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PROJECT MORTGAGE INSURANCE  
BASIC SECTION 207 INSTRUCTIONS

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A HUD HANDBOOK

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HOUSING PRODUCTION AND MORTGAGE CREDIT-FEDERAL HOUSING ADMINISTRATION

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D. C. 20410

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FOREWORD

This handbook is a broad overview of highlight aspects of the mortgage insurance program covering multifamily rental housing. The material included and the manner of presentation is believed sufficient to enable one who may have an interest in the program to determine whether it meets his needs and whether he can or wishes to comply with the conditions incident to qualifying for assistance.

It will be noted that not only matters characterized as administrative but also some information of underwriting in nature has been included in the interest of more complete meaningful presentation.

Cancellations: This handbook cancels Handbook HPMC-FHA 1300.6.

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HUD-Wash., D. C.



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CHAPTER 1. PROJECT MORTGAGE INSURANCE,  
BASIC SECTION 207 INSTRUCTIONS

- 1-1. PURPOSE AND OBJECTIVES. The primary purpose of the Section 207 program is to provide good quality housing that will serve the needs of a broad cross section of the rental housing market. Its further purpose is to facilitate the rehabilitation and modernization of residential structures regardless of whether or not they are located in or near blighted areas or slums. In many neighborhoods desirable both as to location and convenience obsolescence can be avoided by upgrading, especially when identified with progressive efforts on the part of other owners in the immediate vicinity. HUD-FHA requires such repair or rehabilitation work as is determined necessary to remove conditions detrimental to safety, health or morals.
- 1-2. AUTHORITY. The basic rental housing program is authorized by Section 207 of the National Housing Act as amended. Public Law 75-424, 12 U.S.C. 1713. Applicable regulations appear in the Federal Register, 24 CFR 207 et seq.
- 1-3. NATURE AND USE. HUD-FHA insures lenders against losses on mortgages up to \$20 million for private mortgagors and up to \$50 million for public mortgagors. Insured mortgages may be used to finance the construction or rehabilitation of rental projects with 8 or more dwelling units. Whether in urban or suburban areas the rental accommodations should be suitable for family living, that is, families with or without children, and should be available at reasonable rents. The unit mortgage limits for non-elevator projects begin at \$13,000 for an efficiency apartment and increase progressively to \$30,000 for an apartment with 4 or more bedrooms. Limits per family unit are somewhat higher for elevator apartments. In areas where cost levels so require, limits per family unit may be increased up to 75 percent. In addition to the foregoing dollar limitations there is a loan-to-value limitation on the maximum mortgage amount equal, in most cases, to 90 percent of the estimated value of the project. \*
- 1-4. ELIGIBILITY REQUIREMENTS.
- a. Applicant Eligibility. Eligible mortgagors include investors, builders, developers and others who meet HUD-FHA requirements for mortgagors.

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- b. Beneficiary Eligibility. All families, subject to normal tenant selection, are eligible to occupy a dwelling in a structure on which a mortgage is insured under the program.
  - c. Property Eligibility. The mortgaged property to be insured must be located in an area approved by HUD-FHA for rental housing and in which market conditions show a need for such housing. The mortgage accepted for insurance must cover a property or project which is economically sound. The term of the mortgage on the eligible property is 40 years, or not appreciably in excess of three-fourths of its economic life, whichever is less.
  - d. Documentation and Credentials. Documentation regarding the characteristics of the property and qualification of the mortgagor are assembled by the mortgagee and submitted with the application for mortgage insurance.
- 1-5. FEES AND CHARGES. The application fee plus the commitment fee is \$3 per \$1000 of the amount of the mortgage applied for and the HUD-FHA inspection fee may not exceed \$5 per \$1000 of such amount. The maximum permissible current interest rate is 7 percent plus 1/2 percent for the mortgage insurance premium.
- 1-6. APPLICATION AND PROCESSING.
- a. Preapplication Coordination. The sponsor has a preapplication conference with the local Field Office serving the area in which the property or project is to be located.
  - b. Application Procedure. The sponsor submits a formal application, through an HUD-FHA-approved mortgagee, to the local Field Office serving the area in which the property or project is to be located.
  - c. Commitment. If the project meets the Section 207 program requirements the Field Office issues, to the lender or mortgagee, a commitment to insure.
  - d. Deadlines. Deadlines are established on a case-by-case basis by the local Field Office and mutually agreed to by the sponsor at the preapplication conference.

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- e. Processing Time. The time needed for processing an application

will range from 3 to 9 months depending on the work load in the Field Office and the degree of preparation by the sponsor.

- f. Appeals. If an application for mortgage insurance is refused HUD-FHA will state the reason for such refusal. If reapplication is desired, the applicant may reapply subject to concurrence of the lender and payment of the appropriate fee.
- g. Renewals. The term of a commitment to insure may be extended if more time is required for good cause shown.

1-7. REQUIREMENTS SUBSEQUENT TO QUALIFICATION.

- a. Reports. Any change of the mortgagor during the period of mortgage insurance must be approved by HUD-FHA and any defaults in meeting the mortgage terms must be reported to the agency. HUD-FHA requires all mortgagors, and mortgagees to submit financial statements. Mortgagors submit statements annually and mortgagees submit statements upon request.
- b. Audits. HUD-FHA reserves the right to audit the accounts of the mortgagor or mortgagee to determine compliance with the statute and HUD-FHA regulations and standards.
- c. Records. Mortgagees are requested to service and maintain records in accordance with acceptable mortgage practices of prudent lending institutions and the HUD-FHA regulations.

1-8. ADMINISTERING OFFICES.

- a. Regional and Field Offices. Persons interested in the Section 207 program should communicate with the nearest local Field Office.
- b. Headquarters Office. Matters within the purview of the Washington Office should be addressed to: Director, Office of Unsubsidized Insured Housing Programs, Housing Production and Mortgage Credit-FHA, Department of Housing and Urban Development, Washington, D. C., 20410.