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SALES TYPE COOPERATIVES

CHAPTER 1. PROGRAM CHARACTERISTICS

1-1. GENERAL.

- a. Sales Type Cooperatives (Section 213) are developed by a corporation organized for the purpose of acquisition of individual homes for members of the corporation (provision is made for release of individual units from the lien of the blanket mortgage and for HUD-FHA insurance of separate mortgages on the individual units upon completion of the project). Most of the procedures for Management Type Cooperatives are applicable. The purpose of this Chapter is to explain the differences in the various stages of its organization. The model forms and documents, the commitment in particular, contain important details that cannot, otherwise, be placed in their proper context. They should be studied before any involvement in the program is permitted.
- b. This Program Results in individual homeownership and 100 percent presale is required as a condition to HUD-FHA insurance. Therefore, the marketability considerations are the same as in the case of other home mortgage insurance programs where firm commitments are under consideration.
- c. Converting from the Project Stage to the Individual Unit Stage. The corporation will cause a housing project to be erected on the lots owned or to be acquired by it. Upon completing of construction of all the dwellings comprising the housing project and final endorsement of the blanket mortgage for insurance under Section 213 of the National Housing Act, and upon payment to the corporation of all sums required to be paid, the corporation agrees to convey to the subscriber good and marketable title to said dwelling unit. The subscribers agree to purchase the dwelling units from the notified subscriber it is prepared to tender title and possession of a unit to him) for an amount equal to that portion of the blanket mortgage covering the housing project as a whole which is allocated to the dwelling unit. The subscriber must, at the time title is conveyed to him, pay such closing costs as are customarily paid by the purchaser of real estate in the jurisdiction. Taxes, assessments and insurance will be adjusted to the date of closing.

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1-2. COMMUNITY FACILITIES.

- a. Community Facility Requirements. Adequate community facilities must be included without exception. In situations where adequate community facilities already exist or where the size of the development is not sufficient to support a worthwhile community facility, the sponsor will be required to proceed under some other program. The community facilities to be acceptable must be meaningful, significant facilities and must be owned either by a cooperative of the residents or be conveyed to the applicable local government. Acceptable community facilities may consist of a community swimming pool, or parks or playground with recreational equipment, community buildings or a combination of these elements.
- b. Nature of the Community Facilities. The mortgage may be increased over and above the room limitation to cover community facilities. Thus acceptable Community Facilities are not attributable to dwelling use for mortgage computation purposes. This provision should provide better planned communities and should tend to minimize the insurance risk. Such items as street pavement storm drainage, water lines and sewage systems are not to be regarded as Community Facilities for this purpose. In short, those utilities and improvements needed for access to and use of individual home sites should be processed in accordance with outstanding instructions. The items contemplated include community swimming pools, parks, playground, recreational equipment, community buildings, or other items if approved by the Director of the Office of Unsubsidized Insured Housing Programs. The term Community Facilities as used in this Handbook relates to the same items as the term Special Community Facilities used in the Underwriting instructions. The Field Office should in each case ascertain that the Community Facilities involved are well conceived and designed, conveniently located, and lasting in character and benefit. These facilities must be of such general appeal that it can be reasonably anticipated that the joint owners will willingly pay the anticipated maintenance and operating costs.

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- (1-2) c. Ownership of the Community Facilities. It is contemplated that the corporate mortgagor will have title to the entire project, including the community facilities, and that the

mortgage will embrace the community facilities both as to real estate and mortgage amount. When the cooperators have taken title to their individual homes, the blanket mortgage will be discharged and the corporation will then have unencumbered title to the community facilities. Dedication of the community facility to the applicable local government is an equally acceptable alternative. The mortgage amount of each individual property will, of course, reflect its pro rata share of the cost of the facilities. The HUD-FHA will continue to hold preferred stock (or rights under a Regulatory Agreement) in the cooperative corporation until all HUD-FHA-incurred financing of the individual homes has been repaid, primarily for the purpose of assuring that the community facilities will not be disposed of or be changed in character. Where only one project is to own and support the facility, the matter presents no difficulty and will be processed in much the same manner as community facilities under the management type.

- d. Cases Where Community Facility Constructed in Connection with Transaction but Prior to Initial or Initial/Final Endorsement. It is to be noted that the foregoing instructions relate to the situation where the community facilities have not been built at the time of initial endorsement or initial/final endorsement. where the sponsor fully constructs the community facilities prior to initial or initial/final endorsement, the procedure is simple and uncomplicated. In such situations, mortgage advances or escrows for the community facilities are not involved and from the processing standpoint it is merely a matter (as in the Section 203 program) of the HUD-FHA valuation giving effect to such enhancement as results from the existence, and availability of the community facilities. This latter arrangement meets our objectives without the necessity for escrows or preferred stock and it is immaterial whether non-Section 213 home owners also participate. We will, of course, require the Articles of Incorporation and By-Laws of the community facility corporation to be in proper form, with satisfactory evidence that such corporation owns the community facility and the land on which it is located (unless same has been conveyed to the applicable local government as a part of the transaction) free and clear of liens and that the Section 213 owners have been issued stock or memberships in the community facility corporation.