Chapter 3. MORTGAGE CREDIT PROCESSING

3-1. INTRODUCTION - Section 203(n) of the National Housing Act gives recognition to the real estate rights which the member/owner has in a project. It provides a financing vehicle whereby these estate rights can be readily purchased and financed by the member/owner. Mortgage Credit processing will begin at the conditional commitment stage and involves a determination of the amount and amortization of the loan; analysis of the acceptability of the applicant; and evaluation of the applicant's ability to meet current project carrying charges apportioned to the property being sold, as well as the additional payment on the Section 203(n) mortgage. The Mortgage Credit procedures and analyses are to be completed in accordance with reference (5) of the Foreword, except as modified herein, and applied equally to all mortgagors, regardless of race, color, creed, age, national origin, sex or marital status.

3-2. MEMBER/OWNER

a. Definition. Any person, persons or family who meets the criteria established by regulation and the credit and income requirements in this Handbook is eligible for this program.

b. Owner-occupant. The member/owner must be an owner-occupant of the unit being financed.

c. Corporate Certificate. The member/owner can own no more than one Corporate Certificate and that certificate must entitle him/her to the right to occupy a specific one-family unit in the cooperative in compliance with the terms of the bylaws of the corporation and the occupancy agreement entered into between the member/owner and the corporate entity.

d. New Ownership. It is the responsibility of the new member/owner acquiring a mortgage insured under Section 203(n) and the mortgagee to obtain a new Corporate Certificate and Occupancy Certificate representing the new ownership.

3-3. GENERAL - Mortgage Credit analysis of the mortgage transaction proceeds logically in the steps listed below:

a. Determination of the amount and amortization period of the loan.

b. Analysis of the acceptability of the member/owner.

3-4. MORTGAGE AMOUNT. Analysis of the credit risk is premised upon a loan for a definite amount and amortization period, subject to the following limitations:

a. Principal Obligation. The mortgage shall involve a principal obligation in an even multiple of $50 and for a term of 5, 10, 15, 20, 25 or 30 years providing for 60, 120, 180, 240, 300, or 360 monthly payments.

b. Amount of Loan. The maximum loan will be: $60,000 minus an amount equal to the portion of the unpaid balance of the blanket mortgage covering the cooperative attributable to the dwelling unit being sold.

or

97% of the first $25,000 of HUD estimate of value of the dwelling unit including closing costs as of the date the mortgage is accepted for insurance

plus: 95% of such value including closing cost in excess of $25,000.

minus: an amount equal to the portion of the unpaid balance of the blanket project mortgage attributable to the dwelling unit being sold.

or

The total cost of acquisition minus the mortgagor's investment in the property of at least:

3% of the first $25,000 of the total cost of acquisition plus 5% of such cost of acquisition in excess of $25,000 minus an amount equal to the portion of the unpaid balance of the blanket mortgage attributable to the dwelling unit being sold. (The cost of acquisition is the total cost to the member/owner of the property securing the mortgage, including the cost of any repairs, alterations and additions to such property and the cost incidental to closing the transaction, but not including payments for accrued or unaccrued taxes, assessments, or insurance premiums.)

Whichever is less

Note: For a qualified veteran, the ratio would be 100 percent of first $25,000 of such value instead of 97 percent in accordance with Section 203.18(a) of the Regulations.

c. Determination of Maximum Insurable Mortgage Amounts.

Example: Known: Unit proportionate share of outstanding project mortgage: $20,000

(1) Statutory:

$60,000 less $20,000 (unit share of outstanding project mortgage): $ 40,000

(2) Loan-to-Value Ratio:

HUD Appraised Value	$40,000
Closing Cost	1,000
Total	$41,000
97% of first $25,000	$24,250
95% in excess of $25,000	15,200
Total	$39,450
Minus:	
Unit share of outstanding project mortgage balance	$20,000
Maximum Mortgage Amount	$19,450

(3) Cost of Acquisition:

Sales Price	$37,000
Repairs	1,000

Closing Cost	1,000
Total cost of acquisition	$39,000
3% of $25,000	$ 750
5% of $14,000	700
Investment	1,450
Total Cost of Acquisition	$39,000
Minus: Minimum Cash Investment	1,450
Unit share of outstanding project mortgage balance	$20,000
Maximum mortgage amount	$17,550

Maximum Mortgage Amount is the Lesser of 1, 2 or 3: $17,550

3-5. CASH INVESTMENT - The mortgagor's investment in the property must be equal to the difference between the total cost of acquisition and the amount of the mortgage to be insured, less the proportionate cost of the unpaid balance of the blanket project mortgage covering the cooperative attributable to the dwelling unit being sold but not less than 3% of the first $25,000 of the total cost of acquisition, plus 5% of such cost in excess of $25,000.

Value of Property	$40,000
Closing Cost	1,000
Total (for Mortgage Insurance Purposes)	$41,000
Maximum Mortgage Amount	$39,450

Example

Sales Price (Equals Value of Property)	$40,000	3% of $25,000 =	$ 750
Closing Cost	1,000	5% of $16,000 =	800

Total cost of acquisition	$41,000	
Minimum cash investment	1,550	1,550
	$39,450	
Unit Share of Outstanding project mortgage	-20,000	
Maximum Mortgage Amount	$19,450	

3-6. BASIC PRINCIPLES OF ANALYSIS.

a. Member/Owner Credit Analysis. It is necessary to examine the credit report of the proposed member/ owner and analyze the financial ability (submitted on Form FHA 2900, with required documentation) in order to determine the credit characteristics, ability to pay, and stability of employment.

b. Stability of Effective Income and Cash Investment Requirements. Stability of effective income is related to the early period of mortgage risk. Cash requirement is the amount required for investment.

c. Net Effective Income. An estimate of the net effective income of each member/owner shall be made and compared with the prospective monthly payment for the purchase of the corporate certificate. The stability of the member/owner's effective income will be related to the early period of risk under the mortgage.

d. Relationship of Prospective Monthly Housing Expense to Net Effective Income. One of the problems in mortgage credit analysis is to determine whether a mortgage obligation will be within the mortgagor's financial ability to pay. As a general guideline, if the total housing

expense does not exceed 35 percent of net effective income, the relationship of prospective housing expense to net effective income shall be considered acceptable, unless the member/owner has already demonstrated an inability to manage its affairs with a housing expense at or below this ratio. A ratio in excess of

35 percent may be acceptable where favorable compensating factors are present.

e. Relationship of Total Obligations to Net Effective Income. Member/owners having the same net effective income and the same housing expense will have different total obligations which will affect their financial capacity. The total obligations of a mortgagor include, in addition to the prospective monthly housing expense, other recurring charges such as State income taxes, retirement deductions, life insurance premiums, payments on loans and accounts, plus the monthly payment towards the purchase of the Corporate Certificate which represents the member/owner's real estate interest in the cooperative. In some cases, the burden of total obligations of the mortgagor may seriously affect the ability to pay.

(1) As a general guideline, if the combined total of prospective housing expense and other recurring charges does not exceed 50 percent of net effective income, the relationship of total fixed obligations to net effective income should be considered acceptable, unless the member/owner has already demonstrated inability to manage affairs with total fixed obligations at or below this ratio.

(2) A ratio in excess of 50 percent may be acceptable where favorable compensating factors are present.

f. Exhibits to be Submitted with Application.

(1) Application, Form FHA 2900

(2) Credit Report

(3) Form FHA 2004-F, Verification of Deposit

(4) Form FHA 2004-G, Verification of Employment

(5) A signed/certified true copy of the Sales Contract (see paragraph 1-4 of Chapter 1 of this Handbook)

(6) A current balance sheet and operating statement, if mortgagor's principal income is from own business

(7) A statement, signed by the applicant, that he/she has received a copy of FHA Statement of Appraised Value, a copy of the Addendum to the Statement of Appraised Value, and HUD Fact Sheet 321-F-(5)

(8) A signed or certified copy of the Occupancy Agreement

g. Financial Capacity of Project. A current financial statement of the cooperative/project prepared by the authorized officer of the management group must be submitted by the mortgagee with the application for mortgage insurance. The statement must contain the normal financial information in addition to current vacancies and vacancy losses. Also there must be a statement of the number of units owned and rented by the cooperative corporation. The information is submitted with the application for conditional commitment. It is reviewed by the mortgage credit examiner who uses the information to complete a memorandum detailing the financial condition of the project. The Mortgage Credit examiner must coordinate the review with the Housing Management staff to assure that all potential problems are identified and called to the attention of the processing appraiser. Such problems include unusual number of vacant units, inadequate replacement reserves, etc.

h. The basic instructions for analysis of Mortgage Credit Risk are contained in Reference (2) of the Foreword.