various forces at work in the marketplace, including the local supply of and demand for housing, the health of the economy (local, regional, and national), employment trends, and overall demands for capital and trends in financial markets..
- H. Insurance. Loan Specialists/Asset Managers should be able to analyze a

project's insurance needs and requirements.

- I. Property Management. Loan specialists/Asset Managers must be able to evaluate all aspects of the management of a project and be able to provide owners and managing agents help and assistance to assure effective management.
- J. Business Judgement. Perhaps most important of all, Loan Specialists/Asset Managers must have a deep knowledge and appreciation of the real estate business environment, of what it is like to have to make payroll, pay vendors, pay insurance premiums, make mortgage payments, pay returns to investors in mortgage companies and projects, and deal with government regulations and requirements that come from all levels of government. Without this understanding, asset management efforts will almost certainly not succeed. In addition, Loan Specialists/Asset Managers need to use good judgement along with a high degree of skill in using logic and creative problem solving.

### SECTION 3. APPLICATIONS OF ASSET MANAGEMENT CONCEPTS

- 1-15. Loan Servicing vs. Asset Management. Loan servicing encompasses tasks that directly involve loan administration. These activities are performed by mortgagees and generally include servicing loan payments, escrow accounts, real estate taxes, insurance contract changes, and delinquent loans. Reference is made to HUD Handbook 4350.4, Insured Multifamily Mortgage Servicing and Field Office Remote Monitoring Handbook, for a full discussion of loan servicing. In actuality, HUD Field Office Loan management/Asset Management staff perform "hands on" loan servicing/loan administration tasks only to the extent that they engage in the various loan administration activities for loans that are held and serviced by HUD, i.e.,
-

---

4350.1 REV-1

---

where HUD itself is the mortgagee. Since the preponderance of projects in the portfolio of the Field Office Loan Management Branches have loans that are insured by HUD rather than loans that are held by HUD, most of the work of these Branches may be categorized as asset management and working with the mortgagor and mortgagee to assure good management is practiced by all concerned.

- 1-16. Asset Management Initiatives. Aggressive asset management of projects with insured and HUD-held mortgages and direct loans/capital advances by HUD personnel is of vital importance. HUD staff should seize the initiative to maintain continuous knowledge of all aspects of project operations, maintenance, and financial status so that unfavorable conditions can be identified and corrected promptly. Asset management based upon passively waiting for requests from mortgagors or mortgagees is not an acceptable practice.
- 1-17. Objectivity. Asset Managers always must maintain objectivity in their negotiations, recommendations, and decisions. Participants in HUD's programs include mortgagees, owners, managing agents, other public officials, and tenants; at all times these should be treated in a businesslike manner as well as to assure nondiscrimination. Decisions and recommendations that are arbitrary are unacceptable -- they will not stand scrutiny, challenges, or the tests of time. Loan Specialists/Asset Managers always must give the same consideration to all parties involved in the programs of HUD. They must exert every effort to remain polite and courteous in their oral and written communications with all persons.
- 1-18. Project Residents. Although residents of HUD projects are not considered to be "Third Party Beneficiaries" under the Regulatory Agreement or contract of mortgage insurance, HUD insists that all residents be treated with respect and that their concerns and complaints are addressed in a fair and nondiscriminatory manner. Project residents are critical to the
-

success of a project. HUD encourages owners and managers to recognize this value and the special relationship that exists among residents, owners, and managers. Many residents receive the benefits of one or more of HUD's subsidy programs. Loan Specialists/Asset Managers also need to remain sensitive to information received from and the concerns of prospective, current, and former residents. Residents often may be excellent sources of information about a property and also may provide early indications of favorable or adverse trends occurring in a project. Certain proposals or requests require the owner/managing agent to request resident input; Loan Specialists/Asset Managers should give consideration to residents' concerns when recommending decisions about these proposals.

- 1-19. Recommendations for Effective Communication. Asset Managers need to be able to communicate effectively when writing and speaking. References to specific regulations, handbooks, etc. are more helpful than general or vague references. Keeping the tone of communications impersonal conveys a sense of impartiality and a set of consistent requirements for all parties. Preserving a helpful, tactful attitude fosters a spirit of cooperation.
- 1-20. Other Communication Principles for Loan Specialists/Asset Managers. These include:
- A. Answer all written requests for assistance or information in writing, particularly requests for financial relief or assistance (e.g., rent increases, modifications of note and mortgage, Section 8 funding, and Flexible Subsidy assistance.)
  - B. Consider all reasons, documents, and data given by the mortgagor in support of a request for financial assistance or other relief. Consider the effects on project operations whether the request is approved or denied.
-

---

4350.1 REV-1

---

- C. When denying a request for assistance or relief, particularly a request for financial assistance, state in writing all the reasons for which the request was denied. Demonstrate in the letter to the mortgagor that HUD considered all the reasons for the request. Preserve in the file a written record of all reasons and documents that were used to deny the request.
- D. Answer all written requests for assistance within a reasonable period of time, generally not to exceed 45 days or sooner as established by other program requirements.
- E. Return all telephone calls from the mortgagor or managing agent as quickly as time permits. After all, HUD staff should provide the same responsiveness expected of owners/managing agents.
- F. For all telephone conversations in which an owner requests any kind of forbearance or relief from a substantive HUD requirement, confirm to the owner that the request for such forbearance or relief must be made by the owner in writing in order to be considered and that approval can be made only by the HUD official designated by the Secretary. If written confirmation of this requirement on the part of the owner should be impractical for any reason, at a minimum make a note to the file of the essence, including the date and time, of the conversation.

#### SECTION 4. ORGANIZATION OF THIS HANDBOOK; OTHER REFERENCES

- 1-21. Primary Handbook. Because HUD Handbook 4350.1 is the basic handbook for Field Office Loan Management Branches to use in dealing with project owners/managing agents, it is distributed to the owners with the expectation that it will provide owners as well as HUD staff with insight into practices and procedures HUD believes will lead to effective
-



- asset management. HUD believes that mutual viewpoints and values will develop as these principles are disseminated and discussed. Because this Handbook also may be useful to HUD's Fair Housing and Equal Opportunity (FHEO) field staff into practices and procedures affecting multifamily projects, this Handbook also is distributed to FHEO field staff.
- 1-22. HUD Handbook 4350.1 has been reorganized. Many new subjects and topics have been added to reflect changes in the housing industry. Other topics have been reorganized into separate chapters that more logically relate to asset management and to each other. Some chapters of HUD Handbook 4350.1 may apply to different types of multifamily projects, so the "Applicability" paragraphs of these chapters should be read-closely.
- 1-23. General Guidance. HUD Handbook 4350.1 provides general guidance to Field Office Loan Management staff about their activities with project owners but it is not all-inclusive. HUD Handbooks generally establish various administrative practices, procedures, and guidelines. HUD's policies are promulgated by statute and regulations, the latter being found at Title 24 of the Code of Federal Regulations. Field Office Loan Management staff seldom need to go behind the regulations to research statutory requirements for references about their daily activities or decisions. If or when they need statutory references they generally should seek assistance from HUD's Field or Regional Office Counsel.
- 1-24. Other HUD Handbooks. HUD Handbook 4005.1, Index of Housing Issuances, is a listing of current Housing Handbooks and Changes, Mortgage Letters, Title I Letters, Coinsuring Lender Letters, and Notices. Many of the handbooks needed by Field Office Loan Management Branch staff are contained in the Housing Management series (4300-4399). Handbooks in this series deal with single family and multifamily housing management functions: Property and asset/loan management, reconditioning and contracting, and property

---

4350.1 REV-1

---

disposition. Most of the other handbooks needed by Field Office Loan Management/Asset Management staff from time to time are in the 4400, 4500, and 7400 series. The following is a list of other HUD handbooks used most frequently by Loan Specialists/Asset Managers:

- A. 4350.2, Section 8 Loan Management Set Aside Program for Projects with HUD-Insured and HUD-Held Mortgages.
  - B. 4350.3, Occupancy Requirements of Subsidized Multifamily Housing Programs.
  - C. 4350.4, Insured Multifamily Mortgagee Servicing and Field Office Remote Monitoring Handbook.
  - D. 4350.5, Subsidy Contract Administration and Field Office Monitoring.
  - E. 4350.6, Processing Plans of Action Under the Low-Income Housing Preservation and Resident Homeownership Act of 1990.
  - F. 4355.1, Flexible Subsidy.
  - G. 4370.1, Reviewing Annual and Monthly Financial Reports.
  - H. 4370.2, Financial Operations and Accounting Procedures for Insured Multifamily Projects Handbook.
  - I. 4370.3, Uniform System of Accounts for Cooperative Housing Corporations Using Manual and Computer Accounting Systems.
  - J. 4370.4, Basic Accounting Desk Reference for HUD Loan Servicers.
  - K. 4381.5, Management Documents, Agents and Fees.
  - L. 4571.1 REV-2, Section 202 Direct Loan Program for Housing for the Elderly or Handicapped.
-

- M. 8025.1 REV-1, Implementation of Affirmative Fair Housing marketing Requirements for Multifamily Housing.

(Although primarily used by FHEO staff in carrying out their duties, this Handbook also may be useful to Asset Management/Loan Management staff.)

---