

CHAPTER 12.

SECTION I. PROCEDURES FOR INSURING MORTGAGES ENCUMBERING
EXISTING ONE-FAMILY CONDOMINIUM UNITS IN CONVENTIONALLY
FINANCED PROJECTS OVER ONE YEAR OLD

12-1. INTRODUCTION. Section 313 of the Housing and Community Development Amendments of 1978 provides for insuring mortgages encumbering existing one-family condominium units in conventionally financed projects if construction of the project was completed more than a year prior to the application for mortgage insurance. The purpose of this authority is to provide insured mortgage financing to facilitate resales by owners of existing condominium units.

12-2. DEFINITIONS FOR USE IN THE EXISTING 234(c) PROGRAM.

- a. Existing Condominium: A condominium unit must be an integral part of a project which was constructed, rehabilitated, or converted as a condominium project, the construction of which was completed more than one year prior to the application for mortgage insurance. The mortgagee must certify that the project has been completed more than a year prior to the unit application for mortgage insurance.
- b. Condominium Regime: The mode of self-rule established as a result of the recordation of condominium documents. The term also refers to the documents necessary to legally constitute a condominium and permit it to function as such.
- c. Condominium Association: An association made up of unit owners who are responsible for the maintenance and upkeep of the common estate, hereinafter referred to as the Association.
 - (1) Common areas - Areas of the project and of the property on which it is located that are for the use and enjoyment of the owners of family units located in the project. The areas may include the land, roof, main walks, parking space, floors, main walls, stairways, lobbies, halls, and community and commercial facilities. Common areas are all areas of a condominium which are not specifically delineated and described as individual unit estates.
 - (2) Common Areas maintenance - Refers to the maintenance of common areas and the cost of maintenance associated with these areas.

- (3) Assessments - The apportionment of common expenses that are to be charged to the unit owner in a manner to be determined in the declaration or by-laws. The charge may include costs for utilities on individual units

serviced by master meters and on common use buildings, security requirements, salaries to those employed by the association, and repairs to common facilities.

- 12-3. REGULATIONS. Regulations governing the program are located in Chapter II of Title 24 of the Code of Federal Regulations under Sections 234.17, 234.25, 234.26, 234.27, 234.28, 234.38, 234.59, and subpart B.
- 12-4. MAXIMUM MORTGAGE AMOUNT, TERM AND INTEREST RATE.
- a. The mortgage shall not exceed the amount calculated per instructions in Chapter II of Title 24 of the Code of Federal Regulations under Section 234.27.
 - b. The term of the loan shall be limited to 30 years, except that the term may be 35 years under certain conditions as cited in Chapter II of Title 24 of the Code of Federal Regulations under Section 234.25.
 - c. Interest rate is set forth in Chapter II of Title 24 of the Code of Federal Regulations under Section 234-29.
- 12-5. QUALIFYING GUIDELINES FOR PROJECT ACCEPTABILITY.
- a. Type of project. The unit must be in a condominium project which provides for undivided ownership of common areas by the unit owners.
 - b. Age of project. The project must be more than one year old. All units and all common elements and improvements must have been completed and must have been committed to a plan of condominium ownership for at least one year prior to application. See reference (2) for exceptions allowed under Section 235.
 - c. Existing stage. Satisfactory completion of all improvements must have been made including the common areas and facilities.
 - d. Sale and Occupancy Requirements. At least 90 percent (or such lesser amount as the Commissioner decides) of the units shall have been sold and titles conveyed to owners not affiliated with the developer and 70 percent (or such lesser amount as the Commissioner decides) of the total number of units occupied by unit purchasers. No more than 40 percent of the units shall be insured under Section 235.

- (12-5) (1) Consideration must be given to the age of the project and to the number of owner occupants in the condominium before a decision is reached pertaining to percentage requirements. A project in which 90 percent of the units are sold may be adequate for a relatively new project; however, an older condominium having a 10

percent vacancy may indicate a poor sales market when compared with say, the number of units rented.

- (2) The limit on Section 235 ownership should be influenced by the percentage of owner-occupants and the age of the project. If the number of rental units are high, owner participation in Association affairs is minimal as to those units. If the project is new and the condominium fees are unrealistically low, Section 235 owners are not generally able to cope with increases in costs, with a resultant increase in defaults. Accordingly, if a majority of the co-owners left with Association responsibilities are subsidized mortgagors, the cost of project management will increase.
- e. Ownership of Facilities. Generally amenities or facilities, including parking and recreational facilities, are a legal part of the project and are owned by unit owners. In such cases individual interest in the (community) facilities is part of each mortgaged unit estate and real estate taxes are imposed directly on the owners of each individual unit estate. However, leasing of recreational and parking facilities is permitted provided lessors can terminate, with no more than a 90-day notice, any contract entered into with the lessee.
- f. Developer's rights and future expansion. The developer should have no special rights with respect to the project or common areas other than the marketing of unsold units. The project must not be subject to future expansion at the option of the developer.
- g. Association membership, reserves, and duty to pay assessments. Each unit owner, his/her successors and assigns, upon acceptance of the unit deed must automatically become members of the Association. Each unit member has a proportionate vote at Association meetings. Each unit member is responsible to pay a proportionate share of the expenses of the Association for maintenance and operation of common areas, upkeep, taxes, and insurance. All expenses must be current. Failure to pay the designated assessment will result in a lien against the individual unit which will be subordinate to the first mortgage lien unless otherwise required by State law.

- h. Operation and Management, Litigation or Proceedings. The project must demonstrate good management, maintenance and financial stability. Good management can be judged by analyzing the costs of operation, the projects annual income expenses and the budget by studying the extent of assessment delinquencies and collection efforts. Visual inspection of the project will include the state of repair of the building, care and treatment of common areas and facilities. There shall be an adequate reserve fund for the periodic maintenance,

repair and replacement of the common elements that is maintained out of regular assessments for common expenses. The Association can advise if any litigation is pending or proceeding relating to the project that might reasonably have a significantly adverse impact on the owners of units.

- i. Legal Documents. The Master Deed, By-Laws, and any other similar documents must be in accord with current State law. The legal documents of the project must clearly designate: (1) unit composition, description of common areas and the party responsible for repair and maintenance of the property; (2) a mechanism for amendment of the documents; (3) the allocation, on an equitable basis, of the unit owners' voting rights and responsibilities for assessments and (4) the methods to be used in operating and governing the condominium. Each condominium unit owner should have a clearly specified interest in the common areas.
- j. Insurance, Fidelity Bond Requirements and Condemnation and Casualty Loss Revisions. The Association shall have a "master" or "blanket" policy protecting against loss or damage by fire and other hazards sufficient to cover the replacement cost of the common areas of the project and a comprehensive public liability insurance policy covering the common areas. If the project is in a flood zone, flood insurance must also be required by the Association and shall have insurance coverage equal to replacement cost of the project less land cost. Communities in areas designated as special flood hazard areas by the Secretary must participate in the National Flood Insurance Program before a mortgage on a unit in the community can be insured. A reasonable method for dealing with condemnation and casualty damage shall be provided by applicable law or legal documents of the project.
- k. Estate of unit owners. Preferably, the unit owner will have a fee simple estate in accord with State law. Leasehold estates will be considered only in localities where the use of leaseholds are customary.

- l. Right of first refusal. The Association or any other party may not have the right of first option or refusal to purchase a unit, or the right to provide a substitute buyer. The Association or any other party may not preempt a mortgage holder's right to foreclose. The Association may however take over the responsibility from the defaulting mortgagor in order to avoid a distress sale by the lender provided the security rights of the lender are not impaired.
- m. Adverse Circumstances or Conditions. The project will not qualify if circumstances or conditions concerning the project will have a substantially adverse effect upon the project or be a contributing cause for the unit mortgage to become

delinquent. These circumstances or conditions include, without limitation, defects in construction or other major defects; substantial disputes, or dissatisfaction among the unit owners concerning the functioning, operation, maintenance or management of the project or the Association; or the unit owner's respective rights, privileges and obligations relating to the project or any part thereof. If the project is under professional management, a report from the management shall be obtained which describes the stability of the project and any recurring problem.

- 12-6. APPLICATION FORMS AND PROCESSING FLOW. Application for an appraisal must be submitted on Form HUD-92800, Application for Property Appraisal and Commitment.
- a. The application on the first unit submitted for HUD insurance in an existing condominium project must be accompanied by the following exhibits.
- (1) Master Deed or equivalent document (including amendments), with the recordation date of the project;
 - (2) Bylaws for the Association;
 - (3) Recorded plat, plan, survey, or map (including amendments) of project;
 - (4) Articles of incorporation, if any, executed in connection with the establishment of the Association;
 - (5) Title evidence of a unit or unit mortgages for purchase;
 - (6) Statement of Insurance and Fidelity Bond Coverage;
 - (7) The project's annual income, expenses, and budget. The reserve funds for commonly owned replacements must be sufficient to meet current costs. Submission shall include copies of minutes of last two meetings of the council of Co-owners.

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- (8) Certification from the Association that 90 percent of the units in the project are sold and titles conveyed to owners not affiliated with the developer and 70 percent are owner occupied.
 - (9) Certification that legal documents meet HUD's objectives may be accepted from mortgagee's attorney.
- b. The Single Family Branch will review the required documentation set forth in Paragraph 12-6 a. to determine compliance. In addition, a Field Office staff review appraiser will visit the project and complete a project worksheet to record findings

on the inspection in order to determine project eligibility. (See Appendix 22). A copy of the project worksheet shall be sent to all fee appraisers on the HUD panel actively appraising condominium units.

- c. Any of items (1) - (9) in a. above may be waived by the local office as necessary documentation to be submitted with the Form HUD 92800 application. Such a waiver is appropriate only in those instances where the Office has previously processed an application for Section 234(c) insured financing involving the same condominium project and determined that the project was acceptable. Project acceptability shall be reviewed every two years or sooner if conditions so indicate.
- d. The application for appraisal under Section 234(c) is submitted on Form HUD 92800 and a conditional commitment will be issued on a Form HUD 92800-5. The fee appraiser will process on Form HUD 92800.
 - (1) The lender will call HUD for information on condominium approval.
 - (2) If HUD has not approved the project, the Field Office will inform the lender whether the necessary documents as indicated in paragraph 12-6a. are required. If the project has been approved the requirement for document review may be waived. The assignment clerk will give the mortgagee the name of an appraiser qualified to process condominium units.
 - (3) The fee appraiser will process in accordance with instructions in paragraph 12-12d., Valuation Processing.

- (4) The reviewer shall have the information on the subject appraisal recorded on Form FHA-180 and retained in the project file along with a copy of Form HUD-92800-4. The reviewer will then issue the commitment if the project and unit are acceptable.
 - (5) The assignment clerk will maintain a card file on the projects. The card will contain information on the status of the project eligibility. This card file will facilitate preliminary review of subsequent applications on units in the condominium.
- e. Applications for approval of the mortgagor are submitted on Form HUD 92900, Mortgagee's Application for Mortgage Approval and Commitment for Mortgage Insurance Under the National Housing Act. The firm commitment is issued on Form HUD-92900-4 with appropriate conditions for condominium mortgage insurance. Processing will follow instructions in Section III Mortgage Credit Processing.

- 12-7. Condominium Projects Approved by FNMA. The approval of condominium projects by the Federal National Mortgage Association (FNMA), will relieve the field offices from performing the approval procedures with respect to the acceptability of the legal documents and other documentation. The appraiser will establish the value of the unit and determine any commitment requirements deemed necessary. HUD will waive the requirement for approval procedures as a condition to accepting applications provided the field office is furnished with evidence that the documents have been approved by FNMA. Specific requirements to meet eligibility criteria established in the regulations shall be made conditions of the commitment. These requirements are: (1) 70 percent of the units are occupied by owners, (2) the construction of the project is over one year old, and (3) the declarants' rights have expired or have been waived. *

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- 12-8. MORTGAGE FORM. The following instructions are applicable for use when reviewing mortgage forms.

a. The mortgage submitted for insurance must:

- (1) Involve a principal obligation in multiples of \$50.
- (2) Have the payments come due on the first of the month.
- (3) Contain complete amortization provisions satisfactory to the Secretary and an amortization period not in excess of the term of the mortgage.
- (4) Provide for payments to principal and interest to begin not later than 60 days from the first day of the month on which the mortgagee's certificate on the commitment was executed.
- (5) Contain a provision permitting the mortgagor to prepay the mortgage in whole or in part upon any interest payment date after giving to the mortgagee 30 days advance notice in writing of intention to prepay, but shall not provide for the payment of any charge on account of such prepayment.
- (6) Contain mortgage terms that do not exceed those set forth in the firm commitment.
- (7) Be executed by the same person(s) as named in the firm commitment.

- (12-8) (8) Set forth that if the loan is held by the Federal Housing Commissioner, the mortgagor will pay to HUD a monthly charge (in lieu of the mortgage insurance premium) which shall be in an amount equal to one-twelfth (1/12) of one-half (1/2) per centum of the average outstanding balance due on the mortgage loan without taking into account delinquencies or prepayments.
- (9) Set forth that the aggregate of the amounts required to be paid under the mortgage shall be paid in a single payment each month to be applied by the lender first in payment of HUD's mortgage insurance premium, then to interest payable on the mortgage, then to the principal on the note, and then to late charges, if any.
- (10) Contain a "Resolution of Inconsistency" which states:
"If this mortgage and note be insured under Section 234(c) of the National Housing Act, such Section and Regulations issued thereunder and in effect on the date hereof shall govern the rights, duties and liabilities of the parties hereto, and any provision of this or other instruments executed in connection with this mortgage and note which are inconsistent with said Section of the National Housing Act or Regulations are hereby amended to conform thereto."

b. The mortgage may provide for:

- (1) A late charge not to exceed four (4) cents for each dollar of each payment more than fifteen (15) days in arrears, to cover the extra expense involved in handling delinquent payments.
- (2) Equal monthly payments by the mortgagor to the mortgagee which will amortize the fire and other hazard insurance premiums, if any are required by the mortgagee, within a period ending one month prior to the date on which the same becomes delinquent.
- (3) Authority for the lender to collect from the borrower each month, until the note is paid in full, one-twelfth (1/12) of the annual mortgage insurance premium (MIP) charged by the Department for providing mortgage insurance on the mortgage loan. The mortgagee is responsible for the payment of the MIP. HUD regulations permit the mortgagee to collect the funds necessary for the payment from the mortgagor. Accordingly, if the mortgagee is to collect the funds from the mortgagor, authority to do so must be included in the mortgage.

- (4) Language which states that failure of the mortgagor to

pay the mortgagor's share of the common expenses or assessments and charges imposed by the Association as provided for in the instruments establishing the Association shall constitute a default under the provisions of 234(c) of the Housing Act and result in a lien on the individual unit that will be subordinate to the first mortgage.

12-9. ORGANIZATIONAL DOCUMENTS

- a. In lieu of HUD legal review, the mortgagee's attorney shall certify to the acceptability of the legal documents. Mortgagee Certifications shall state that the lender's attorney or an attorney employed by the lender has reviewed all of the appropriate condominium documents and that the requirements contained therein meet State codes and are consistent with the legal policy guidelines in Appendix 24 and in compliance with applicable laws. In addition, the certification will contain language that the documents do not conflict with HUD's condominium regulations.
- b. Files containing the copies of the organizational documents, the mortgagee's certifications, and letters of approval shall be constructed. The Field Office may waive the requirement for copies of the organizational documents when subsequent conditional commitment applications submitted by a mortgagee involve a condominium project whose documents have been approved by HUD. If a waiver is granted, the application must be accompanied by a copy of the approval letter and a certification from the condominium project management that no changes have been made in the organizational document since issuance of the approval letter. A provision setting forth the waiver is included in the sample format letter in Appendix 23. The certification language is also set forth in the format letter.
 - (1) Once a certification has been issued the legal documents are subject to post review only. Subsequent unit applications must be accompanied by a certification from the mortgagee that there has been no change in the legal documents since the date of the original application.

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- (12-9)
 - (2) If an application is submitted by a mortgagee other than the one who received the approval letter, the commitment may be issued which contains a requirement that the certification must be submitted prior to mortgage insurance endorsement. A copy of the approval letter shall accompany the conditional commitment.

- c. If, as a result of post review, Counsel determines that the

documents are not acceptable to HUD, the field office will suspend issuance of conditional commitments. The reason for HUD's determination shall be entered on the Report on Application, Form HUD-92026. Every effort shall be made to resolve deficiencies or violations.

- d. If minor differences are evident, the review appraiser may discuss such differences informally with the Area Office Counsel and will render an opinion based upon such a discussion.

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12-10. REVIEW FOR INSURANCE ENDORSEMENT. The closing clerk will handle the submission for insurance endorsement as outlined in reference (8) of the Foreword. A copy of the letter of approval must accompany the closing submission. The closing clerk will review the mortgage and note to determine compliance with the terms of the commitment.

12-11. CODE IDENTIFICATION.

- a. For the purpose of identification and tracking, the Program Codes shall be identified as follows:

Program Code	Definitions
30	Section 234(c) - Resale, Conventionally Financed Units - Veteran
31	Section 234(c) - Resale, Conventionally Financed Units - Non-Veteran
* 534	Section 234(c) - Mortgages insured in VA-approved projects
500	Section 234(c) - Mortgages insured pursuant to the GPM program *

- b. The down payment and mortgage amount ratios for veterans, under Section 234(c) are in alignment with Section 203(b). As a result, Program Code 10 is redefined as Section 203(b)(2) and 234(c) - Housing for Veterans.

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SECTION II. VALUATION PROCESSING

12-12. UNITS IN AN OPERATING CONDOMINIUM NOT PREVIOUSLY INSURED. Form HUD 92800 serves as the application for a mortgage on a unit located in an operating condominium which was not previously insured with a

HUD/FHA insured project mortgage. The first application received for mortgage insurance on a unit located in a project not previously insured must be processed by the Single Family staff on a project worksheet (see Appendix 22). This form will be used to report project information only. Copies of the project worksheet will be sent to those fee appraisers on the HUD fee panel who appraise condominium units. The unit appraisal will be completed on Form HUD-92800. HUD/FHA will accept a Mortgagee Certification that the legal documents meet HUD/FHA guidelines. HUD will accept the condominium legal documents in all instances except where the rights of the Department are so severely limited as to constitute a risk to the buyer. In no event should the buyers' rights be subordinated to the sponsor or developer. Processing will not begin until this certification is received.

a. Data for Project File. When the first unit in a condominium project is processed, a valuation project data file will be set up and maintained so that future applications can be processed based on information found in the initial file (See Paragraphs 12-6a and b). For processing purposes, the valuator must be familiar with certain essential data which shall be retained in data files after processing. The file shall contain:

- (1) A plan of the entire project and a precise delineation of all commonly owned property and facilities.
- (2) A copy of the Master Deed, Articles of Incorporation, By-Laws, etc., or other documents of the Association or other identity which controls the common facilities.

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- (12-12)(3) A statement of common expenses experienced in the last accounting year, and a budget of common expenses for the current year. Included therein will be the current status of the reserve for replacement. The annual financial statement which the Association provides reflects all expenses in maintenance of common areas, etc. Minutes of the last two Council of Co-Owners' meetings will serve to identify any current problems.
- (4) A copy of the required certifications.
- (5) Form FHA-180 Condominium Analysis and Appraisal spread sheet to be used to record information on each unit appraised.
- (6) If the mortgage is to cover property that is located in an area designated as a flood plain area having special flood hazards or is otherwise determined by the Commissioner to be subject to a flood hazard, and if flood insurance under the National Flood Insurance Program (NFIP) is available, flood insurance is required. The maintenance of flood insurance coverage on the project by the Association will

satisfy the requirements of Paragraph 234.17 in Chapter 11 of Title 24 of the Code of Federal Regulations if such coverage protects the interests of the mortgagor in the family unit. In this purpose the interest of the mortgagor is defined as insurance coverage equal to replacement cost of the project less land costs.

- (7) Copy of the condominium worksheet or evidence of project approval by FNMA, FHLMC, and/or VA.

b. Data Required for Each New Application.

- (1) The application on the first case in the condominium shall be accompanied by necessary project data. The data need only be secured once on each project and shall be made a part of the project data file. (See paragraph 12-6)
- (2) Reinspection is required if two years have elapsed since the previous inspection for project approval. The appraiser or inspector shall indicate on the report whether he/she feels a reinspection is recommended earlier than the two-year period.
- (3) The legal and physical description of the fee interest in the subject unit shall be submitted.

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- (12-12) (4) A statement of common expense experienced in the last accounting year, shall be secured along with a budget of common expenses for the current year. This statement is not necessary if the project data file contains this information and the data covers the expenses experienced within a year of the date of the subject application. Minutes of Council of Co-Owners' meetings will be required if copies in the project data file are not current.
- (5) Certification from the Association that the project is at least 90 percent sold and titles conveyed to owners and at least 70 percent occupied by owners is required with each application. The review appraiser shall be alert to the date of the certification.

c. Processing the Project.

- (1) The Single Family Branch in the Field Office will review the legal documents organizing the condominium (e.g. Enabling Declaration, By-Laws, etc.) for information only. The documents may be forwarded to legal staff only for post review or if some question is raised concerning validity of the certification.
- (2) The Single Family Branch in the Field Office will identify all the rights and benefits accruing from ownership of a

unit and all the obligations incurred therewith for the maintenance of the common property and facilities. Also, the expenses involved and the liability for assessment must be ascertained. Any pertinent information shall be entered on the project worksheet. The worksheet is sent to all fee appraisers to assist in arriving at his/her value estimates.

- (3) The Single Family Branch in the Field Office will make an inspection of the condition of the project and of common areas in the entire property to determine condition and quality of maintenance. This information is also entered on the worksheet.
- (4) Inspection of the project prior to accepting applications may be waived provided evidence of project approval by FNMA, FHLMC, and/or VA has been submitted.

d. Processing the Unit.

The fee appraiser will make an inspection of the unit. Any necessary repairs will be made a condition of the commitment.

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- (12-12) (1) Unless the current budget for common expenses can accommodate any necessary repairs on the common elements, the Association must assess each member for the cost of the repairs on the common elements in the same proportion as the common assessments. Copies of current Council of Co-owners' meetings can give important information concerning the condition of the condominium.
- (2) The fee appraiser is responsible for determining whether the "as is" condition of any structural components meets HUD's requirements. If the appraiser determines that a deficiency exists and that the adequacy of the component is doubtful or cannot be verified, a condition must be added to the commitment to correct the problem.
- (3) The appraiser determines (in whole dollars) the monthly amount which the association will charge the owner of subject unit for common expenses and fixed charges. The appraiser will make his/her determination after analysis of the common expenses data in the project data file, and from the annual budget of the association of owners.
- (4) Personal Benefit Expenses are those expense items to be paid directly by an owner (rather than passing through the association). These expenses are other than real estate taxes, insurance, and mortgage payments. From any personal benefit expense data in the project data file (FHA Form 180) and from more recent data from project occupants and from the data bank, the appraiser estimates the nearest monthly whole dollar amount for personal benefit expense.

After lining out "Heat and Utilities" on Form HUD 92800, the monthly personal benefit expense estimate is entered as follows:

"Pers. Ben. Exp. \$ _____"

- e. Approach to Value. The approach to value of a single unit in a condominium project is similar to that for other home mortgage programs. Closing costs are added to the value estimate to arrive at the total on which the mortgage is based as in other HUD/FHA home mortgage appraisals. Special considerations which must be taken into account are outlined below.

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- (12-12) (1) Estimate of Market Price by Comparison. Data on the sales of any other units in the subject project should be obtained and sales in other competitive condominium projects must also be obtained, and given consideration in the comparative analysis.
- (a) Condominiums have an attraction to many purchasers by reason of freedom from some of the responsibilities of maintenance coupled with the advantages of semi-private use of community recreational facilities. Off-setting these advantages are usually some loss of privacy and the cooperative aspects of ownership of the commonly owned land and facilities.
 - (b) The market price on individual units having the same utility in the same project may vary due to their location within the project. In apartments or row dwellings of the townhouse type, relative desirability is greatly affected by differences in views; proximity to the swimming pool and recreational areas with their attendant noise; proximity to the odors and nuisance of incinerators, garbage chutes or refuse areas; etc. Adjustments to sales prices must be made for all these differences as well as adjustments to reflect preferences of purchasers between upper floor units and lower floor units, and other locational factors. Adjustments must also be made for differences within the dwelling unit which have been made by the owner-occupant.
 - (c) When the comparison is made with a similar unit in another condominium project, adjustments are required to reflect the differences between the projects.
 - (d) If there are no similar condominiums, comparisons can be made with similar units in planned-unit developments that may be of the same general structural type as the subject. Market comparisons with units in cooperatives should be made only when the terms for financing are fully known and the differences in sales

prices can be adjusted. Common expenses in a cooperative unit may sometimes be used to establish the monthly cost of ownership.

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- (12-12) (e) In the comparative analysis, consideration will be given to the relative cost of ownership in other projects of various types, and the cost of renting or buying similar units. Market comparisons with the comparables may be shown on HUD Form 92800, on FHA Form 2273, Estimates of Market Rent By Comparison, or on FHA Form FHA-2019, Estimate of Market Price by Comparison. Appraisers will modify the items on the Form as appropriate.
- (2) Estimate of Capitalized Income. Value by capitalization will be found as in Section 203(b) instructions by applying a gross rent multiplier to the estimated gross monthly rental value of the unit. If any of the units in the condominium are rented on an unfurnished basis, they would provide excellent comparisons. Otherwise, rentals in other projects, either condominium or rental projects, may be used and adjustments made to reflect the difference in benefits.
- f. Estimate of Value. The final valuation estimate must be in appropriate relationship to:
- (1) The cost of acquiring a similar unit with similar maintenance costs in a substitute condominium or planned-unit development of similar characteristics.
- (2) The cost of acquiring and maintaining a dwelling unit offering similar benefits and utility in any other type of amenity income dwelling.
- g. Commitment. The appraiser's estimate will be entered on Form HUD 92800-3 and the Conditional Commitment completed by the Authorized Agent in the usual manner. Mortgage amount, loan to value ratios and term are the same as those prescribed for Section 203(b) existing properties more than one year old. However, Section of the Act must be shown as 234(c). In some instances the maximum mortgage amounts for condominium units may differ from Section 203(b) limits.
- h. Sale Requirement. In an existing condominium, care should be exercised to prevent accepting a unit in a building that contains too many vacancies. This may raise some question of marketability. If sell out is imminent, a pre-sale requirement may be used as a commitment condition on the unit under consideration at least. Ninety percent of the units must be sold and seventy percent occupied by owners. The mortgagee will be responsible for submitting a certification with each application that the

project meets the 90/70 criteria.

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- (12-12) j. VA CERTIFICATE OF REASONABLE VALUE (CRV). The CRV issued by the Veterans Administration on a single family unit in a condominium shall be accepted by the field office. See Chapter 13, paragraph 13-2,a.

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SECTION III. MORTGAGE CREDIT PROCESSING

12-13. INSTRUCTIONS. This Section provides Mortgage Credit processing instructions for a dwelling unit which is a part of a condominium project having four or more units not covered by a project mortgage. If a project mortgage exists, the single insured units shall be released from such mortgage pursuant to a release plan approved by HUD.

- a. Basic Instructions. Follow basic instructions in Handbook 4155.1, Mortgage Credit Analysis for Mortgage Insurance on One-to-Four Family Properties except as modified herein.
- b. Mortgagor. The mortgagor may not own more than four units covered by mortgages insured under this Section. One of the units shall be for his/her own use and occupancy. A family unit includes an undivided interest in, or share in the joint ownership of, the common areas and facilities.
- c. Maximum Insurable Mortgage. The maximum insurable mortgage shall not exceed the lesser of:
 - (1) Occupant Mortgagors. When the mortgagor is the occupant of the dwelling unit, the principal amount of the mortgage shall not exceed:
 - (a) Dollar limitation as prescribed in Section 234.27(a)(1) of the Code of Federal Regulations, Chapter II, Title 24.
 - (b) 97% of the first \$25,000 of the HUD value of the dwelling unit as of the date the mortgage is accepted for insurance, and 95% of such value in excess of \$25,000 (plus closing costs).
 - (c) For eligible veterans, 100% of the first \$25,000 of the value plus prepaid items less \$200 plus 95% of the value plus closing costs in excess of \$25,000.
 - (2) Non-Occupant Mortgagor. When the mortgagor is not the

occupant of the dwelling unit, the maximum insurable mortgage shall not exceed 85% of the amount available to the owner-occupant computed in accordance with the foregoing provisions (1) of this paragraph. This is true except in eligible transactions under the escrow commitment procedure where at least 15% of the original principal amount of the mortgage is deposited in escrow, trust, or special account.

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- d. Term of Mortgage. The term of mortgage shall not exceed 30 years. Exceptions may be found in Section 234.25(c) of Chapter II, Title 24 of Code of Federal Regulations.
- e. Mortgagor's Minimum Investment. The mortgagor's investment in the property must be at least 3% of the estimate of the cost of acquisition or such larger amount as the Commissioner may determine.
- f. Requirements for Older Mortgagors. A mortgagor who is 60 years of age or older may borrow, or otherwise acquire the required cash investment, or a portion thereof, as provided in Section 234.28(c) of the regulations.
- g. Firm Commitments. Approval of purchasers as individual mortgagors under Section 234(c) will follow the regular procedure for the processing of credit approval under Section 203(b) subject to modification of the instructions for the completion of HUD Form 92900 under Section 234(c). (See Reference (7) of the Foreword.)
- h. Family Unit. When the family unit is in an operating condominium, information necessary to complete Section 14, Form HUD-92900-2 is contained on Form HUD-92800-3. Firm commitment will be issued on Form HUD-92900.
- i. Mortgagor Eligibility. The determination of the eligibility of the mortgagor is made in accordance with the instructions contained in HUD Handbook 4155.1, Mortgage Credit Analysis One-to-Four Family Dwelling Units.

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