

CHAPTER 3. SECTION 223(e) ADMINISTRATIVE INSTRUCTIONS

3-1. GENERAL.

- a. Section 103 of the Housing and Urban Development Act of 1968 added a new Section 223(e) to the National Housing Act which authorized the Secretary to insure under any Section in Title II of the Act, either single or multifamily construction, a mortgage executed in connection with the repair, rehabilitation, construction, or purchase of property located in older, declining urban areas in which conditions are such that one or more of the requirements of the Title II cannot be met. In order to insure mortgages under these provisions, the Secretary must find that the area is reasonably viable, considering the need for adequate housing for families of low- and moderate-income in the area and, in view of such consideration, that the property is an acceptable risk.
- b. The purpose of Section 223(e) is to permit the use of HUD-FHA mortgage insurance in older, declining urban areas, in order to provide housing for low- and moderate-income families and to contribute to the upgrading or stabilization of such areas.
- c. To accomplish these important objectives, HUD-FHA is authorized to recognize the increased underwriting risk involved and to place the insured mortgage in the Special Risk Insurance Fund rather than in the insurance funds for other Sections under which applications are submitted. In establishing the Special Risk Insurance Fund, the statute appropriations to cover any losses or administrative costs not met by reasonable premium charges.
- d. Applications will be analyzed pursuant to established underwriting criteria for the program under which the application is originated. However, many properties located in older, declining urban areas will not meet normal eligibility requirements relative to property location and term of the mortgage.
- e. For properties insured pursuant to Section 223(e), HUD-FHA will waive normal "economic soundness" and "economic life" requirements with respect to location and term of the mortgage, if the property is in a location which is judged to be reasonably viable, considering the need for housing for low- and moderate-income families and the objective of upgrading older, declining neighborhoods.

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- f. In the case of home mortgages, the term of the mortgage shall not exceed 30 years; except that, if, in the judgment of the Field Office, the mortgagor cannot qualify under a 30-year mortgage, a 35-year term may be

authorized, or up to 40 years in Section 221(d)(2) cases.

- g. In the case of multifamily properties, the term shall not exceed 40 years.
 - h. Under these circumstances the property may be considered an acceptable risk and insured under the applicable Section of Title II pursuant to Section 223(e).
- 3-2. APPLICATION NUMBERING. The mortgagee's application will be submitted, received, and numbered under one of the regular Title II programs; i.e., 203(b), 221(d)(2), 207, etc. It will be noted that it cannot be determined prior to processing whether the mortgage will qualify for insurance under the Section for which application for commitment was made. If the commitment is to be issued pursuant to Section 223(e) the Field Office will strike the Section of the Act suffix code and insert the Section 223(e) suffix code. For example, if the application was submitted for processing under Section 203(b), the Section 203 code must be changed to Section 303, thus indicating that the commitment was issued pursuant to Section 223(e).
- 3-3. FEE AND PREMIUM COLLECTIONS. All fees and premiums for commitments issued pursuant to Section 223(e) will be collected on the same basis and at the same rate as currently provided in the HUD-FHA regulations for the program under which the mortgage could not qualify for insurance.
- 3-4. COMMITMENTS. All commitments for insurance under the applicable Section of the Act issued pursuant to the provisions of Section 223(e) will bear the following statement on their face, either by typing or rubber stamp:
- "This commitment is issued under Section (insert applicable section) pursuant to Section 223(e)."
- 3-5. INSURANCE ENDORSEMENT. Upon presentment of loans for insurance endorsement, the following statement must be typed or stamped on the reverse side of HUD-FHA Form 9100-1, Mortgage Insurance Certificate, or in the endorsement panel of the note in multifamily cases:

"Endorsed for mortgage insurance under
Section _____ pursuant to
Section 223(e)."

In home mortgages cases on the front of the insurance certificate, after the word "Section," the mortgagee must insert the Section 223(e) suffix code shown on the commitment followed by Section 223(e), for example, Section 303/223(e). Care must be taken to assure that the Section of the Act designation, and all other required items of information are correctly entered on the certificate and both underlays, and that ADP cards and

fiscal records have been reported properly.

3-6. CLAIMS FOR INSTANCE BENEFITS. All properties conveyed or all mortgages assigned to the Secretary pursuant to the provisions of Section 223(e) will be the obligation of the new Special Risk Insurance Fund and claims for insurance benefits will be settled by payment in cash.

3-7. REPORTS.

a. The number of home mortgage commitments issued each week pursuant to Section 223(e) shall be reported on the Weekly Report of Operations, FHA Form 2498, as follows:

(1) Total Number of HR*Conditional
Commitments _____

(2) Total Number of HR*Firm
Commitments _____

*High Risk

b. Also, each Field Office shall maintain a listing of home mortgage conditional commitments in the following format:

Home Mortgage Conditional Commitments

Case Number	Section of Act	Property Location (Complete Address)	Mortgage Amount	Date of Commitment	Name and Complete Address of Mortgagee
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* c. This listing shall be prepared and maintained in a 3-ring binder and shall be available to the public as a register of commitments.

3-8. FISCAL INSTRUCTIONS. For fiscal instructions see references (2) and (4) of the Foreword.