

CHAPTER 7. SPECIAL ADMINISTRATIVE PROCEDURES FOR
SIMPLIFIED PROCESSING

* 7-1. SIMPLIFIED PROCEDURES FOR INSURANCE UPON COMPLETION CASES WITH A PRESALE CONDITION. Basic information concerning standard procedures for condominium projects is set forth in Reference (1) of the Foreword. In those instances where the sponsor is able to complete construction of a condominium project composed of detached, semi-detached, row, or walk-up apartment structures without the need for HUD-insured construction advances on the project, he/she may request the simplified procedure. These simplified procedures are not applicable to elevator construction. The project may be processed by using modified Section 203 underwriting procedures described in Chapter 10 of the Handbook and in the instructions in Reference (5) of the Foreword. In such cases, the units involved are essentially single family units. *

* a. Administrative Procedures. The simplified administrative procedures involve modifications which expedite processing.

(1) Application for Mortgage Insurance (Form FHA 3201).

(a) When the simplified procedure is to be used, the mortgage amount indicated on the application shall not be less than, and need not exceed the amount arrived at by multiplying the number of units by \$50 and dividing the total by .008, i.e., 75 units x \$50.00 = \$3750 divided by .008 = \$468,750 mortgage amount. (The application fee will be collected at a rate of \$50 per unit. This fee will be refunded after the Commitment to Insure Upon Completion (Form FHA 3284-A) has been issued. Authority for the refund is given 24 CFR 207.1.) *

(b) Architectural exhibits, submitted for projects whose basic design and construction is similar to home mortgage design and construction, may be exhibits similar to those required for home mortgage cases. Construction inspection procedures may follow those prescribed for home mortgage cases.

(c) Section E, "Estimate of Annual Common Expense" will include only those items that would be chargeable to the unit owners by the condominium association.

(d) Section F, "Annual Fixed Charges"; Section H,

"Estimated Replacement Cost"; Section J, "Total Requirements for Settlement"; and Section K, "Estimated Annual operating Statement need not be completed.

- (2) Commitment to Insure upon Completion, (Form FHA 3284-A). This form must be used in all cases being processed for insurance upon completion which use the simplified home mortgage procedures. As in all other cases, there may be certain conditions to be included in the commitment which are applicable to the specific case.
- (3) Prevailing Wages, Minimum Property Standards and Cost Certification. All normal requirements apply except that a simplified cost certification procedure may be followed if it is clearly established that the indicated amount of the loan is less than 90% of the actual cost of construction. The amount of the loan normally will be far less under the simplified procedure as a result of the formula used in paragraph 7a(1) (a) above.

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- (a) The mortgagor and builder will be required to certify as follows:

"The undersigned hereby certifies that the actual cost (exclusive of land) of (Project Name) is in excess of \$_____ 1/ and that the cost includes direct construction cost, interest, taxes, insurance during construction and architect, legal, inspection and examination fees pertaining to the project."

- (b) A certified public accountant will be required to submit the following certification:

"_____ Construction Co.
Anytown, State

To Whom it may Concern:

We have examined the books and records of _____ Construction Company, Inc., for the purpose of ascertaining that the actual cost (exclusive of land) of (Project Name) is in excess of \$_____.1/ Our examination was made in accordance with generally accepted auditing standards and accordingly include such tests of the accounting records and such other auditing procedures as we considered necessary under the circumstances.

The actual cost (exclusive of land) of (Project

Name) is in excess of \$_____.1 Cost includes direct construction costs, interest, taxes, and insurance during construction and architect, legal, inspection and examination fees pertaining to the project.

_____"
Signature of Certified Public Accountant

- * 7-2. RESERVED *
- * 7-3. CLOSING THE COMMITMENT. The number of sales shall total no less than 70% of value of the units to bonafide purchasers. The mortgagee may request insurance endorsement of the project mortgage upon completion of the project and the sales information shall be entered on the Schedule of Family Unit Sales, Form FHA 3282. Simultaneously, the mortgagee must submit a request for termination of project mortgage insurance. Payment of MIP will be in accordance with paragraph 5(a) of the Commitment (Form FHA 3284-A). The documentation required in closing a transaction of this nature is listed in Form FHA 3257-H. *

1/ The mortgage must not exceed 90% of this amount.

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- * 7-4. CLOSING STAGE - INITIAL/FINAL ENDORSEMENT
 - a. After construction of the project is completed and the 70 percent presale requirement has been confirmed by the Mortgage Credit examiner, the Director of Housing/Area Manager requests Area Counsel to hold closing of project commitment.
 - 1. Area Counsel determines that:
 - (a) Legal documents are satisfactory unless documents have been certified by the developer's attorney; the certification will state that the documents are consistent with HUD legal policy statements and that they do not conflict with any of HUD's regulations and that they comply with applicable laws.
 - (b) Form HUD 92258 requirements have been complied with;
 - (c) Permission to Occupy forms have been completed;
 - (d) Final inspection report is complete;
 - (e) Cost certification and supplemental statement is acceptable.
 - (f) Affirmative Fair Housing Marketing Plan has been approved.

2. Area Counsel closes project commitment in accordance with Form FHA 3257-H. (The exhibits require may vary according to State requirements.)
 - (a) Deed of Trust, Series 4100, not to be recorded unless required by mortgagee
 - (b) Mortgage Note, Series 4100
 - (c) Contractor's Prevailing Wage Certificate, Form FHA 2403-A
 - (d) Evidence of zoning compliance (letter form local official)
 - (e) Escrow Deposit Agreement for On Site Facilities, Form FHA 2456 (as required)
 - (f) Escrow Agreement for Off Site Facilities, Form FHA 244G (as required) *

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- (g) Certificate of Mortgage, Form FHA 3224 (delete inapplicable provisions)
- (h) Mortgage amount endorsed shall not exceed the amount of the commitment as supported by cost certification.
- (i) Surety Bond Against Latent Defects, Form FHA 3259, or an escrow deposit with the mortgagee in an amount two and one-half times the total of all the eligible mortgage amounts. The foregoing instruments shall contain a clause permitting an assignment of the mortgagor's rights thereunder to the Association of owners and to the members of such association, as their interests may appear.
- (j) Evidence of compliance with any special conditions of the commitment:
 - a. 70% Subscription Letter
 - b. Carpet Letter (if any)
 - c. Completion, HUD Representative's Trip Report Form HUD 5379
 - d. Permission to Occupy, Form FHA 2485
- (k) Declaration, Plan of Condominium Ownership, or Master Deed and By-Laws in accord with State law, together with Condominium plan and parcel map duly recorded

- (l) Association Legal Documentation
 - a. Articles of incorporation
 - b. By-Laws
 - c. Minutes of first meeting- election of officers
 - d. Information Bulletin
- (m) Regulatory Agreement, Form FHA 3278
- (n) Subscription and Purchase Agreement, Form FHA 3279
(with Exhibit "A" which sets forth the following:
Cash downpayment requirements; estimated monthly
payment including FHA insurance and estimated taxes
including homeowners exemption)
- (o) Written assurances of approved mortgagee of financing
of the proposed condominium unit purchases (requirement
of basic commitment) *

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- (p) Resolution of the mortgagor entity authorizing the execution of Deed of Trust, Deed of Trust Note, Regulatory Agreement and all other documents required by HUD or the lender, or other interested parties to the transaction in connection with the endorsement of the project mortgage loan for insurance by HUD.
- (q) Resolution of Mortgagor Entity authorizing the execution of the Declaration of Restrictions
- (r) Borrowing Resolution of Mortgagor Entity
- (s) Opinion of counsel of mortgagor addressed to HUD directed to legal requirements and execution of documents (requirement of basic commitment)
- (t) Certification of CPA as to actual costs
- (u) Escrow Agent (or lender) letter of assurances that purchasers' downpayment for individual condominium units are being held in escrow
- (v) Management Agreement, Form FHA 3281, duly approved and executed by the Housing Management Division of HUD and by the Management Agent for the property
- (w) Mortgage Insurance Premium (MIP) check from mortgagee
- (x) Three-year budget for the condominium Association that shows operating costs and reserve funds and

projected annual increase in assessments to unit owners.

- (y) Fire and hazard insurance policy for the entire project, including all the units, for the replacement value of the project.
- b. Mortgagee requests endorsement of the project mortgage and simultaneously requests termination of the project mortgage insurance.
- c. Individual unit titles may now be conveyed free and clear of liens with mortgages insured under Section 234(c). *

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- *7-5. FURTHER INSTRUCTIONS. Simplified processing may involve developments done in stages with extensive community facilities. Requirements in such proposals vary widely in different jurisdictions. Proposals of this nature should be reviewed in accordance with outstanding instructions from the Director, Multifamily Development Division. *

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