
CHAPTER 3. COMMITMENT STAGE

3-1. COMMITMENTS FOR INSURANCE - GENERAL CONSIDERATIONS. Unless otherwise indicated below, HUD-FHA commitments fall into two general categories, those involving the insurance of mortgage advances during the construction period and those where the mortgage note is to be endorsed for insurance only when the required construction has been satisfactorily completed. The different factors involved in closing these two types of transactions are described in detail in Chapter 4, "Initial Endorsement" and Chapter 6, "Final Endorsement" of this handbook.

- a. Commitment Amount. The amount to be inserted in the appropriate space on the commitment is the maximum insurable loan, as shown on FHA Form 2438.

The FHA regulations (Section 213.7 for projects insured under Section 213 and Section 221.514 for projects insured under Section 221) point out the basic limitations which are applicable. It will be noted that the amount may not exceed a specified percentage of the HUD-FHA estimate of replacement cost nor a specified amount per bedroom. Provision is made for the dollar limitations to be increased in high cost areas and in cases where the project is to consist of elevator type structures. On the other hand, the permissible amount is subject to reduction in leasehold cases.

- b. Interest Rate. The rate will be that shown on the application, but shall not exceed the rate set forth in the applicable FHA Regulations.

- c. Commitment Fee. Enter in the appropriate space the amount calculated on the basis of \$3.00 per thousand of the mortgage amount set forth in the commitment, less the amount of any application and commitment fees previously collected. On an amended commitment, the full amount of the fee shall be shown with a notation "less \$_____ previously paid."

The commitment fee, under the revised commitment forms, must be paid within 30 days after the date of the commitment. The previous discretion of the Field Office Director to extend the period in which this fee may be paid has been eliminated.

- (3-1) d. Inspection Fee. The inspection fee is calculated on the basis

of \$5.00 per thousand of the amount of the commitment.

Reference (3) of the Foreword should be consulted for more precise information relating to commitment and inspection fees.

e. Date of First Amortization Payment. The Chief Underwriter or Assistant Director for Technical Services will recommend the date of the first amortization payment.

(1) The Director will determine the commencement date, but in no event shall the following periods be exceeded under commitments involving insurance of advances:

Mortgage Amount	Maximum Period for First Amortization Payment
Not in excess of \$ 500,000	15 months
Not in excess of 1,000,000	19 months
Not in excess of 2,500,000	21 months
Not in excess of 5,000,000	27 months
Over 5,000,000	33 months

(2) While the foregoing represent the maximum periods allowable between the date of the mortgage and the date for the start of amortization, within those limitations the Director will allow no more than a reasonable period for completion of the project and for obtaining the required occupancy.

(3) In insurance upon completion cases, the commitment termination date is determined on the above basis and this has a bearing on the time the first amortization payment must be paid, as set forth in the commitment form.

f. Amortization Term. The term to be inserted may not exceed 480 months in Management, investor and non-profit Sponsor Type cases. (See Figure 1, "Available Amortization Plans for Multifamily Mortgages and Loans.")

g. Ground Lease. When a ground lease has been authorized, the purchase amount (to be inserted in the first space provided) may not exceed the Estimate of Market Price of Site as of the date of the lease, as pointed out in the Underwriting

instructions; and the amount to be inserted in the space provided for annual rental shall be determined at time of

processing.

A detailed statement of leasehold requirements is set forth in Chapter 4., Paragraph 4-11.a., of this Handbook.

- h. Termination Date. The date to be inserted in insured advances cases should not be later than 180 days after the date of the commitment and will depend upon the size of the project with consideration being given to whether presale of the memberships is required under the commitment in question.

As to insurance upon completion cases, see the instructions above under the heading "Date of First Amortization Payment."

- i. Fund for Replacements. In commitments requiring a fund for replacements, enter one-twelfth of the amount shown on FHA Form No. 2264 -B, Income Analysis and Appraisal for Cooperative Housing.

Escrow Deposit to Cover Cost of off-Site Utilities and Streets: In commitments requiring an escrow of this nature, insert the amount shown on page 3, Item L of FHA Form 2264-B.

3-2. COMMITMENTS, MANAGEMENT TYPE, SECTION 213.

- a. Insured Advances. The appropriate form to be used is Commitment for Insurance of Advances, Management Type, FHA Form 3206.
- b. Insurance Upon Completion. The appropriate form to be used is Commitment to Insure Upon Completion, Management Type, FHA Form 3209.

3-3. COMMUNITY FACILITIES IN MULTI-SECTION COOPERATIVE DEVELOPMENT. Community facilities may be constructed with mortgage proceeds from all sections in order to spread the cost of operating and maintaining the facilities among all members of the cooperative regardless of location.

- a. In Processing, the HUD office will estimate the total cost of construction of the community facilities and spread such estimated cost equally among the proposed sections of the development. The amount to be paid under the construction

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- (3-3) contract (including the cost breakdown) pertaining to the mortgage parcel where the community facilities will be physically located will include only that section's allocation for community facilities. No other section's construction

contract (or cost breakdown) will include any allocation for community facilities. Instead, there should be an underlying agreement (such as the Agreement for Sale of Land and Development of Project used by some cooperative sponsors) whereby the cooperative will agree to pay the contractor the total of all sections' allocations for community facilities if, as and when such allocations are made available from mortgage proceeds.

- b. For Example, a cooperative to be built in three sections may include community facilities to be constructed in connection with the first section at an estimated cost of \$30,000. The "estimated replacement cost" for each mortgage section will include an allocation of \$10,000 for "accessory buildings." The contractor and the cooperative will agree that the consideration to be paid for the community facilities will be \$30,000, if all three sections are developed as contemplated. The construction contract for section one will include that section's allocation of \$10,000 for the community facilities, which will be disbursed to the contractor as the work progresses pursuant to the terms of the contract. At the time of the initial closing of any subsequent section or upon completion of the community facilities, whichever is later, that section's allocation for community facilities may be disbursed to the contractor. If the community facilities have not been completed at the time of the final closing of any mortgage section where the facilities are not located, that section's allocation therefor will be escrowed with the mortgagee until completion.
- c. An Alternative Procedure may be followed if the cooperative and the builder wish to include the total consideration to be paid for the community facilities in the construction contract for the section where they are to be built. In such a case, "over and above money" equal to the amount of the other sections' allocations will be required at the time of the initial closing of the section. Under the circumstances of the first example where the facilities are to be built in the first section, the construction contract for that section

would include \$30,000 for the community facilities. At the initial closing of section one, the cooperative, the builder or the sponsor must "advance" (interest free) the required \$20,000 over-and-above money to enable the closing to be held. At the time of the initial closing of section two, that section's allocation of \$10,000 would be disbursed to the party advancing the funds for the earlier closing. Likewise, the third section's \$10,000 allocation would be disbursed to

such party at the time of that section's initial closing, thus returning the full amount of the advance made to enable the first closing. If the community facilities were to be located in section two and built under that section's contract, the \$10,000 allocation from section one (assuming it has been initially closed) would be made available to the cooperative for use as over and above money in connection with the section two closing, and a \$10,000 advance would have to be made by another party. Similarly, if the community facilities were to be located in section three, the allocations from sections one and two would be made available from mortgage proceeds from those two sections, thus avoiding the necessity of any advance by another party.

- d. Preferable Procedure. Obviously, the first procedure outlined above is preferable since it is less cumbersome and more easily followed by all the parties. However, the circumstances of the case may dictate the use of the alternative procedure.

3-4. EXTENSION OF COMMITMENT. If arrangements for initial closing of the mortgage transaction cannot be completed within the original terms of the commitment, the HUD-FHA Director may, in his discretion, extend for additional 60-day periods upon written request from the mortgagee, provided the commitment fee has been paid as required. Under commitments for new construction and substantial rehabilitation where the presale of cooperative memberships is a condition to insurance endorsement, and to give effect to the additional time factors which this may involve, such commitments may be extended for a period of time equal to the number of months of the original commitment provided the Sponsorship Organization and the Builder are diligently pursuing * their responsibilities. *

- a. Before Every Extension or Renewal, the case will be reexamined to determine whether the commitment should be extended or renewed in the same amount, or should be reissued in a different amount, or should be allowed to terminate.

- b. If an Extension or Renewal is Granted, the mortgagee will be informed of the action by letter, prepared in a six-copy form and distributed in the same manner as an executed commitment. Such letters of extension or renewal must be specific as to the new expiration date of the commitment.

3-5. EXPIRATION OF COMMITMENT. When a commitment is terminated, a memorandum to that effect will be placed in the duplicate docket.

3-6. REOPENING OF COMMITMENT. Reference (4) of the Foreword describes the circumstances under which an expired commitment may be reopened upon the payment of a reopening fee.

3-7. ASSIGNMENT OF COMMITMENT. An outstanding commitment may be assigned from one approved mortgagee to another, but such
* assignment will be accompanied by the assignee's acceptance. To establish his position, the assignee will furnish the Field Office with four certified copies of the assignment, acceptance, and consent in a form acceptable to the Area Counsel. One copy will be filed in the Washington docket, one in the duplicate docket, the third will be forwarded to the Office of Underwriting Standards and the fourth to the Area Counsel.

3-8. AMENDMENT OR RE-ISSUE OF COMMITMENT. Where a request for amendment or re-issuance of a commitment adversely affects the rights of the cooperative subscribers, their written consent will be obtained as a prerequisite to consideration of the request.

a. No Outstanding Commitment Will be Amended or Reissued Until *
and unless the Field Office has regained possession of the original and all copies of the commitment.

b. An Outstanding Commitment may, in the discretion of the Director, be changed either by amendment or by reissue.

c. In Accepting an Amended Commitment the mortgagee does not relinquish any rights under the FHA Regulations in effect at the time the commitment was originally issued unless specifically required by the terms of the amendment.

(1) In cases where the mortgagee applies for an amendment in order to obtain the benefits of changes in the FHA Regulations adopted subsequent to the original commitment date, the amendment to the commitment may require the mortgagee to be bound by the obligations (as well as receiving the benefits) of the FHA Regulations in effect on the date of the amendment.

(2) When important changes are made in the FHA Regulations, instructions will be issued by the Washington headquarters as to the action to be taken in amending commitments and specifying whether provisions should be included in the amendment obligating the mortgagee to accept any new obligations imposed by the amended rules and regulations when it seeks to obtain the new benefits.

- (3) An outstanding commitment may be amended as to any of the terms thereof, or parties thereto, except when a change in location is proposed, or an increase in mortgage amount is sought, or changes in plans and specifications are so extensive as to require the request to take the form of a new application.
 - (4) An amended commitment must bear the same date of issuance as the original commitment and the same project number and, in addition, must have inserted under the original date of issuance the notation "As amended _____." (date)
- d. In Accepting a Reissued Commitment, the mortgagee relinquishes all rights under the FHA Regulations governing the original commitment and accepts in their place those rights in effect at the time of reissue. A request for a commitment change involving a different location, or proposing an increase in mortgage amount, or seeking reconsideration of an expired or terminated commitment may be accommodated only by reissue. A reissued commitment must show the actual date of reissue and the same project number, but need bear no cross reference to the previous commitment.
- 3-9. TIME PERIODS IN INSURANCE UPON COMPLETION CASES. In insurance upon completion cases the commitment provides for commencement of construction within 30 days from the date of the commitment.
- a. If the Mortgagee Requests an extension of this Period in Writing the Director may, in his discretion, grant additional 30-day extensions. The Director may also in his discretion, grant corresponding extensions of the expiration date of the commitment. Letters extending the period for commencement of construction and, if necessary, the corresponding extensions of the expiration date of the commitment will be prepared and distributed in accordance with procedure for preparation and distribution of the commitment.

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- * b. If the Mortgagee Requests an Extension of the Expiration Date of the Commitment During Construction, the Director may, in his discretion, grant the request. Extensions should be held to the minimum period of time essential to completion of construction.
- c. After Issuance of a Commitment to Insure Upon Completion, no revision of the terms and conditions of the commitment, which will result in an increase in the original amount of the mortgage to be insured, will be permitted without prior

approval of the Subscribers in accordance with paragraph 3-8.a.

d. The Original Commitment in Insurance Upon Completion Cases should not be issued until the Director has received for retention in the Field Office a master set of the applicable drawings and specifications, complete in all respects for all on-site construction, and three duplicate sets of such drawings and specifications; and until the determination of prevailing wages by the Secretary of Labor has been received and delivered to the mortgagor.

- (1) The master set of drawings and specifications must be identified on each page thereof and initialed on the reverse side of each page by authorized representatives of the mortgagor, the mortgagee, the architect, and the Assistant Secretary-FHA Commissioner. (Identification for the Assistant Secretary-FHA Commissioner will be evidenced by signature of the chief architect.)
- (2) Before acceptance of such drawings and specifications as complete, the Director will determine that the specifications contain the "American Institute of Architects General Conditions of the Contract" and required "Supplementary General Conditions." The Director must also determine, through the Chief Underwriter, or Assistant Director for Technical Services that construction of the project will involve no violation of zoning laws or regulations.

3-10. DISTRIBUTION OF COMMITMENTS. The original commitment, accompanied by copies of FHA Form 2264 and 2419, will be forwarded to the mortgagee, and copies thereof will be distributed to the following parties: mortgagor; HUD Area Counsel; Regional Multifamily Housing Representative; Washington Docket; Duplicate Docket. The forms required to be forwarded to the Office of Underwriting Standards (including the Commitment) are listed in Chapter 2, paragraph 2-2. of this handbook. *

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CHAPTER 3, FIGURE 1

AVAILABLE FHA AMORTIZATION PLANS FOR MULTIFAMILY MORTGAGES AND LOANS

COOPERATIVE HOUSING (40 YEARS)

Interest Rate	Years of Remaining Economic Life	Maximum Term Years Months	Number of Payments	Initial Curtail Rates
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7-1/2%	50	40	0	480	.396850%
7-1/2	45	35	0	420	.590911
7-1/2	40	30	0	360	.890575
7-1/2	35	25	0	300	1.367894
7-1/2	25	20	0	240	2.167118
7-1/2	20	15	0	180	3.624149
7-1/4	50	40	0	480	.426064
7-1/4	45	35	0	420	.627608
7-1/4	40	30	0	360	.936116
7-1/4	35	25	0	300	1.423683
7-1/4	25	20	0	240	2.234512
7-1/4	20	15	0	180	3.704355
7	50	40	0	480	.457176
7	45	35	0	420	.666277
7	40	30	0	360	.993631
7	35	25	0	300	1.481352
7	25	20	0	240	2.303588
7	20	15	0	180	3.785940
6-3/4	50	40	0	480	.490282
6-3/4	45	35	0	420	.706998
6-3/4	40	30	0	360	1.033177
6-3/4	35	25	0	300	1.540938
6-3/4	25	20	0	240	2.374368
6-3/4	20	15	0	180	3.868914
6-1/2	50	40	0	480	.525482
6-1/2	45	35	0	420	.749852
6-1/2	40	30	0	360	1.084816
6-1/2	35	25	0	300	1.602486
6-1/2	25	20	0	240	2.446877
6-1/2	20	15	0	180	3.953289
6-1/4	50	40	0	480	.562875
6-1/4	45	35	0	420	.794918
6-1/4	40	30	0	360	1.138606
6-1/4	35	25	0	300	1.666033
6-1/4	25	20	0	240	2.521138
6-1/4	20	15	0	180	4.039075

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CHAPTER 3, FIGURE 1

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COOPERATIVE HOUSING (40 YEARS)

Interest Rate	Years of Remaining Economic Life	Maximum Term Years Months	Number of Payments	Initial Curtail Rates
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6	50	40	0	480	.602563%
6	45	35	0	420	.842276
6	40	30	0	360	1.194606
6	35	25	0	300	1.731617
6	25	20	0	240	2.597173
6	20	15	0	180	4.126282

* The monthly payment for a mortgage on the Level Annuity Monthly Payment basis is calculated by dividing the mortgage amount by 1,000, multiplying the result by the applicable figure in the "Monthly Payment to Principal and Interest" column and rounding off the total to the next higher whole cent.

**Principal and interest plus .5% Mortgage Insurance Premium.

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CHAPTER 3, FIGURE 1

AVAILABLE FHA AMORTIZATION PLANS FOR MULTIFAMILY MORTGAGES AND LOANS

COOPERATIVE HOUSING (40 YEARS)

Interest Rate	Years of Remaining Economic Life	Debt Service Rates**	Monthly Payment to Principal and Interest Rate per \$1.000
7-1/2%	50	8.396850%	\$6.580708
7-1/2	45	8.590911	6.742426
7-1/2	40	8.890575	6.992146
7-1/2	35	9.367894	7.389912
7-1/2	25	10.167118	8.055932
7-1/2	20	11.624149	9.270124
7-1/4	50	8.176064	6.396720
7-1/4	45	8.377608	6.564673
7-1/4	40	8.686116	6.821763
7-1/4	35	9.173693	7.228069
7-1/4	25	9.984512	7.903760
7-1/4	20	11.454355	9.128629
7	50	7.957176	6.214313
7	45	8.166277	6.388564
7	40	8.483631	6.653026
7	35	8.981352	7.067793
7	25	9.803588	7.752990
7	20	11.285940	8.988283
6-3/4	50	7.740282	6.033568
6-3/4	45	7.956998	6.214165

6-3/4	40	8.283177	6.485981
6-3/4	35	9.79D938	6.909115
6-3/4	25	9.624368	7.603640
6-3/4	20	11.118914	8.849095
6-1/2	50	7.525482	5.854568
6-1/2	45	7.749852	6.041543
6-1/2	40	8.084816	6.320690
6-1/2	35	8.602486	6.752072
6-1/2	25	9.446877	7.455731
6-1/2	20	10.953299	8.711074
6-1/4	50	7.312875	5.677396
6-1/4	45	7.544918	5.870765
6-1/4	40	7.888606	6.157172
6-1/4	35	8.416033	6.596694
6-1/4	25	9.271138	7.309282
6-1/4	20	10.789075	8.674229

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CHAPTER 3, FIGURE 1

AVAILABLE FHA AMORTIZATION PLANS FOR MULTIFAMILY MORTGAGES AND LOANS

COOPERATIVE HOUSING (40 YEARS)

Interest Rate	Years of Remaining Economic Life	Debt Service Rates**	Monthly Payment to Principal and Interest Rate per \$1.000
6	50	7.102563%	\$5.502136
6	45	7.342276	5.701897
6	40	7.694606	5.995505
6	35	8.231617	6.443014
6	25	9.097173	7.164311
6	20	10.626282	8.438568

* The monthly payment for a mortgage on the Level Annuity Monthly Payment basis is calculated by dividing the mortgage amount by 1,000, multiplying the result by the applicable figure in the "Monthly Payment to Principal and Interest" column and rounding off the total to the next higher whole cent.

**Principal and interest plus .5% Mortgage Insurance Premium.