significantly deteriorated surrounding neighborhood conditions with inadequate police or fire protection; high crime rates; drug infestation; or lack of public community services needed to support a safe and healthy living environment for residents.

(d) HUD determines the project is unfit for rehabilitation.

(e) Rehabilitation would cost more than constructing comparable new housing.

(f) A reduction in the number of units in the project will enhance long-term project viability, for example, demolition of a building to provide space for a playground, open space, or combining one-bedroom units to create larger units for families.

(g) Continued preservation of the project as rental or cooperative housing is not compatible with State or local land use plans for the area in which the project is located.

Subpart I—Sale of HUD-Held Multifamily Mortgages

§ 290.100 What is the purpose of this subpart?

The purpose of this subpart is to set out HUD's policy regarding the sale of subsidized and unsubsidized HUD-held mortgages. Except as otherwise provided in § 290.106(a)(2), the Department will sell these mortgages on a competitive basis. HUD retains full discretion to offer any qualifying mortgage for sale and to withhold or withdraw any offered mortgage from sale. However, when a qualifying mortgage is offered for sale, the procedures set out in this part will govern the sale.

§ 290.102 What effect does this subpart have on the applicability of Civil Rights requirements?

Nothing in this subpart relieves HUD or housing that receives federal financial assistance from federal civil rights requirements, including section 504 of the Rehabilitation Act, Title VI of the Civil Rights Act of 1964, Title VIII of the Civil Rights Act of 1968, the Age Discrimination Act of 1975, Executive Order 11063, and related regulations and requirements. This includes housing in which less than 50% of the units are receiving housing assistance payments under either Section 23 or Section 8 of the United States Housing Act of 1937 and housing in which the rent of any unit is paid by a Section 8 certificate or voucher.

§ 290.104 What tenant protections will apply in the sale of HUD-held subsidized mortgages?

HUD will only sell subsidized mortgages if the sale is part of a transaction that will ensure that the project subject to the mortgage will continue to operate, at least until the maturity date of the mortgage, in a manner that will provide rental housing on terms at least as advantageous to existing and future tenants as the terms required by the program under which the mortgage was insured prior to its assignment.

§ 290.106 How will HUD sell current subsidized mortgages?

HUD will sell current mortgages, as follows:

(a) *Current mortgages with FHA mortgage insurance* will be sold either:

(1) On a competitive basis to FHAapproved mortgagees; or

(2) On a negotiated basis, to State or local governments, or to a group of investors that includes an agency of a State or local government, if:

(i) The terms of the sale include an agreement by the State or local government, or an agency of the State or local government, to:

(A) Act as mortgagee or owner of a beneficial interest in the mortgage; and

(B) Ensure that the project will maintain occupancy by the tenant group originally intended to be served by the subsidized housing program; and

(ii) The sales price is the best price that HUD can obtain from an agency of a State or local government while maintaining occupancy for the tenant group originally intended to be served by the subsidized housing program.

(b) Current mortgages without FHA mortgage insurance will be sold if HUD can offer protections equivalent to those listed for an insured sale in paragraph (a) of this section.

§ 290.108 How will HUD sell delinquent subsidized mortgages?

Delinquent mortgages will be sold only if, as part of the sales transaction:

(a) The mortgages are restructured; and

(b) Either FHA mortgage insurance or equivalent protections are provided.

§290.110 What is HUD's policy for selling HUD-held unsubsidized mortgages?

HUD's policy for selling HUD-held unsubsidized mortgages is as follows:

(a) *Current mortgages* may be sold with or without FHA mortgage insurance.

(b) *Delinquent mortgages* may be sold without FHA mortgage insurance. However, delinquent mortgages will not be sold if: (1) HUD believes that foreclosure is unavoidable; and

(2) The project securing the mortgage is occupied by very low-income tenants who are not receiving housing assistance and would be likely to pay rent in excess of 30 percent of their adjusted monthly income if HUD sold the mortgage.

PART 886—SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM—SPECIAL ALLOCATIONS

2. The authority citation for 24 CFR part 886 continues to read as follows:

Authority: 42 U.S.C. 1437a, 1437c, 1437f, 3535(d), and 13611–13619.

3. Section 886.302 is amended by revising the definitions of the terms *"Eligible project or project"*, and *"Owner"*, to read as follows:

§886.302 Definitions.

Eligible project or project. A multifamily housing project (see 24 CFR part 290):

(1) For which the disposition in accordance with the provisions of 24 CFR part 290 involves sale with Section 8 housing assistance to enable the project to be used, in whole or in part, to provide housing for lower income families; and

(2) The units of which are decent, safe, and sanitary.

* * * >

Owner. The purchaser, including a cooperative entity or an agency of the Federal Government, under this subpart, of a HUD-owned project; or the purchaser, including a cooperative entity or an agency of the Federal Government, through a foreclosure sale of a project that was subject to a HUD-held mortgage.

* * *

4. Section 886.310 is revised to read as follows:

§886.310 Initial contract rents.

HUD will establish contract rents at levels that, together with other resources available to the purchasers, provide sufficient amounts for the necessary costs of rehabilitating and operating the multifamily housing project and do not exceed 120 percent of the most recently published Section 8 Fair Market Rents for Existing Housing (24 CFR part 888, subpart A).

5. Section 886.311 is revised to read as follows:

§886.311 Term of contract.

The contract term for any unit shall not exceed 15 years, except that the term may be less than 15 years as