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CHAPTER 9. MORTGAGE CREDIT

9-1. GENERAL.

- a. Mortgage Insurance under Section 234(d) of the National Housing Act provides a program for financing the construction or rehabilitation of a multifamily project which is intended for sale under a plan of family unit ownership (condominium) with each unit eligible for individual mortgage insurance under Section 234(c) after completion of the project. Upon transfer of the title to the unit, it will include an undivided interest in the common areas and facilities, and commercial or community facilities, if any.
- b. Mortgage Credit Procedures and Analysis are to be completed in accordance with the underwriting instructions for Section 207, (see Reference (14) of the Foreword) except as modified herein.
- c. The Project offered for security must be designed principally for residential use consisting of not less than 4 living units, but may contain such commercial and community facilities deemed necessary to serve the occupants.

9-2. AMOUNT AND AMORTIZATION PERIOD OF LOAN. Analysis of the credit risk is premised upon a loan for a definite amount and amortization period. The amount of the loan may be the amount applied for, but may not exceed the maximum amounts permitted under the statutory and regulatory limitations under Section 234(d).

9-3. NEW CONSTRUCTION. Includes all projects not involving rehabilitation or reconstruction of existing structures. Insurable mortgage amount shall not exceed the lowest of:

- a. 90% of the HUD estimate of replacement cost of the project.
- b. An amount not to exceed the sum of the unit mortgage amounts assuming the mortgagor to be the owner and occupant of each family unit.

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- (9-3) c. In subparagraphs 9-3a, and 9-3b, above, if 80% in value of the units has not been sold before initial endorsement, the mortgage amount shall be reduced at initial closing to an amount not

exceeding the lesser of the following:

- (1) 80% of the HUD estimate of replacement cost of the project, or
- (2) 85% of the sum of the condominium unit mortgage amounts.
- (3) This mortgage amount shall be determined in processing and set forth at the end of the opening paragraph of Commitment Forms FHA 3283 and FHA 3284 in the following manner:

"The mortgage amount shall be reduced to \$\_\_\_\_\_ if, at the time of endorsement, 80% of the total value of all the units shall not have been subscribed for by HUD approved condominium purchasers."

- d. An amount attributable to dwelling use excluding exterior land improvements as defined by the Assistant Secretary for Housing-Federal Housing Commissioner not to exceed: (The mortgage amount may exceed these limits by not more than 90% of the cost not attributable to dwelling use, including exterior land improvements.)

- (1) Walk-Up Structures:

\$19,500 per family unit without a bedroom.  
\$21,600 per family unit with one bedroom.  
\$25,800 per family unit with two bedrooms.  
\$31,800 per family unit with three bedrooms.  
\$36,000 per family unit with four or more bedrooms.

- (2) Elevator Structures:

\$22,500 per family unit without a bedroom.  
\$25,200 per family unit with one bedroom.  
\$30,900 per family unit with two bedrooms.  
\$38,700 per family unit with three bedrooms.  
\$43,758 per family unit with four or more bedrooms.

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NOTE: The Assistant Secretary for Housing-Federal Housing Commissioner may increase the foregoing dollar amount limitations by an amount not to exceed 50% in any geographical area where he finds cost levels so require.

9-4. REHABILITATION. Includes only those projects involving the

rehabilitation or reconstruction of existing structure(s).  
Insurable mortgage shall not exceed the lowest of:

- a. Property Held in Fee. The amounts set forth under 9-3 "New Construction", except that limitations under subparagraph 9-3b shall be based on the sum of:
  - (1) The estimated cost of repair and rehabilitation, and
  - (2) The Assistant Secretary for Housing-Federal Housing Commissioner's estimate of value of the property before repair and rehabilitation, rather than replacement cost.
  
- b. Property Subject to a Mortgage. HUD estimated cost of the rehabilitation including new additions, if any, plus the lesser of:
  - (1) The amount of existing indebtedness secured by the property, or
  - (2) 90% of the HUD estimate of 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.
  
- c. Property to be Acquired. 90% of the HUD estimated current cost of rehabilitation, including new additions, if any, plus the lesser of:
  - (1) 90% of the actual purchase price of the property, or
  - (2) 90% of the HUD estimate of 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.

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- 9-5. TERM OF MORTGAGE. The term of mortgage may not be appreciably in excess of 75% of the remaining economic life of the physical improvements but not to exceed 40 years. The mortgage shall be amortized on the Level Annuity Plan.
  
  - 9-6. SCHEDULE OF FAMILY UNITS. A schedule of family units, showing the HUD-FHA valuation of each unit, the ratio of unit value to the total value of all units, unit share of expenses, and the insurable mortgage amount for each unit under the provisions of Section 234(c) will be prepared. This information is entered on FHA Form

3280-A. Instructions for the completion of this form are contained in Chapter 3 of this Handbook.

- 9-7. INSURANCE OF ADVANCES. Follow basic Section 207 instructions.
- 9-8. OPERATING LOSS LOANS -- TWO YEAR OPERATING LOSSES. Pursuant to the provisions of Section 223(d) of the National Housing Act, the mortgagor may request and the Assistant Secretary-FHA Commissioner may insure an operating loss loan to cover the excess of taxes, interest, mortgage insurance premiums, hazard insurance premiums, and the expense of maintenance and operation of the project over project income during the first two years following the date of completion of the project. Mortgage credit processing shall be completed in accordance with basic instructions for Operating Loss Loans -- Two Year Operating Losses.
- 9-9. REHABILITATION PROJECTS. See paragraph 8-12.