
CHAPTER 4. INITIAL ENDORSEMENT

- 4-1. CONVEYANCE OF TITLE. In a Sales Type project, it is intended that title to the project will be vested in the mortgagor corporation only during the construction period, and that upon completion of construction of the project, the individual dwelling units will be released from the project mortgage. The property description must show individual lot lines to establish the separate estates. The member will thereupon become the owner of an individual estate on which there is a dwelling unit constructed (single family detached, semi-detached or row) subject to an individual mortgage thereon, which is eligible for insurance as an individual home mortgage under Section 213. The closing requirements for the individual home will be covered under final endorsement procedures.
- 4-2. CLOSING CHECK LIST. The closing check list to be used in connection with the project closing is FHA Form 3257-A.
- 4-3. AFFIDAVIT REGARDING DELIVERY OF WARRANTIES. In Sales Type cases, the general contractor should certify that he has executed and turned over to the mortgagee for delivery to the purchaser a warranty on FHA Form 2544 for each of the properties in the project.
- 4-4. PRESALE REQUIREMENTS. Membership totaling 100 percent of the units must be procured and approved by HUD-FHA prior to endorsement.
- 4-5. DOWN PAYMENTS. A minimum cash down payment is required from each subscriber in the same amount as would be required in the Section 203 home mortgage program. Any borrowing by the mortgagor is likewise restricted in the same manner as in Section 203. Where the cost of acquisition is more than the HUD-FHA estimate of values, the minimum required investment will be increased in the same manner as under Section 203(b)(2).
- 4-6. MORTGAGE RIDER, FHA FORM 3214. This instrument is a part of all sales type project mortgages. The release prices set forth on the reverse side of the form must be the same as those approved by the Chief Underwriter or Assistant Director for Technical Services.

4-7. MODEL FORMS.

- a. Model Form of Information Bulletin, Sales Type, Insurance of Advances, FHA Form 3243. This form is self-explanatory.
- b. Model Form of Subscription and Purchase Agreement.
 - (1) Insurance upon Completion, FHA Form 3233. This model form combines the information bulletin and subscription agreement and is self-explanatory. The references to working capital in the footnote on page one and in paragraph three on page two should be deleted.
 - (2) Insurance of Advances, FHA Form 3231. This form is self-explanatory and can be found in the forms appendix in this chapter.
- c. Model Form of Certification of Incorporation for Sales Type Cooperative Corporations Organized on a Stock Basis Under Section 213 Involving Community Facilities and One or More Project Mortgages, FHA Form 3235-A.
- d. Model Form of Certification of Incorporation for Cooperative Corporations, FHA Form 3235.
- e. Model Form of By-Laws for Management and Sales Type Mortgagor Corporations, FHA Form 3245. This is the standard By-Law format and is used by Sales Type cooperatives as well as management type.

4-8. INCORPORATION. The HUD Area Counsel will require a certification from the appropriate state incorporation official evidencing the filing of the Certificate of Incorporation in the form previously approved by HUD. In situations where the mortgagor has been incorporated in a "foreign" state, HUD should also be furnished with a certificate of domestication (sometimes known as a certificate of authority) by the appropriate official of the state in which the project is located.

4-9. COMMUNITY FACILITY REQUIREMENTS.

- a. Insured Advances: The commitment form to be used where only one project mortgage is involved is Commitment for Insurance of Advances, Section 213, Sales Type, FHA Form 3207. In the form as presently printed, delete from 9b, "if any" and make reference to the required community facilities.

- (4-9)
- (1) Multiple Mortgage Parcels. In situations where more than one project mortgage is involved the proper form is Commitment for Insurance of Advances, Sales Type, Involving One Mortgagor Corporation, Two or More Project Mortgages, and a Community Facility, FHA Form 3207-A. The legislation contemplates that a number of contiguous projects may join in the construction of centrally located community facilities. Where this type of operation is involved, the mortgage amount in each project allocated to the community facility will be held in escrow until all of the constituent projects have been initially endorsed for insurance. This commitment form provides for one cooperative corporation to handle the entire transaction where several projects are collaborating in the construction of a central facility. The one corporation will be the mortgagor of each individual section of homes as well as the owner of the community facilities.
 - (2) Prevailing Wages. It is to be noted that a single prevailing wage determination will cover all of the work to be done on all of the projects plus the community facilities covered by the commitment facilities covered by the commitment.
 - (3) Inspection Fee. Reference to an inspection fee and Replacement Reserve should be deleted from the commitment form as presently printed.
- b. Insurance Upon Completion: The commitment form to be used where only one project mortgage is involved is Commitment to Insure Upon Completion, Section 213, Sales Type, FHA Form 3210. There is no prescribed type of contract. Either a lump sum or cost plus contract may be used. In situations where more than one project mortgage is involved the proper form is Commitment to Insure Upon Completion, Section 213, Sales Type, Involving One Mortgagor Corporation, Two or More Project Mortgages, and a Community Facility, FHA Form 3210-A. The instructions above relating to insured advances are in general applicable, except that the mortgages are insured, upon completion and do not include interim advances. References to an inspection fee and replacement reserve should be deleted from the commitment form as presently printed.

4-10. INSURANCE OF INDIVIDUAL SALES TYPE MORTGAGES UPON RELEASE FROM PROJECT MORTGAGE. The required form is Commitment for Insurance of Individual Mortgage Under Section 213, FHA Form 3216. This form, which is similar in many respects to the commitment form used in the Section 203 program, relates to the insurance of individual home mortgages on property which has been released from a Sales Type project mortgage. The mortgage amount applicable to each individual property is ascertained from Schedule A of the Mortgage Rider (FHA Form 3214). In fact, practically the only issue not determined in connection with the project processing is the identity and HUD-FHA credit acceptance of the individual mortgagor, which is handled in accordance with mortgage credit instructions in the Underwriting Chapters of this handbook.