

no increase in subsequent years' distributions.

(2) For projects for non-elderly families the first year's distribution will be limited to 10 percent on equity. The Assistant Secretary may provide for increases in subsequent years' distributions on an annual or other basis so that the permitted return reflects a 10 percent return on the value, in subsequent years, as determined in accordance with HUD guidelines, of the approved initial equity. Any such adjustments will be made in accordance with a Notice in the FEDERAL REGISTER. The HFA may approve a lesser increase or no increase in subsequent years' distributions.

(c) For the purpose of determining the allowable distribution, an owner's equity investment in a project is deemed to be 10 percent of the replacement cost of the part of the project attributable to dwelling use accepted by the HFA at cost certification (See § 883.411), or as specified in the Proposal where cost certification is not required, unless the owner justifies a higher equity contribution through cost certification documentation accepted by the HFA.

(d) Any short-fall in return may be made up from surplus project funds in future years.

(e) If the HFA determines at any time that surplus project funds are more than the amount needed for project operations, reserve requirements and permitted distributions, the HFA may require the excess to be placed in a separate account to be used to reduce housing assistance payments or for other project purposes. Upon termination of the Contract, any excess project funds must be remitted to HUD.

(f) Owners of small projects or partially assisted projects are exempt from the limitation on distributions contained in paragraphs (b) through (d) of this section.

(g) HUD may permit increased distributions of surplus, in excess of the amounts otherwise permitted, to profit-motivated owners who participate in a HUD-approved initiative or program to preserve below-market housing stock. The increased distributions will be limited to a maximum amount

based on market rents and calculated according to HUD instructions. Funds that the owner is authorized to retain under section 236(g)(2) of the National Housing Act are not considered distributions to the owner.

(h) Any State or local law or regulation that restricts distributions to an amount lower than permitted by this section or permitted by the Commissioner under this paragraph (h) is preempted as provided by section 524(f) of the Multifamily Assisted Housing Reform and Affordability Act of 1997.

[45 FR 6889, Jan. 30, 1980, as amended at 65 FR 61075, Oct. 13, 2000; 65 FR 68891, Nov. 15, 2000]

§ 883.307 Financing.

(a) *Types of financing.* A State Agency that used the Fast Track Procedures formerly in this part must provide permanent financing for any new construction or substantial rehabilitation project without Federal mortgage insurance, except coinsurance under section 244 under the National Housing Act (12 U.S.C. 1701 et seq). Obligations issued by the HFA for this purpose may be taxable under section 802 of the Housing and Community Development Act of 1974 (42 U.S.C. 1440) or tax-exempt under section 103 of the Internal Revenue Code (26 U.S.C. 103), 24 CFR part 811 or other Federal Law.

(b) *HUD approval.* (1) A State Agency, prior to receiving HUD approval of its first New Construction or Substantial Rehabilitation Proposal using contract authority under this part, must submit copies of the documents relating to the method of financing Section 8 projects to HUD for review. These documents shall include bond resolutions or indentures, loan agreements, regulatory agreements, notes, mortgages or deeds of trust and other related documents, if any, but does not need to include the "official statement" or copies of the prospectus for individual bond issues. HUD review will be limited to making certain that the documents are not inconsistent with or in violation of these regulations and the administrative procedures used to implement them. After review, HUD must notify the Agency that the documents are acceptable or,

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if unacceptable, will request clarification or changes. This review and approval will meet the requirements of 24 CFR 811.107(a).

(2) When an Agency which has received HUD approval of its financing documents proposes substantive changes in them which affect the Section 8 program, the revised documents must be submitted for review. HUD review will be limited to the areas indicated in paragraph (b)(1) of this section and must be carried out promptly. HUD will notify the Agency that the revised documents are acceptable, or, if unacceptable, will request clarification or changes.

(3) The review and approval of financing documents required under 24 CFR part 811 will constitute HUD approval under this section.

(4) The Agency must retain in its files, and make available for HUD inspection, the documentation relating to its financing of Section 8 projects, including any relating to the certifications of compliance with applicable Department of Treasury or HUD regulations (24 CFR part 811) regarding tax-exempt financing.

(c) *Pledge of Contracts.* The HFA or owner may pledge, or offer as security for any loan or obligation, an Agreement, Contract, or ACC entered into pursuant this part provided that such security is in connection with a project constructed pursuant to this part. Any pledge of the Agreement, Contract, or ACC, or payments thereunder will be limited to the amounts payable under the Contract or ACC in accordance with its terms. If the pledge or other document provides that all payments will be paid directly to the HFA, other mortgagee or the trustee for bondholders, the HFA, other mortgagee or trustee may make all payments or deposits required under the mortgage or trust indenture and remit any excess to the owner.

(d) *Foreclosure and other transfers.* In the event of assignment, sale, or other disposition of the project or the contracts agreed to by the HFA and approved by HUD (which approval shall not be unreasonably delayed or withheld), foreclosure, or assignment of the mortgage or deed in lieu of foreclosure,

(1) The Agreement, the Contract and the ACC will continue in effect, and

(2) Housing assistance payments will continue in accordance with the terms of the Contract, unless approval to amend or terminate the Agreement, the Contract or the ACC has been obtained from the Assistant Secretary.

(e) In the case of a newly constructed or substantially rehabilitated manufactured home park, the principal amount of any mortgage attributable to the rental spaces in the park may not exceed an amount per space determined in accordance with § 207.33(b) of this title.

[45 FR 6889, Jan. 30, 1980, as amended at 45 FR 56327, Aug. 22, 1980; 48 FR 12709, Mar. 28, 1983; 49 FR 17449, Apr. 24, 1984; 61 FR 13592, Mar. 27, 1996]

§ 883.308 Adjustments to reflect changes in terms of financing.

(a) *Certifications of projected financing terms.* When an HFA, under this part, provides permanent financing for a project through the issuance of obligations and these are not sold until after the contract rents for a project have been set, the HFA must submit, with the Proposal, a certification of:

(1) Its projected rate of borrowing (net interest cost), based on a reasonable evaluation of market conditions, on obligations issued to provide interim and permanent financing for the project,

(2) The projected cost of borrowing to the owner on interim financing for the project,

(3) The projected loan amount for the project,

(4) The projected cost of borrowing and the term of the permanent financing to be provided to the owner for the project,

(5) The projected annual debt service for the permanent financing on which the Contract Rents are based, and

(6) The override, if any.

(b) *Revised certifications.* If, at any time prior to the execution of the Agreement, the terms and conditions of financing change, other than the HFA's projected cost of borrowing, the HFA must submit revised certifications based upon the new terms.