REGULATORY AGREEMENT FOR BUILDER-SELLER MORTGAGES
UNDER SECTION 236 OF THE NATIONAL HOUSING ACT, AS AMENDED

Project No.
Mortgagor
Amount of Mortgage Note
Date
Mortgage Recorded:
State
County
Book
Page

This Agreement entered into this day of , 19
between

their successors, heirs, and assigns (jointly and severally, hereafter referred to as Owners) and the undersigned Secretary of Housing and Urban Development and his successors, acting by and through the Federal Housing Commissioner (hereinafter called Commissioner).

In consideration of the endorsement for insurance by the Commissioner of the above described note or in consideration of the receipt of the Commissioner in the transfer of the mortgage property, and in order to comply with the requirements of Section 236 of the National Housing Act, as amended, and the Regulations adopted by the Commissioner pursuant thereto, Owners agree for themselves, their successors, heirs and assigns, that in connection with the mortgage property and the project operated thereon and so long as the contract of mortgage insurance continues in force, and during such further period of time as the Commissioner shall be the owner, holder or mortgagee of the mortgage, or during any time the Commissioner is obligated to issue a mortgage on the mortgage property:

1. Owners, except as limited by Paragraph 20 hereof, shall promptly make all payments due under the note and mortgage, provided, however, that the Commissioner shall make payments to the mortgagees on behalf of the Owners in accordance with the interest reduction clause between the mortgagees and the Commissioner.

2. Owners shall faithfully and diligently comply with the terms of the Sales Agreement to convey the Project to a nonprofit housing corporation approved by the Commissioner and referred to hereafter as the nonprofit purchaser, and the Owners agree that the conveyance and the conveyance for the conveyance of the project to such nonprofit purchaser shall not occur until permitted by the Regulations under Section 236.

3. During the period of time commencing on the date of the initial endorsement of the Note by the Commissioner for insurance, and ending on the date of final endorsement, or such later date as may be agreed to in writing by the Commissioner, such period of time hereafter being referred to as the Nonprofit Sale Period, the Owners shall be a manner satisfactory to the Commissioner and consistent with the terms of the Sales Agreement cause all Surplus Cash to be deposited monthly with a depository satisfactory to the Commissioner under an escrow agreement approved by the Commissioner. During the Nonprofit Sale Period the Surplus Cash so deposited shall be disbursed only on the direction of the Commissioner who shall have the power and the authority to direct that such Surplus Cash, or any part thereof, shall be used for such purpose as he may determine. Upon the termination of the Nonprofit Sale Period the Owners agree that the Surplus Cash deposited during the Nonprofit Sale Period shall continue subject to the control of the Commissioner who may direct that all or part of such Surplus Cash may be applied to the reduction of the mortgage in a manner satisfactory to the Commissioner or may be used for such other purposes as he may direct and determine.

4. (a) Owners shall establish and cause to be maintained a reserve fund for replacements by the allocation to such reserve fund in a separate account with the mortgagee or in a safe and responsible depository designated by the mortgagee, concurrently with the beginning of payments, towards continuation of the principal of the mortgage in an amount equal to $ per month unless a different date or amount is approved in writing by the Commissioner. Such fund, whether in the form of a cash deposit or in obligations of, or fully guaranteed as to principal by, the United States of America shall at all times be under the control of the mortgagee. Disbursements from such fund, whether for the purpose of effecting replacement of structural elements and mechanical equipment of the project or for any other purpose, may be made only after receiving the consent in writing of the Commissioner. In the event of a default in the terms of the Mortgage, payment in which the said has been accelerated, the Commissioner may apply or authorize the application of the balance in such fund to the amount due on the mortgage debt as accelerated.

(b) Where Owners are acquiring a project already subject to an insured mortgage, the reserve fund for replacements shall be established in an amount equal to the amount due to be paid under existing agreements or charter provisions at the time Owners acquire such project, and payments thereunder shall begin with the first payment due on the mortgage after acquisition, unless some other method of establishing and maintaining the fund is approved in writing by the Commissioner.
(c) At the termination of the Nonprofit Sale Period, if the Project has not been conveyed to the nonprofit purchaser approved by the Commissioner, Owners shall establish and maintain, in addition to the reserve fund for replacements, a replacement reserve fund by depositing thereon, with the mortgagee, the residual receipts, as defined herein, within 60 days after the end of the annual or monthly fiscal period within which such receipts are received. Residual receipts shall be held in the control of the Commissioner, and shall be disbursed solely on the direction of the Commissioner, who shall have the power and authority to direct that residual receipts, on any part thereof, be used for such purpose as he may determine.

5. Owners agree that: (a) the builders’ fee, the Allowance to Make the Project Operational, and such other amounts as the Commissioner may determine shall be held by the mortgagee, and (b) immediately prior to final abandonment all of such amounts shall be disbursed by the mortgagee into an escrow and shall not be paid to the Owners unless the Project is conveyed to the nonprofit purchaser within the Nonprofit Sale Period, and (c) that if the Project is not conveyed to the nonprofit purchaser within the Nonprofit Sale Period, all such amounts shall be applied as a reduction against the mortgage or in such other manner as the Commissioner shall direct.

6. Real property covered by the mortgage and this Agreement is described in Schedule A attached hereto.

7. The Owners covenant and agree that:

(a) with the prior approval of the Commissioner, they will establish, for each dwelling unit, (1) a basic rental charge, determined on the basis of operating the project with payments of principal and interest under a mortgage bearing interest at one percent, and (2) a fair market rental charge determined on the basis of operating the project with payments of principal, interest and mortgage insurance premiums due under the insured mortgage on the project;

(b) the rental charged for each unit, which will include all utilities except telephone, will be equal to 25% of the tenant’s income or the basic rental, whichever is greater, but in no event shall the rental charged exceed the fair market rental;

(c) they shall limit admission to the project to those families whose income does not exceed the limits prescribed by the Commissioner, with the exception of those tenants who agree to pay fair market rental;

(d) preference for occupancy shall be given to those families displaced from an urban renewal area, or a result of governmental action, or as a result of a disaster determined by the Commissioner to be a major disaster, and to those families whose income is below the income, rent and occupancy limits for obtaining rental units in the project;

(e) as approved by the Commissioner, they will retain from each prospective tenant, prior to admission to the project, a certification of income, and a recertification of income from all tenants who are not paying fair market rental at intervals as required by the Commissioner;

(f) if any recertification results in a change in income whereby the tenant becomes ineligible for a lower or higher rent, such adjustment in rental charged shall be made, provided that rental shall never be less than basic rental and shall never exceed fair market rental;

(g) in a manner prescribed by the Commissioner, they will obtain written evidence substantiating the information given on the tenants’ certifications and recertifications of income and shall retain the evidence in their files for three years;

(h) they shall require all tenants who do not pay the fair market rental to execute a lease in the form prepared by the Commissioner, and shall not rent any unit in the project for less than 30 days nor more than one year;

(i) they shall notify the Commissioner at or before the tenth day of each month the amount by which the total rentals collected on the dwelling units exceeds the sum of the approved basic rentals for all occupied units, which notices shall be accompanied by a monthly report on a form approved by the Commissioner, provided that a monthly report may be filed even if no rent increase is required;

(j) they shall not restrict occupancy by reason of the fact that there are children in the family, except in those projects that are designated primarily for elderly persons;

(k) they will not commercial facilities, if any, or not less than the rental approved by the Commissioner;

(l) no change will be made to the basic rental or fair market rental unless approved by the Commissioner;

(m) no tenant shall be permitted to rent more than one unit at any given time without the prior written approval of the Commissioner;

(n) if there are supplemental units in the project, the determination as to the eligibility of tenants for admission to such units and the conditions of continued occupancy shall be in accordance with the Rent Supplement Contract executed by the Owners and the Commissioner which is incorporated in and made a part of this Agreement.
8. Upon prior written approval of the Commissioner, the Owner may charge to and receive from any tenant such amount as from time to time may be mutually agreed upon between the tenant and the Owner for any facilities and/or services which may be furnished by the Owner or others to such tenant upon his request, in addition to the rentals and service included in the approved Rental Schedule.

9. Owners shall not without the prior written approval of the Commissioner:
   (a) Convey, transfer, or encumber any of the mortgaged property, or permit the conveyance, transfer or encumbrance of such property;
   (b) Assign, transfer, dispose of, or encumber any personal property of the project, including mortgages, or pay out any funds, other than from surplus cash, except for reasonable operating expenses and necessary repairs.
   (c) Convey, assign, or encumber any beneficial interest in any trust holding title to the mortgaged property, or the interest of any general partner in a partnership owning the mortgaged property, or any right to manage or receive the rents and profits from the mortgaged property.
   (d) Remodel, add to, reconstruct, or demolish any part of the mortgaged property or substitute therefor any real or personal property of the project;
   (e) Make, or receive and retain, any distribution of assets or any income of any kind of the project except from surplus cash and except as follows:
      (1) No distribution shall be made during the Nonprofit Sale Period, and surplus cash obtained during the Nonprofit Sale Period shall be deposited in a depository as required by Paragraph 3 of this Agreement;
      (2) All distributions shall be made only as of or after the end of the Nonprofit or earned rental period, and only as permitted by the law of the applicable jurisdiction, all such distributions to any one fiscal year shall be limited to six percent on the initial equity investment, as determined by the Commissioner, and the right to receive such distribution shall be cumulative;
      (3) No distribution shall be made from borrowed funds or prior to the completion of the project or when there is any default under this Agreement or under the note or mortgage;
      (4) Any distribution of any funds of the project, which the party receiving such funds is not obligated to return therefrom, shall be held in trust separate and apart from any other funds;
      (5) These shall have been compliance with all outstanding actions of requirements for proper maintenance of the project;
   (f) Engage, except for personal use, in any other business or activity, including the operation of any other social services project, or incur any liability or obligations not in connection with the project.
   (g) Require, in a condition of the occupancy or leasing of any unit in the project, any consideration or deposit other than the payment of the first month's rent plus a security deposit as an except net in excess of one month's rent to guarantee the performance of the covenants of the lease. Any fund collected as security deposit shall be kept separate and apart from all other funds of the project and also secure the amount of which shall be all from equal as excess the aggregate of all outstanding obligations under said bond;
   (h) Permit the use of the dwelling accommodations of the project for any purpose except the use which was originally intended, or permit commercial use greater than that originally approved by the Commissioner;
   (i) Enter any liability, direct or contingent, other than for current operating expenses, exclusive of the indebtedness incurred by the borrower and necessarily incident to the execution and delivery thereof;
   (j) Pay any compensation, including wages or salaries, or incur any obligations, to itself, or to any officer, director, stockholders, tenants, partners, beneficiaries under a trust, or to any of their associates;
   (k) Enter into any contract or contracts for supervision or managerial services.

10. Owners shall maintain the mortgaged premises, accommodations and the grounds and equipment appurtenant thereto, in good repair and condition. In the event all or any of the buildings covered by the mortgage shall be destroyed or damaged by fire or other casualty, the owner derived from any insurance on the property shall be applied in accordance with the terms of the insured mortgage.

11. Owners shall not file any petition in bankruptcy, or for a receiver, or in insolvency, or for reorganization or reorganization or composition, or make any arrangement for the benefit of creditors or to a treatment of creditors or to a treatment in bankruptcy, the taking possession of the mortgaged property or any part thereof by a receiver, or the seizure and sale of the mortgaged property or any part thereof under judicial process or pursuant to any power of sale and sell to have such absolute action not earlier than sixty-five days.
12. (a) Owners shall provide for the management of the project in a manner satisfactory to the Commissioner. Any management contract entered into by Owners or any of them involving the project shall contain provisions that it shall be subject to termination, without penalty and with or without cause, upon notice to the Commissioner, address to the Owner and the management agent. Upon receipt of such request, Owners shall immediately terminate the contract within a period of not more than thirty (30) days and shall make arrangements satisfactory to the Commissioner for continuing proper management of the project.

(b) Payment for services, supplies, or materials shall not exceed the amount ordinarily paid for such services, supplies, or materials at the same rates where the services are rendered or the supplies or materials furnished.

(c) The mortgaged property, equipment, buildings, plats, offices, apparatus, devices, books, contracts, records, documents, and other personal property (together at all times shall be maintained in reasonable condition for proper use) and shall be subject to examination and inspection at any reasonable time by the Commissioner or his duly authorized agents. Owners shall make copies of all written contracts or other instruments which affect the mortgaged property, all or any of which may be subject to inspection and examination by the Commissioner or his duly authorized agents.

(d) The books and records of the operation of the mortgaged property and of the project shall be kept in accordance with the requirements of the Commissioner.

(e) Within sixty days following the end of each fiscal year the Commissioner shall furnish with a complete annual financial report based upon examination of the books and records of the mortgagor prepared in accordance with the requirements of the Commissioner, certified to by an officer or responsible officer and, when required by the Commissioner, prepared and certified by a Certified Public Accountant, or other person acceptable to the Commissioner.

(f) At the request of the Commissioner, his agents, employees, or attorneys, the Owners shall furnish monthly occupancy reports and shall give specific answers to questions upon which information is demanded from time to time relative to the income, assets, liabilities, contracts, operations, and conditions of the property and the status of the insured mortgage.

(g) All rents and other receipts of the project shall be deposited in the name of the project in a bank, whose deposits are insured by the F.D.I.C. such funds shall be withdrawn only in accordance with the provisions of this Agreement for expenses of the project, restoration to the Commissioner as required under Paragraph 7(d) above, or for expenditures of surplus cash as stated in Paragraph 9(d) above, or on account of the Commissioner, or for the use of the Owners in the event of the termination of this Agreement shall be immediately deposited with such property in the project and the use of the property in trust. Owners will comply with the provisions of any Federal, State, or local law prohibiting discrimination in housing on the grounds of race, color, creed, or national origin, including Title VI of the Civil Rights Act of 1964 (Public Law 88-352, 78 Stat. 241), all requirements imposed by or pursuant to the Regulations of the Department of Housing and Urban Development (24 CFR, Subtitle A, Part 1) issued in permanent form, and regulations issued pursuant to Executive Order 11063.

16. Upon a violation of any of the above provisions of this Agreement by Owners, the Commissioner may give written notice, thereof, to Owners, by registered or certified mail, addressed to the addressees stated in this Agreement, or such other address as may subsequently, upon appropriate written notice thereof, be designated by the Owners to their legal business address. If such violation is not corrected to the satisfaction of the Commissioner within thirty days after the date such notice is mailed or within such further time as the Commissioner determines to be necessary to correct the violation, without further notice the Commissioner may declare a default under this Agreement effective on the date of such declaration of default and upon such default the Commissioner may:

(1) (i) If the Commissioner holds the note - declare the whole of said indebtedness immediately due and payable and then proceed with the foreclosure of the mortgage;

(ii) If said note is not held by the Commissioner - notify the holder of the note of such default and request the holder to declare a default under the note and mortgage, and the holder, after receiving such notice and request, but not otherwise, at his option, may declare the whole indebtedness due, and thereupon proceed with foreclosure of the mortgage, or assign the note and mortgage to the Commissioner as provided in the Regulations.

(iii) Collect all rents and charges in connection with the operation of the project and use such collections to pay the mortgagee's obligations under this Agreement and other note and mortgage and the necessary expenses of preserving the property and operating the project;

(iv) Take possession of the project, bring any action necessary to enforce any rights of the Owners growing out of the project operation, and operate the project in accordance with the terms of this Agreement until such time as the Commissioner in his discretion determines that the Owners are again in a position to operate the project in accordance with the terms of this Agreement and in compliance with the requirements of the note and mortgage.
(d) Apply to any court, State or Federal, for specific performance of this Agreement, for an injunction against any violation of the Agreement, for the appointment of a receiver to take over and operate the project in accordance with the terms of the Agreement, or for such other relief as may be appropriate, since the injury to the Commissioner arising from a default under any of the terms of this Agreement would be irreparable and the amount of damage would be difficult to ascertain.

(e) To institute the interest reduction payments to the mortgagee made pursuant to Paragraph 1 hereinafter.

15. An equity for the payment due under this Agreement to the reserve fund for replacements; and to secure the Commissioner because of his liability under the endorsement of the note for insurance, and no security for the other obligations under this Agreement, the Owner respectively assigns, pledge and mortgages to the Commissioner their rights to the rents, profits, income and charges of whatever sort which they may receive or be entitled to receive from the operation of the mortgaged property, subject, however, to any assignment of rents in the leased mortgaged referred to herein. Until a default is declared under this Agreement, however, permission is granted to Owner to collect and retain under the provisions of this Agreement such rents, profits, income, and charges, but upon default this provision is terminated as to all rents due or collected thereafter.

16. As used in this Agreement the term:

(a) "Mortgagee" includes "Deed of Trust", "Chattel Mortgage", and any other security for the note identified herein, and endorsed for insurance or held by the Commissioner;

(b) "Mortgage" refers to the holder of the mortgage identified herein, its successors and assigns;

(c) "Mortgage" means the original borrower under the mortgage and its successors and mortgagees;

(d) "Owner" refers to the persons named in the first paragraph herein and designated as Owners, their successors and assigns;

(e) "Mortgaged Property" includes all property, real, personal, or mixed covered by the mortgage or mortgages securing the note endorsed for insurance or held by the Commissioner;

(f) "Project" includes the mortgaged property and all its other assets of whatsoever nature or whatsoever value, used or owned by the business conducted on said mortgaged property, which business is providing housing and other such activities as are incidental thereto;

(g) "Surplus Cash" means any cash remaining after:

(1) the payment of:
   (i) All sums due or currently required to be paid under the note of any mortgage or note insured or held by the Federal Housing Commissioner;
   (ii) All amounts required to be deposited in the reserve fund for replacements;
   (iii) All obligations of the project other than the mortgage insured or held by the Commissioner unless funds for payment are not made or deductible of payment has been approved by the Commissioner;
   (iv) Remittances due to the Commissioner as required by Paragraph 7(c), and

(2) the segregation of:
   (i) An amount equal to the aggregate of all special funds required to be maintained by the project;
   (ii) All tenant security deposits held;
   (iii) That portion of surplus which must be retained to the Commissioner in accordance with Paragraph 7(c), but not yet due.

(h) "Residual Receipts" means any cash remaining at the end of a semianual or annual (at period after deducting from surplus the amount of all distributions on that term as defined below and as limited by Paragraph B(c) hereof;

(i) "Distribution" means any withdrawal or taking of cash or any assets of the project, including the segregation of cash or assets for subsequent withdrawal within the limitations of Paragraph B(c) hereof, and excluding payment for reasonable expenses incident to the operation and maintenance of the project;

(j) "Income" means the gross annual income of the family from all sources before taxes and withholding, after giving effect to exclusions allowed by the Commissioner;

(k) "Default" means a default declared by the Commissioner when a violation of the Agreement is not corrected to his satisfaction within the time allowed by this Agreement or such further time as may be allowed by the Commissioner after written notice;
(1) "Family" means (1) two or more persons related by blood, marriage, or adoption of law, who occupy the same unit; (2) a handicapped person who has a physical impairment which is expected to be of long con- tinued and indelicate duration, substantially impairs his ability to live independently, and in such a manner that his ability to live independently could be improved by more suitable housing conditions; (3) a single person, 62 years of age or older; or (4) a single person less than 62 years of age provided that occupancy by such person is limited to 10% of the dwelling units in the project.

17. This instrument shall bind, and the benefits shall inure to, the respective Owners, their heirs, legal representatives, executors, administrators, successors in office or interest, and assigns, and to the Commissioner; and his successors so long as the contract of mortgage insurance continues in effect, and during such further time as the Commissioner shall be the owner, holder, or assignee of the mortgage, or obligated to maintain the mortgage. Provided: That any other provisions of this Agreement to the contrary notwithstanding, this Agreement shall not be applicable to or bind the nonprofit purchaser if the sale of the Project to said nonprofit purchaser has been approved by the Commissioner in writing and, provided further, that such nonprofit purchaser has executed with the Commissioner, and recorded a Regulatory Agreement in a form approved by the Commissioner, or has obtained an approval in writing by the Commissioner that the execution of such Agreement is not required.

18. Owners warrant that they have not, and will not, execute any other agreement with provisions contradictory to, or in opposition to, the provisions hereof, and that, in any event, the requirements of this Agreement are paramount and controlling as to the rights and obligations set forth and supersede any other requirements in conflict therewith.

19. The invalidity of any clause, part or provision of this Agreement shall not affect the validity of the remaining portions thereof.

20. The following Owners:

[detail of Owners]

do not assume personal liability for payments due under the notes and mortgage, or for the payment to the owner for replacements, or for matters not under their control, provided that said Owners shall remain liable under this Agreement only with respect to the matters hereinafter stated, namely:

(a) for funds or property of the project coming into their hands which, by the provisions hereof, they are not entitled to retain; and

(b) for their own acts and deeds or acts and deeds of others which they have authorized in violation of the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have set their hands and seals on the date first hereinafter written.

[Signatures of Owners]

WITNESS

[Signatures of Witness]

SECRETARY OF HOUSING AND URBAN DEVELOPMENT
acting by and through the FEDERAL HOUSING COMMISSIONER

[Signatures of Secretary]

[Add proper acknowledgment]