CHAPTER 10. VALUATION INSTRUCTIONS

10-1. GENERAL REQUIREMENTS. The processing approaches and procedures for Section 213 sales-type cooperative projects contemplate the development of a group of single-family residences under a blanket mortgage. When completed they are expected to be released from the blanket mortgage and so become individually marketable real estate entities physically indistinguishable from single-family residences built under other housing programs.

A sales-type cooperative must meet the following requirements among others:

a. The Development After Completion shall be of five or more single-family dwelling units. Each unit shall be delineated so that it can be released as a separate real estate entity. Contiguity of the sites is preferable but not necessary.

b. Until Completion, the development must be owned by a non-profit corporation and the dwellings must be produced for acquisition by members of the corporation.

c. The Mortgage must be secured by the entire development until all individual residences are transferred to their individual owners, and must contain provisions for releasing the separate dwelling properties from the blanket mortgage lien when those properties are conveyed to the corporate members.

10-2. FEASIBILITY PROCESSING. Feasibility analysis in this program is similar to feasibility analysis in any subdivision proposal. Agreement is reached on major aspects of the project such as marketability, price range, and sizes and types of dwellings.

10-3. SPONSOR'S REQUEST FOR FEASIBILITY. Sponsor's submission should include a request for subdivision analysis, coupled with a location map and a sketch plot plan, indication of types of construction and materials, number, size and type of dwellings proposed, and the sponsor's preliminary estimate of costs and proposed sales prices.

10-4. SIZE OF PROJECT. Sales type cooperatives generally should be kept to a size which can be completed and occupied within a
reasonable period. A very long waiting period before some of the members can occupy the last units to be built may cause them to become discouraged and lose interest. Furthermore since releases from the blanket mortgage cannot be given until the whole project is completed, an extra long construction period would result in undue delay in the release and individual financing of the properties purchased by the members. As a general rule, construction periods should not exceed eight months.

10-5. ELIGIBILITY REQUIREMENTS. Location and Improvements. Each real estate entity will be separated from the project and must meet the requirements of Section 203(b).

10-6. DELINEATION OF PROPERTIES. Neither the number of buildings in the group nor the fact that the physical security will be encumbered by a single mortgage shall be construed as an indication that the proposal will be considered as other than a development of single-family residences for ownership in individual separate entities. For example, inasmuch as the pre-construction analysis letter will require streets and utilities to be dedicated to and maintained by a public body, these improvements will be considered and treated as off-site requirements and shall not be shown as on-site improvements under the blanket mortgage. Section 213 (Sales Type) is simply a financing method to permit the non-profit cooperative production of homes for subsequent acquisition by members of the group. Accordingly, delineation of the properties into readily marketable real estate entities is necessary, and the boundary lines of the properties as they will exist when request is made for the release from the blanket mortgage, will be prescribed.

10-7. IDENTIFICATION OF DELINEATED PROPERTIES. For the purpose of identifying each of the five or more single-family dwelling properties during processing, a symbol or number is designated for each property. This number is in addition to the case number and is entered on the corresponding lot on each copy of the Development Plan.

10-8. FEASIBILITY DETERMINATION. With the foregoing information, the customary site inspection is made. If the site is considered eligible and the proposal appears feasible, the necessary exhibits and data as required for a complete subdivision analysis are requested and the complete subdivision analysis is made in accordance with outstanding instructions.
provides for the calculation of mortgage amounts in sales type cooperatives not to exceed the greater of (a) the total computed on the basis of a separate mortgage for each single-family dwelling as appraised under Section 203 and the instructions following, or (b) on the basis of one project as a whole without regard to ultimate separation into single-family entities. This requires a second calculation of replacement cost on a project basis.

10-10. PROCESSING AS INDIVIDUAL PROPERTIES.

a. FHA Form 2800 will be completed for each separate real estate entity as delineated on the development plan. The subdivision requirements will be developed in the same manner as for any other development of single-family residences. They shall be so considered by the processing valuator and each property shall be appraised accordingly.

b. Valuation analysis shall be completed in accordance with the instructions for Section 203(b). Mandatory requirements shall be recorded on FHA Form 2800 in the customary manner.

10-11. COMMUNITY FACILITIES.

a. Estimated Benefits. The benefits of special facilities to the individual properties shall be estimated and considered in the market price ascribed to the individual sites. Thus, the value in effect will be divided among and have an effect upon the market prices of the individual home sites contemplated. Such effect should approximate, for each site, a pro-rata share of the whole investment required in the community facilities, provided they are suitable in design and are so valued by typical users and purchasers.

b. The Cost of Maintenance and Operation of special community facilities and other costs necessary to the continuance of the services required by the homeowners, will be estimated and the pro-rata share of such costs shown as a separate item on each FHA Form 2800.

10-12. LEASEHOLDS. Because of legal complications involving the insurability of individual mortgages on subleases, it is not generally practicable to consider a blanket lease covering the entire project as security for a project mortgage with release clauses. Therefore, leasehold estates should not be permitted unless there is definite evidence in the area that they are
acceptable in the market and that they are customary in similar single-family dwelling properties. However, in the event an application under this Section is received involving a leasehold, full information regarding the proposal should be forwarded to the Office of the Director for Unsubsidized Insured Housing Programs. Attention: Cooperative and Condominium Branch, before processing.

10-13. PROJECT PROCESSING. (FHA Form 2264-S) - This is the group of single-family houses considered as a project. Irrespective of the ultimate separation of the individual properties from the project mortgage under which they are to be built, certain mandatory conditions imposed by construction under a blanket commitment are recognized. Such requirements include items such as wage differentials and HUD-FHA Application and Inspection Fees. Benefits to the cooperator from possible lower costs resulting from the nature of the development are also given careful consideration. In addition to the individual property processing and evaluation under Section 203 procedures and completion of the individual 2800 forms, processing will be completed on the project as a whole on FHA Form 2264-S per instructions contained in Reference (3) of the Foreword.