1. This Circular Transmits the Following:
   HUD Handbook 4550.3, Existing Construction - Cooperative Housing

2. Purpose:
   This Handbook provides procedures, including underwriting procedures,
   necessary to effect conversion of an existing building to a management
   type cooperative in accordance with the provisions of Section
   213(i) of the National Housing Act.

3. Applicability:
   This Handbook contains rules, regulations and policy matters in

4. Cancellations:
   The following issuances are cancelled by 4550.1, 4550.2, 4550.3,
   4550.4, 4550.5 and 4550.6:
   
   FHA Manual - Volume VI, Book 2
   Appendices IV-1, 2, 3, 4, 5, 6, 7
   Paragraph 63402.17-a(1)
   Paragraph 63511-(exceptions)
   Paragraph 63608.6-Note
   Paragraph 63608.6k
   Paragraph 63608.6-o-Note
   Paragraph 63608.6-p-Note
   Paragraphs 63616 thru 63616.6

   Volume VII, Book 2
   Paragraph 72435.2 and Table 1
   Paragraphs 72456 thru 72456.19
   Paragraphs 72514.2 thru 72514.3
   Paragraphs 72627 thru 72627.2
   Paragraphs 72628 thru 72628.2
   Paragraph 72632
   Paragraphs 72717 thru 72717.1
   Paragraphs 72718 thru 72718.3
   Paragraphs 72724 thru 72724.2

4. Cancellations: (Continued)
Circular - HPMC-FHA 4200.11 - Mortgage Insurance on Cooperative Mobile Home Parks
Dated January 4, 1971

HUD-Wash., D. C.

4550.3

EXISTING CONSTRUCTION

COOPERATIVE HOUSING

MAY 1973

PROGRAM PARTICIPANTS AND HUD STAFF

A HUD HANDBOOK

HOUSING PRODUCTION AND MORTGAGE CREDIT-FEDERAL HOUSING ADMINISTRATION

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, D. C. 20410
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FORMS APPENDIX III - EXISTING PROPERTIES

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3-1    3201   Application for Mortgage Insurance (with instructions)
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*3259  Surety Bond Against Defects, etc.
*3261  Model Form of Sales Price Certification (Section 221(d)(3), Transfers of Membership)

*Copy of form included in Forms Appendix Reference (3) of the Foreword.

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FOREWORD

Existing structures may become management type cooperatives. Procedures, including underwriting procedures, necessary to effect conversion of an existing building to a management type cooperative in accordance with the provisions of Section 213(i) of the National Housing Act are set forth in this third handbook of the cooperative housing series. Rehabilitation loans, where at least 25 percent of the mortgage proceeds cover the cost of new physical improvements, provided by Section 213(i) and Section 221(d)(3) Market Interest Rate, are included.

Advice regarding prevailing wage requirements, determination of feasibility, precautionary measures to protect consumers' interests and the interests of tenants, may be found in the first few pages of this handbook. An appendix of model forms and a numerical reference to applicable HUD/FHA Regulations are included for ready reference and convenience.

Applicable instructions contained in preceding handbooks of the cooperative housing series as well as in the basic project mortgage handbooks are incorporated by reference in this handbook.

Copies of this handbook should be made available to the prospective sponsors who have read the basic handbook (Reference 2 of this Foreword) in which the sponsorship criteria is set forth.

Legal Authority:

Subchapter E - Cooperative Housing Insurance

Existing Construction

Subpart A - Eligibility Requirements for Projects - 213.1(a),(b), (c),(d),(f),(i),(j),(k); 213.2 through .6; 213.7(a), (d),(e),(f),(g),(h),(i)-(l)(3),(j); 213.8 through 213.23(b); 213.24 through 213.27(except (f); 213.28 through .30(g); 213.31(except (c)(h)(i); 213.32 through .46.

Subpart B - Contract Rights and Obligations - Projects - 213.251 (except (c),(d)); 213.252; 213.253(c); 213.254(c); 213.255(c); 213.256(c); 213.257(a); 213.258(a); 213.259 and .260; 213.265(a); 213.266 through .268; 213.275 through .280 and 207 except as provided in 213.251.
References:

(1) 4420.1 - Pre-Application Handbook for Project Mortgage Insurance

(2) 4550.1 - Basic Cooperative Housing Insurance Handbook

(3) 4550.2 - Pre-Sale-Management Type Cooperative Handbook (For instruction of Commitment Form 3248 see Chapter 6 Final Endorsement)

(4) HPMC-FHA 4200.15 (4480.1)* - Multifamily Reports and Forms Catalog

(5) 4550.5 - Investor-Sponsor and Non-profit Sponsorship of Housing Cooperative Handbook

(6) 4470.1 - Mortgage Credit Analysis for Project Mortgage Insurance

*The information in parentheses indicates the location of the referenced material in the new classification system.
CHAPTER 1. ADMINISTRATION

1-1. INTRODUCTION. Section 213 (i) of the National Housing Act authorizes HUD-FHA to insure a project mortgage on existing construction under Section 213. The statutory language reads as follows:

"(i) Nothing in this Act shall be construed to prevent the insurance of a mortgage executed by a mortgagor of the character described in paragraph (1) of subsection (a) of this section covering property upon which dwelling units and related facilities have been constructed prior to the filing of the application for mortgage insurance hereunder; Provided, that the Assistant Secretary-FHA Commissioner determines that the consumer interest is protected and that the mortgagor will be a consumer cooperative. In the case of properties other than new construction the limitations in this section upon the amount of the mortgage shall be based upon the appraised value of the property for continued use as a cooperative rather than upon the Assistant Secretary-FHA Commissioner's estimate of the replacement cost. As to any project on which construction was commenced after the effective date of this subsection, (September 23, 1959), the mortgage on such project shall be eligible for insurance under this section only in those cases where the construction was subject to inspection by the Assistant Secretary-FHA Commissioner and where there was compliance with the provision of Section 212 of this title. As to any project on which construction was commenced prior to the effective date of this subsection, such inspection, and compliance with the provisions of Section 212 of this title, shall not be a prerequisite."

1-2. ELIGIBILITY. The mortgagor must be a consumer cooperative of the management type. Sales type and investor-sponsor mortgagors are not eligible under Section 213 (i) procedures. See discussion to follow concerning Rehabilitation loans where a minimum of 25% of mortgage proceeds will be used in rehabilitation.
1-3. APPRAISAL OF PROPERTY. The mortgage in this type of project is based upon the appraised value of the property for continued use as a cooperative rather than upon the Assistant Secretary-Commissioner's estimate of the replacement cost.

1-4. PERCENTAGE OF REHABILITATION. Under the "Existing Construction" legislation, no specific percentage of repairs is required. Existing Construction processing should be followed, regardless of the percentage of repair, where construction of the project was commenced prior to September 23, 1959, or thereafter, if the construction was subject to inspection by HUD-FHA and there was compliance with Section 212 prevailing wage requirements. Projects where construction was commenced after September 23, 1959, and where there was no HUD-FHA inspection or compliance with prevailing wage requirements, are not eligible as "Existing Construction" projects but are eligible as "Rehabilitation" projects provided a substantial degree of rehabilitation is involved.

1-5. PREVAILING WAGE REQUIREMENTS. As to projects in which construction was commenced prior to September 23, 1959, it is immaterial whether prevailing wages were paid in connection with the existing construction or whether the project was inspected during construction by HUD-FHA. In other words, projects started prior to September 23, 1959, are eligible regardless of whether or not they were "FHA" projects. Any project started after September 23, 1959, must have been built under one of HUD-FHA programs in order to be eligible.

a. Repair or Renovation After an Application for Insurance
   If any HUD-FHA required or approved repair or renovation takes place after an application for insurance is filed under this legislation, such repair or renovation is subject to both HUD-FHA inspection and prevailing wage requirements.

b. Essential Items. If the items are deemed essential to the HUD-FHA valuation or deemed essential to the eligibility of the project, they should be included in the commitment and such inclusion will subject them to prevailing wage requirements.

c. Normal Maintenance. If, however, the repair item is one involving normal maintenance for which HUD-FHA would give no effect in its valuation or would not require as a
condition of eligibility, then such repair item should not be included in the processing of the case and should not be a condition of the commitment.

(1) Its non-inclusion in HUD-FHA processing is largely one for determination by the local office.

(2) Such items may be handled by the purchasing cooperative under an agreement with the seller and may be the subject of one of the customary clauses in Sales Agreements whereby the purchaser lists a series of normal maintenance items to be accomplished before consummating sale.

(3) Items of this nature are not subject to prevailing wage requirements.

d. Work Accomplished Prior to Application For Insurance
Work of any nature accomplished prior to the tiling of the application for insurance is not subject to HUD-FHA inspection during construction or prevailing wage requirements.

1-6. COST CERTIFICATION. Section 227 (Cost Certification) is not applicable to existing construction projects.

1-7. DETERMINATION OF FEASIBILITY. The considerations set forth in Reference (1) of the Foreword are applicable, but since the statute requires HUD-FHA to determine that the consumer interest is protected in determining feasibility in "existing" projects, the following additional factors must be taken into consideration, even though it may be in conflict with HUD 4420.1.

a. Project History. The history of the project should be ascertained and analyzed. If the project is satisfactorily located and has been operating successfully as a rental project with no record of defaults, in all likelihood it can be made into a successful cooperative. On the other hand, if the project has not been successful on a rental basis and/or if there have been defaults in its mortgage obligations, the Director should not find the project feasible for cooperative purposes unless he is satisfied that the circumstances which contributed to the failure on a rental basis will not be present the proposed cooperative plan. For example, if it is
determined that the project did not fare well as a rental project because the rental rate was too high, a finding of feasibility may be made if an analysis of project debt service and operating costs indicates that the monthly housing costs to the members under the cooperative plan will be sufficiently below competitive rentals in the area to make it attractive in the market. In other words, the Director should determine that the undertaking will be a "good deal" for the cooperative and its members and not merely a device for property owners to dispose of undesirable or uneconomic housing.

b. Physical Condition. Another element to be taken into consideration in determining feasibility is the physical condition of the structures involved. The construction must be sound and in good state of repair. If this is not the case, but in the judgement of the technical staff of the insuring office can be made so, FHA Commitment Form No. 3248A should be used which will set forth the repairs or renovation which must be effected as a condition to our insuring of the mortgage. When no repair or renovation is involved, Commitment Form No. 3248 is used. There may be items which are estimated to have a relatively short remaining useful life but where immediate replacement would not be warranted. HUD-FHA processing procedures in appropriate situations of this kind provide for the inclusion in mortgage proceeds of an amount to be escrowed which together with reserves to be accumulated will provide for replacement when needed.

c. Accommodations and Appearance. In addition to being sound and in good state of repair, the property should be reasonably modern and attractive in its accommodations and appearance or it must be made so as a condition of the insurance. (If feasible to do so, a community center should be included.) It is not possible to set forth specifically what is needed in this connection but the Director should determine that the property is reasonably competitive in the housing market.

1-8. CONSUMER SAFEGUARDS. The usual consumer safeguards required in Section 213 will be applicable. Thus, an Information Bulletin Subscription Agreement, Occupancy Agreement and Sales Agreement must have been approved by the Field Office and satisfactory assurance of permanent financing must have been obtained prior to solicitation for members in the cooperative. As further
protection, the report of an independent licensed mechanical 
engineer covering the condition of the premises is required 
and the cooperative must be represented by an independent 
attorney. A condition of the commitment provides that the 
purchase price of the real estate may not exceed the sum of 
$__________(the figure to be inserted by the local Field 
Office). The purpose of this provision is to preclude the 
cooperative from paying an inflated price for the property. The 
figure to be inserted by the local Field Office should be the 
amount indicated by the parties in the application as being the 
price which the cooperative is to pay for the property, except 
that it is expected that the amount inserted will not exceed 
110 percent of HUD-FHA's valuation of the physical property. 
The 10 percent flexibility is provided since it is recognized 
that real estate appraisal is not an exact science and honest 
differences of opinion to a certain degree may exist. Where 
the Director feels that circumstances warrant a figure in 
excess of the 10 percent limitation, he should forward his 
findings and recommendations to the Office of the Director of 
Unsubsidized Insured Housing Programs prior to the issuance of 
the Commitment.

1-9. TENANTS. It is not HUD's intention to cause any undue displacement 
of tenants. Therefore, the commitment provides that any 
tenants of the property must be given a 30-day priority to 
apply for membership in the cooperative. The cooperative is 
not obligated to accept such applications but it is expected 
that the cooperative will be fair in passing on same. In 
fact, since the objective is not to bring about the eviction 
of tenants unnecessarily, it is expected that the cooperative 
will accord considerable weight to a satisfactory rental payment 
record of such tenants in passing upon their credit 
qualifications.

1-10. CREDIT APPROVAL. Members of the cooperative will be subject to 
HUD-FHA credit clearance.

1-11. INITIATING THE PROJECT AND SPONSORSHIP OF THE ACQUIRING 
COOPERATIVE.

a. With regard to who is to form the consumer cooperative, it 
is recognized that existing construction differs from new 
construction. The owner of the premises must almost 
necessarily take the initiative as there is no reason for any 
cooperative to be formed unless the owner has indicated
an intention to sell the premises. It is proper for the
owner to file an application with HUD-FHA on the basis of
the sale he contemplates and to obtain a commitment for
insurance from HUD-FHA. He may also properly assemble the
tenants and inform them of his planned sale, the dollar
amount and other details. However, he will not be permitted
to become an officer or director of the cooperative
corporation that is to acquire the project.

b. An attorney, independent of the seller, that is knowledgeable
about cooperative documents must be retained on behalf of the
cooperative group. Cooperatives may establish a steering
committee under the guidance of a professional management
firm, knowledgeable with regard to cooperatives, conduct a
sales campaign and handle its organizational details either
directly as a group of consumers, or it may retain an
organization which is competent in this field (See Reference (2)
of the Foreword). If the owner/seller is himself involved in
the selling effort neither he nor any entity with which he
is connected should be permitted a marketing fee for such
services, but he may properly be reimbursed for out-of-pocket
expenses.

1-12. PRESALE REQUIREMENTS. Cooperative membership equal to all vacated
or available units in the project, but in no event less that 70%
of the total units in the project, must be and approved by HUD/FHA
prior to endorsement. It is recognized that existing rental leases
sometimes expire on a staggered basis and thus all of the units may
not be immediately available for cooperative occupancy. The
estimated income from the units which have been subscribed on a
cooperative basis when added to rental income from nonmember
tenants must be sufficient to meet the estimated operating expenses
of the project.

1-13. MODEL FORMS, DOCUMENTS AND PROCEDURES USED IN SECTION 213(i)
CASES. The Management Type Cooperative forms, documents and
procedures are applicable, except as noted in this Chapter.
Forms necessary to the conversion of existing properties under
Section 213(i) are contained in the Forms Appendix of this
handbook. Articles of Incorporation, By-Laws, etc., which are
commonly used to establish the corporate entity, are duplicated
in Reference (2) of the Foreword for ease of utilization. The
Forms contain much detail which could not otherwise be placed
in its proper context and they should be studied accordingly.
a. Commitments.

(1) Insured Advances: Where repairs or renovation is to be effected with the aid of insured mortgage advances, the commitment form to be used is Commitment for Insurance of Advances (Existing Construction Involving Improvements), FHA Form 3248-A. Under Commitment Form 3248-A, which involves interim advances to effect repairs or improvements, there will be both an initial and final endorsement. The closing check list applicable to initial endorsement is FHA Form 3257-B. Under Commitment Form 3248, there will be no interim advances and only one insurance endorsement. The instructions covering this transaction will therefore be set forth in Reference (3) of the Foreword.

(2) Insurance Upon Completion. Where no insured advances are involved, the appropriate form is Commitment to Insure Mortgage on Existing Construction (Not Involving Commissioner Approves repairs), FHA Form No. 3248.

(3) Commitment Amount. In the case of existing construction projects insured under the provisions of Section 213(i) of the National Housing Act, the loan percentage is applied against the HUD-FHA appraised value for continued use as a cooperative rather than against replacement cost, and as set forth in the underwriting instructions, the bedroom limitation is not applicable. In situations where a sound reason exists for same, as for example where the existing structure contains oversized rooms as compared with HUD-FHA requirements for new construction, it would be proper for the commitment amount to reflect such amenities. The amount may not, however, exceed 97% of appraised value for continued use as a cooperative.

b. Building and Loan Agreement, FHA Form No. 2441. In existing construction projects under Commitment Form 3248-A, the following cost certification provision should be deleted:

(1) Final eight words of Paragraph (13).

(2) Paragraph (18) in its entirety.
c. Amortization Term. In existing construction cases, in view of the fact that the structures are not new, the amortization term may or may not be less than the maximum, as described in underwriting instructions (See Reference (3) of the Foreword).

d. Model Form of Sales Agreement, Existing Construction Cases Under Section 213(i), FHA Form 3255-B. This form is self-explanatory.

e. Mortgagor's Certificate, FHA Form No. 3212-B. This form is used in Section 213 Existing Construction cases.

1-15. REHABILITATION LOANS. Certain residential properties when rehabilitated, or certain commercial and industrial properties when converted, for the purpose of creating cooperative housing units may be eligible for mortgage insurance under Section 213. Such properties must be located in areas adaptable to rehabilitation of residential properties, and upon completion shall provide modern and sanitary living units having stable occupancy appeal which will compete favorably in the housing market in the area.

a. The Following Types of properties in the rental or sales market containing, after remodeling, at least five dwelling units are among those eligible under this program:

   (1) A existing residential property which can be remodeled to provide additional modern dwelling units;

   (2) An existing residential property lacking modern living units, even though no additional units are added; and

   (3) Nonresidential properties located in areas which are acceptable for residential use, if they can be transformed into sanitary living units.

b. The Rehabilitation of Properties should lend impetus to the improvement of similar properties in the same neighborhood. The total carrying charges for cooperative dwelling units should be less than the rents charged for comparable units in rental projects.

c. Construction Advances for the portion of a rehabilitation project representing new construction may be insured in the usual manner. At the time of closing, it must be
established that the purchase of land and existing improvements thereon has been consummated and that the property is free and clear of liens or outstanding obligations in connection therewith.

d. To Qualify as a rehabilitation project, at least 25 percent of the mortgage proceeds to be insured must be used to cover the cost of new physical improvements. In cases where less than 25 percent of the mortgage proceeds is needed for this purpose, the loan may be insured under the "existing construction" authority as described above.

e. The Application for Mortgage Insurance, FHA Form 3201, will be used for rehabilitation projects, whereon, it will be indicated as to whether the project will be initiated as a Management Type or Investor-Sponsor under Section 213 or Management Type, Investor or Nonprofit Sponsor under Section 221(d)(3) Market Interest Rate. Any additional data concerning these projects for which no provision is made on the application form will be set forth on blank sheets and attached to and made part of the application under the heading "Additional Information".

f. Detailed Instructions and Procedures have not been established for this type of project and for that reason commitments will be issued only after clearance by the Office of the Director of Unsubsidized Insured Housing Programs.
CHAPTER 2. VALUATION INSTRUCTIONS

2-1. REHABILITATION. Existing rental projects which will undergo substantial rehabilitation may be processed for conversion to cooperative ownership and for mortgage insurance under Section 213 Management-Type, Rehabilitation. Projects need not be previously insured by HUD-FHA. Presale of all vacated units (not less than 70% of the total number of units) to cooperative subscribers is required prior to endorsement.

2-2. FINDING OF VALUE. The mortgage is limited to 97% of appraised value, rather than 97% of replacement cost.

2-3. VALUE FOR CONTINUED USE AS A COOPERATIVE. "Appraised value.... for continued use as a cooperative," refers to a price which a cooperative group is warranted in applying for, a property, rather than a price for which a property may be sold. Under the principle of substitution, it must be recognized that a cooperative group is not warranted in paying more than an equivalent property would currently cost to acquire in the rental investment market.

2-4. VALUATION AS A RENTAL PROJECT. A supplementary Form 2264 is used to estimate the value of the property as a rental project, after rehabilitation. Form 2264 will be completed in accordance with instructions for Section 207, with the following exceptions:

a. Enter year built.

b. Rent formula is not required. Use market rents after rehabilitation.

c. Estimated Replacement Cost (in Section G) is not completed.

d. Estimate of operating deficit (Section I); site appraisal (Section J); cost not attributable to dwelling use (Section M); and construction budget (Section N) are not completed.

e. After the income approach and the comparison approach to value have been completed, the following entry will be made in remarks:

   "Estimated market price of property by Capitalization or Comparison $_______"
2-5. PROCESSING AS A COOPERATIVE. Form 2264-B will reflect the analysis of the project and its operation after rehabilitation and after conversion to cooperative ownership. Processing will be in accordance with instructions for Section 213, Management Type, Proposed Construction, with the following exceptions:

a. In the space below Item H-80, type the following:

   Estimated Market Price of Property
   By Capitalization or Comparison  $_____________

   Estimated Closing Costs  $_____________

   *Estimated Legal, Organization &
   Marketing  $_____________

   Value for Continued Use as a
   Cooperative  $_____________

b. The "As Is" Value of the Property for Rehabilitation is defined as the lesser of (1) and (2).

*(1) The "As Is" Value by the Residual Approach is the supportable total replacement cost less the estimated rehabilitation costs (off-site) and (on-site) including contingency reserve, carrying charges and financing, legal, organization and marketing.

(2) The Fair Market Value "As Is" by the Market Approach will be based upon the going market price for comparable properties in similar condition to the property being appraised.

The supportable total replacement cost, in (1), above, will equal the Value for Continued Use as a Cooperative as entered in the space below Item H-80. After a. and b. have been determined through the use of worksheets, the smaller of a. and b. becomes the "As Is" Value of the Property for Rehabilitation (amended Item 79) and the replacement cost estimate is made by completing Section H, of Form 2264-B. The rehabilitation cost estimate is made in accordance with procedures in Reference (4) of the Foreword.

c. Mortgage amount is assumed to be 97% of Item 80 or 97% of Value for Continued Use as a Cooperative, whichever is the lesser.

*(See Chapter 1, Paragraph 11-b, of this Handbook.)
d. Site appraisal (Section O) will not be completed, except that Item 12 will be used to record the last arms-length transaction of the "as is" property.

e. Section J will be completed by the mortgage credit processor.

f. Section L will be completed by the cost analyst.

g. Section M is omitted.
CHAPTER 3. MORTGAGE CREDIT REQUIREMENTS UNDER SECTION 213(i)

3-1. EXISTING CONSTRUCTION WITHOUT REHABILITATION. Includes only those projects involving existing construction not requiring rehabilitation. Insurable mortgage amount shall not exceed the lowest of:

a. 97% of the Appraised Value of the property or project.

b. Property Owned - An amount equal to the sum of the following:

   (1) Outstanding balance of the existing mortgage or total outstanding balances of existing mortgages.

   (2) The contract cost of such Assistant Secretary-FHA Commissioner-required or -approved repairs, improvements, alterations and additions, if any.

   (3) Financing charges (closing cost) or

c. Property to be Acquired - 97% of the total of:

   (1) Purchase price of property or project and cost related thereto.

   (2) The contract cost of such Assistant Secretary-FHA Commissioner-required or -approved repairs, improvements, alterations and additions, if any.

   (3) Financing charges (closing cost).

   *(4) Legal and organization, and marketing expense.

NOTE: See Amortization and other basic Mortgage Credit Requirements in Reference (3) of the Foreword.

3-2. EXISTING CONSTRUCTION WITH REHABILITATION. Includes only those projects involving the rehabilitation or reconstruction of existing structures. Insurable mortgage amount shall not exceed the lowest of:

a. The Limitations Set Forth Under New Construction except that the percentage limitation under subparagraph (c) thereof will be based on value rather than on replacement cost.

*(See Chapter 1, paragraph 11-b of this Handbook.)
b. 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) 97% of HUD-FHA estimate of Fair Market ("As Is") Value 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

c. Property to be Acquired - 97% of HUD-FHA estimated current cost of rehabilitation, plus the lesser of (i) 97% of the purchase price of the property or (ii) 97% of the HUD-FHA estimate of the fair market value 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.

NOTE: See Amortization and other basic Mortgage Credit Requirements in Reference (3) of the Foreword.

3-3. EXISTING CONSTRUCTION RESULTING FROM AN INVESTOR-SPONSOR TRANSACTION. Purchase - includes only transactions involving the purchase of insured Investor-Sponsored Projects. (The purchase price may not exceed the actual cost of the property as certified pursuant to Section 227). Insurable mortgage amount may not exceed the lowest of:

a. The amounts set forth under new construction.

b. 100% of the total cost of acquisition.

c. The approved percentage of the certified project cost of the investor-sponsor corporation plus the approved percentage of such other HUD-FHA approved costs to the purchasing cooperative not included as items in the certified project cost.

NOTE: See Additional instructions in the Mortgage Credit Section of Reference (5) of the Foreword.

3-4. AMORTIZATION PERIOD OF LOAN.

a. The Mortgage must be Amortized during a period not appreciably in excess of 3/4 of the remaining economic life of the physical improvements or 40 years from the beginning of amortization, whichever is the lesser. (In cases involving mortgages on projects purchased from an investor-sponsor.
"beginning of amortization" shall mean the beginning of amortization under the original insured mortgage.
Amortization may be accomplished by means of either the level annuity monthly payment plans or the accelerated curtail declining annuity payment plan as prescribed under Section 207. Interest shall not exceed the rate set forth in the Regulations.

b. If the Case Appears to be Eligible for Insurance (subject to approval of the mortgagor and the members), the Multi-family Coordinator/ADTS prepares a report on FHA Form 2438 indicating the terms of a commitment which are justified by the findings contained in the various underwriting reports. The recommendations for the issuance of a commitment must be conditioned upon the approval of the proposed mortgagor and individual members equal to the following percentages (or number) of the total number of units in the project (exclusive of the units to be used as janitors' quarters, if any) prior to closing and initial endorsement of the credit instrument:

(1) 90% of the commitment involves insurance of advances (proposed construction or rehabilitation), or

(2) 100% of the commitment involves insurance upon completion; or

(3) In a number equal to the number of vacated units, or 70% of the total number of units in the project, whichever is the greater, if the projects involve existing construction.

3-5. MISCELLANEOUS TYPE MORTGAGES.

a. Applications involving mortgages of the type defined in Section 213.45 (b) (1), (2), (3), (4), (5), and (6) of the FHA Regulations shall be processed in accordance with instructions for Mortgage Credit Analysis under Section 213-Management Type Cooperatives, except as modified herein.

b. The Mortgage shall cover 5 or more living units and the amount shall not exceed the lower of the following limits:

(1) 97% (90% in the case of a mortgage as defined in sub-paragraph 5 of Section 213.45(b) of the FHA Regulations)
of HUD-FHA estimate of the value of the property or project, or

(2) 97% of the mortgagor's total cost of acquisition of the property including loan closing charges and legal and organization expense.

c. As These Mortgages are on Existing Properties, instructions pertaining to insurance of advances normally will not apply. Cost certification applies when improvements, upgrading, or additions to the property are required.

3-6. REFINANCING TRANSACTIONS:

a. Applications. Applications involving mortgages as defined in Section 213.45(d) of the FHA Regulations (to refinance an outstanding mortgage insured under any section of the Act when the cost of capital improvements, upgrading, or additions required to be made to the property is less than one-fourth of the proposed mortgage amount) shall be processed in accordance with the foregoing instructions for Mortgage Credit Analysis under Section 213-Management Type Cooperatives, except as modified herein.

b. Cost. If such cost equals or exceeds one-fourth of the proposed mortgage amount, the application will be processed under the foregoing instructions for Section 213-Management Type Cooperatives-Rehabilitation projects, without modification.

c. Mortgage. The mortgage must cover 5 or more living units, and the amount and term shall not exceed the following limits:

(1) Amount of Mortgage. The mortgage amount shall not exceed the lowest of the following:

(a) The original principal amount of the existing insured mortgage, or

(b) 90% of the Commissioner's estimate of the value of the property after completion of the repairs, improvements, or additions to the property.

(c) The unpaid principal amount of the existing insured mortgage, plus any other outstanding indebtedness
incurred in connection with capital improvements made to the property which are acceptable to the Assistant Secretary-FHA Commissioner, of capital improvements, upgrading, or additions required to be made to the property, and loan closing charges; less the lower of:

1 The amount to be escrowed for reserve items scheduled for delayed replacement, plus the cost of reserve items being replaced incident to the refinancing, or

2 The amount of the reserve for replacement on deposit under the existing insured mortgage.

The determination of the maximum insurable loan is accomplished by completing Form 2264-A. Instructions are contained in Reference (b) of the Foreword.

(2) Term of Mortgage:

(a) The term of the new mortgage must not exceed the unexpired term of the existing insured mortgage, except that in any case in which the Assistant Secretary-FHA Commissioner determines that insurance of a mortgage for an additional term will inure to the benefit of the applicable insurance fund taking into consideration the outstanding insurance liability under the existing mortgage, the new mortgage have a term of not more than 12 years in excess of the unexpired term of the existing insured mortgage. Amortization shall be in accordance with the special provisions in the applicable administrative instructions.

(b) As these mortgages are on existing properties, instructions pertaining to insurance of advances normally will not apply. Cost certification applies when improvements, upgrading, or additions to the property are required.
FORMS APPENDIX III

Following are model forms necessary to the conversion of existing properties to cooperative ownership, including FHA Form No. 3201 "Application for Mortgage Insurance" which is common to all approaches except Section 213 Sales Type and Supplementary Improvement Loans. Basic model forms for structuring a Management Type cooperative are provided in the forms appendix to Reference (3) of the Foreword.

All forms are subject to revision from time to time and care should be taken to check for the most recent revision before they are used.

FORMS CANNOT BE LOADED INTO THE DAS SYSTEM. USE A HARD COPY OF THIS DOCUMENT TO VIEW FORMS.