
CHAPTER 11. MANAGEMENT TYPE COOPERATIVES SPONSORED
BY A NONPROFIT MORTGAGOR CORPORATION

- 11-1. INTRODUCTION. The manner in which nonprofit sponsored cooperatives differ from Investor-Sponsored projects is reflected primarily in the model forms and documents. The commitment, FHA Form 3208, contains a comprehensive description of this approach. The closing requirements, FHA Form 3257-F, also contain a comprehensive picture of the differences. The Underwriting requirements differ as the nonprofit sponsorship requirements apply. (See References (10) and (11) of the Foreword.)
- 11-2. INCORPORATED BY REFERENCE. The first two handbooks of the "Cooperative Housing Series" (References (1) and (2) of the Foreword) are incorporated by reference with respect to the organization of the purchasing cooperative.
- 11-3. GENERAL CHARACTERISTICS. This approach involves the purchase of nonprofit sponsored projects by a Management Type cooperative.
- a. This procedure allows properly motivated nonprofit groups to initiate projects intended for transfer to cooperative ownership after completion of construction and sale of the necessary cooperative memberships.
 - b. The nonprofit sponsor must meet all requirements for nonprofit sponsorship, and the HUD-FHA office should satisfy itself that the project will be operated successfully as a nonprofit rental project under Section 221(d)(3) in the event the project is not successfully marketed on a cooperative basis. As an assurance that the primary objective of achieving a successful conversion to cooperative operation will be achieved, the HUD Field Office should ascertain that the following conditions are met: (1) qualified sponsorship and motivation for both the nonprofit owner and the cooperative; (2) avoidance of any conflicts of interest on their part with builders; and (3) arrangements with a competent organization or individuals for organization of the cooperative and sale of memberships therein. The nonprofit mortgagor may elect to retain a qualified consultant pursuant to outstanding instructions. The purchasing cooperative may enter into a management agreement with such consultant in cases where the Field Office Director determines that such managing agent is qualified in

all respects and there is full disclosure in the Information Bulletin of the relationship between the consultant and the nonprofit sponsor. Appropriate exhibits evidencing the foregoing qualifications must accompany FHA Application Form 3201.

- 11-4. PROCESSING. The case will be processed on two bases: (1) as a Section 221(d)(3) nonprofit rental project using the normal processing for a nonprofit project (including the payment of consultant fees), (2) as a cooperative using the normal processing for cooperatives (including the larger allowance for legal, organizational and marketing expenses applicable to cooperatives). The mortgage funds available for disbursement to the nonprofit mortgagor will thus be limited to the amount available to the mortgagor in the case of the usual nonprofit type project. To the extent that the processing on the cooperative basis results in a higher insurable mortgage, the excess over the nonprofit mortgage will be released only when and if the project is transferred to the cooperative. In the event the project is not transferred to the cooperative within the time required by HUD-FHA then the excess over the nonprofit mortgage, if any, shall be disbursed in such manner as HUD-FHA requires. The Commitment for Insurance (FHA Form 3208) permits the cooperative to take title when it has met the requirements normally applicable in cooperative cases. Sale of 98% of the memberships will thus be required as a condition of * transfer to cooperative ownership. Prior to initial closing, an Agreement of Sale will be executed between the nonprofit mortgagor and the cooperative. The documents involved in the cooperative organization and sales program will also be prepared and submitted to the HUD Field Office for approval. The project number in these cases is followed by the suffix "NP/d" until such time as the project is transferred, with HUD approval, to a cooperative corporation, at which time the suffix is changed to "NP/MAN."