CHAPTER 10. MORTGAGE CREDIT ANALYSIS

10-1. GENERAL. Mortgage insurance under Section 213 investor sponsored projects provides a method of financing the construction of multi-family projects for subsequent sale to a Management Type Cooperative. The investor sponsor must certify his intention to sell to a management type cooperative mortgagor within a period of two years at a price not in excess of the certified actual cost of the project. In the event the investor-sponsor fails to convey to a Cooperative Mortgagor within a two year period he must operate the project as a limited distribution mortgagor on a rental basis under the usual Assistant Secretary-FHA Commissioner regulation rents, carrying charges, capital structure, rate of return and methods of operation. However failure to sell the project to a management type cooperative makes the investor-sponsors and any companies in which they have an interest ineligible to receive further commitments under this Section. Mortgage Credit Analysis of acceptability of the investor sponsor is completed in accordance with basic Section 207 instructions (Reference (3) of the Foreword), except as hereinafter set forth.

10-2. AMOUNT AND AMORTIZATION PERIOD OF LOAN. The amount of mortgage will be the amount applied for but not to exceed the maximum permitted under the statutory and regulatory limitations under Section 213 of the National Housing Act. The mortgage should involve a principal obligation in an even multiple of $100.

a. New Construction - includes all projects not involving rehabilitation or reconstruction of existing structures. Insurable mortgage amount may not exceed thee lowest of:

* (1) 90% of the total estimated replacement cost of the property in fee simple.

(2) An amount attributable to dwelling use excluding exterior land improvements not to exceed: (The mortgage amount may exceed these limits by not more than 90% of the cost not attributable to dwelling use including exterior land improvements.) *

* (3) The per room or per unit amounts set forth under limitations applicable to Management Type Cooperatives. *

b. Rehabilitation - includes only those projects involving the rehabilitation or reconstruction of existing construction. Insurable mortgage may not exceed the lowest of:

(1) The amounts set forth under New Construction except the * percentage limitation under paragraph 10-2.a.(1) thereof * will be based on value rather than replacement cost.

(a) Property Owned - HUD-FHA estimated current cost of rehabilitation plus the lesser of: (i) principal amount of existing indebtedness against property, if any, or (ii) 90% of the HUD-FHA estimate of fair market price of property before rehabilitation after deduction of the value of the leased fee, if leasehold. This amount is further reduced by the amount of special assessments, if any; or

(b) Property to be Acquired - 90% of HUD-FHA estimated current cost of rehabilitation plus the lesser of: (i) 90% of the purchase price of the property, or (ii) 90% of the HUD-FHA estimate of the fair market price of the property before rehabilitation after deduction of the value of the leased fee, if leasehold. This amount is further reduced by the amount of special assessments, if any.

10-3. AMORTIZATION PERIOD OF LOAN. The amortization period described in any mortgage or mortgages in connection with an investor sponsored project may not, in the aggregate exceed 40 years, or be in excess of 3/4 of the remaining economic life of the physical improvements. Because investor-sponsor commitments reflect a dual mortgage amount, two separate FHA Forms 2264A will be completed. One FHA 2264A Form for the Investor-Sponsor and a separate FHA 2264A Form for the determination of the insurable mortgage amount for the Management Type Cooperative Mortgagor as outlined in Reference (2) of the Foreword.

10-4. INSURANCE OF ADVANCES. When the commitment provides for insurance of advances, the procedure for the approval of advance of mortgage proceeds prescribed for Management Type Cooperative will apply.

10-5. ANALYSIS OF ACCEPTABILITY OF PURCHASER (MANAGEMENT TYPE COOPERATIVE). Acceptability of the members of a Management Type Cooperative purchasing the investor sponsored project will be determined in accordance with instructions in the cooperative handbook relating to Management Cooperatives, cited above.

10-6. OPERATING LOSS LOANS - TWO YEAR OPERATING LOSSES. Pursuant to the provisions of Section 223(d) of the National Housing Act, the mortgagor may request and the Assistant Secretary-FHA Commissioner may insure an operating loss loan to cover the excess of taxes, interest, mortgage insurance premiums, hazard insurance premiums, and the expense of maintenance and operation of the project over project income during the first two years following the date of completion of the project. Mortgage credit processing shall be completed in accordance with instruction for Operating Loss Loans contained in the basic Section 207 mortgage credit instructions Reference (3) of the Foreword.

10-7. COST CERTIFICATION. Mortgage credit analysis of allowable costs shall be performed in accordance with Reference (3) of the Foreword, except as modified herein. In Investor-Sponsor projects, it should be borne in mind that the cost certification, when added to HUD-FHA's "as is" value of land, not only may affect the amount of the insurable mortgage as in other programs, but also sets the upper limit at which the project may be sold to the cooperative.

a. Occupancy During Construction Period in Investor-Sponsor Cases: Once operating income is received, the Investor-Sponsor is required to apply a portion of this income to pay for mortgage interest, taxes, and hazard and mortgage insurance premiums included in project cost. Any items thus paid out of project income may not be included in cost certification. Consequently, a careful review of the items must be made to eliminate any duplication of the charges.

b. Operating Income. The treatment of operating income is discussed in the preceding paragraphs of this Handbook as it relates to the ultimate maximum sale price to the cooperative entity and the disposition of project income after completion. Review of the broader discussion will be helpful in determining the portion of project income that shall apply in reduction of the project costs to the cooperative.

(10-7) c. Legal, Organization and Marketing Expense:

(1) In Investor-Sponsor cases, two legal and organizational expenses are involved in addition to marketing expense, and should be reflected separately in FHA Form 2330.

(a) Namely, the expenses involving the mortgagor (Investor-Sponsor), and

(b) Those involving the cooperative corporation formed to purchase the project.

(2) The Investor-Sponsor, in addition to constructing the project, has the statutory obligation to use his best efforts to sell the project to a cooperative and his marketing expenses in doing so are therefore properly includable. Marketing expense are computed in accordance with the instructions set forth in Reference (12) of the Foreword in this Handbook.

(3) If before final endorsement the legal and organizational sum attributable to the cooperative has been exhausted by HUD-FHA approved draws against same, the Investor-Sponsor may deposit additional sums with the mortgagee prior to final endorsement for application against further organizational expenses of the cooperative (as approved by the HUD-FHA) and to the extent that such additional sums are used for this purpose with HUD-FHA approval they may be included in cost certification. (See Reference (3) of the Foreword.)