

Model	Serial Nos.
SA226-T .....	T201 through T275, and T277 through T291.
SA226-T(B) ..	T(B)276, and T(B)292 through T(B)417.
SA226-AT ....	AT001 through AT074.
SA226-TC ....	TC201 through TC419.
SA227-TT ....	TT421 through TT541.
SA227-AT ....	AT423 through AT631, and AT695.
SA227-AC ....	AC406, AC415, AC416, and AC420 through AC789.
SA227-BC ....	BC420 through BC789.
SA227-CC ...	CC784, and CC790 through CC822.
SA227-DC ...	DC784, and DC790 through DC822.

**Note 1:** This AD applies to each airplane identified in the preceding applicability provision, regardless of whether it has been modified, altered, or repaired in the area subject to the requirements of this AD. For airplanes that have been modified, altered, or repaired so that the performance of the requirements of this AD is affected, the owner/operator must use the authority provided in paragraph (e) of this AD to request approval from the FAA. This approval may address either no action, if the current configuration eliminates the unsafe condition, or different actions necessary to address the unsafe condition described in this AD. Such a request should include an assessment of the effect of the changed configuration on the unsafe condition addressed by this AD. In no case does the presence of any modification, alteration, or repair remove any airplane from the applicability of this AD.

**Compliance:** Required initially upon the accumulation of 2,500 hours time-in-service (TIS) or within the next 100 hours TIS after the effective date of this AD, whichever occurs later, unless already accomplished (compliance with AD 94-07-10), and thereafter as indicated in the body of the AD.

To prevent failure of the wing skin at the top aft outboard corner of the battery box, which could result in structural damage to the wing, accomplish the following:

**Note 2:** The paragraph structure of this AD is as follows:

Level 1: (a), (b), (c), etc.

Level 2: (1), (2), (3), etc.

Level 3: (i), (ii), (iii), etc.

Level 2 and Level 3 structures are designations of the Level 1 paragraph they immediately follow.

(a) Visually inspect the right and left upper wing skin by the top aft outboard corner of the battery box for cracks in accordance with Figure 1 and the ACCOMPLISHMENT INSTRUCTIONS, A. Inspection, section of whichever of the following is applicable:

(1) Fairchild Service Bulletin (SB) 226-57-018, Issued: January 28, 1993, Revised: June 3, 1993 (pages 4 through 11 and 13 through 15), Revised: July 1, 1993 (page 12) and Revised: October 25, 1993 (pages 1 through 3);

(2) Fairchild SB 227-57-005, Issued: December 21, 1992, Revised: June 3, 1993 (pages 2 through 11 and 13 through 15), and Revised: July 1, 1993 (pages 1 and 12); or

(3) Fairchild Aircraft SB CC7-57-002, Issued: January 28, 1993, Revised: June 3, 1993 (pages 2 through 11 and 13 through 15), and Revised: July 1, 1993 (pages 1 and 12).

(b) If cracks are not found during the visual inspection required by paragraph (a) of this AD, within 500 hours TIS after this initial visual inspection, accomplish one of the following:

(1) Reinspect the right and left upper wing skin by the top aft outboard corner of the battery box for cracks in accordance with Figure 1 and the ACCOMPLISHMENT INSTRUCTIONS, A. Inspection, section of the applicable service information presented in paragraphs (a)(1), (a)(2), and (a)(3) of this AD, and reinspect thereafter at intervals not to exceed 500 hours TIS; or

(2) Modify the upper wing skin in accordance with the ACCOMPLISHMENT INSTRUCTIONS, B. Removal and C. Installation, section of the service information referenced in paragraphs (a)(1), (a)(2), or (a)(3) of this AD, as applicable. Accomplishing this modification terminates the repetitive visual inspections that are specified in paragraph (b)(1) of this AD, and the modification may be accomplished at any time to eliminate this repetitive inspection requirement.

(c) If cracks are found during the inspection required by paragraph (a) of this AD, prior to further flight, dye penetrant inspect the 27-31130 straps in the wheel wells as specified in the ACCOMPLISHMENT INSTRUCTIONS, A. Inspection section, paragraph (1)(b), of the service information referenced in paragraphs (a)(1), (a)(2), or (a)(3) of this AD, as applicable.

(1) If cracks are found in either of the 27-31130 straps during the inspection required by paragraph (c) of this AD, prior to further flight, accomplish the following:

(i) Repair the 27-31130 strap in accordance with a scheme obtained from the manufacturer through the Fort Worth Airplane Certification Office (ACO) at the address specified in paragraph (e) of this AD; and

(ii) Modify the upper wing skin in accordance with the ACCOMPLISHMENT INSTRUCTIONS, B. Removal and C. Installation, section of the service information referenced in paragraphs (a)(1), (a)(2), or (a)(3) of this AD, as applicable.

(2) If no cracks are found in either of the 27-31130 straps, within 150 hours TIS after the initial dye penetrant inspection required by paragraph (c) of this AD, accomplish one of the following:

(i) Reinspect (dye penetrant) the 27-31130 straps in the wheel well for cracks as specified in the ACCOMPLISHMENT INSTRUCTIONS, A. Inspection section, paragraph (1)(b), of the service information referenced in paragraphs (a)(1), (a)(2), or (a)(3) of this AD, as applicable, and if no cracks are found, continue to reinspect at intervals not to exceed 150 hours TIS; or

(ii) Modify the upper wing skin in accordance with the ACCOMPLISHMENT INSTRUCTIONS, B. Removal and C. Installation, section of the service information referenced in paragraphs (a)(1), (a)(2), or (a)(3) of this AD, as applicable.

Accomplishing this modification terminates the repetitive dye penetrant inspections that are specified in paragraph (c)(2)(i) of this AD, and the modification may be accomplished at any time to eliminate this repetitive inspection requirement.

**Note 3:** Certain Limited Approved Repair (LAR) and Approved Repair Procedure (ARP) documents issued by Fairchild Aircraft specify procedures for accomplishing the same modification referenced in paragraphs (b)(2), (c)(1)(ii), and (c)(2)(ii). Check with the Fort Worth ACO at the address presented in paragraph (e) of this AD to find out which LAR's and ARP's are considered "unless already accomplished" as they relate to this AD.

(d) Special flight permits may be issued in accordance with sections 21.197 and 21.199 of the Federal Aviation Regulations (14 CFR 21.197 and 21.199) to operate the airplane to a location where the requirements of this AD can be accomplished.

(e) An alternative method of compliance or adjustment of the initial or repetitive compliance times that provides an equivalent level of safety may be approved by the Manager, Fort Worth ACO, FAA, 2601 Meacham Boulevard, Fort Worth, Texas 76137-0150. The request shall be forwarded through an appropriate FAA Maintenance Inspector, who may add comments and then send it to the Manager, Fort Worth ACO.

**Note 4:** Information concerning the existence of approved alternative methods of compliance with this AD, if any, may be obtained from the Fort Worth ACO.

(f) All persons affected by this directive may obtain copies of the documents referred to herein upon request to Fairchild Aircraft, P.O. Box 790490, San Antonio, Texas 78279-0490; or may examine these documents at the FAA, Central Region, Office of the Assistant Chief Counsel, Room 1558, 601 E. 12th Street, Kansas City, Missouri 64106.

(g) This amendment revises AD 94-07-10, Amendment 39-8868.

Issued in Kansas City, Missouri, on June 19, 1995.

**Henry A. Armstrong,**

*Acting Manager, Small Airplane Directorate, Aircraft Certification Service.*

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## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Office of the Assistant Secretary for Housing-Federal Housing Commissioner

### 24 CFR Parts 206 and 234

[Docket No. FR-3655-P-01]

RIN 2502-AG23

### Mortgage Insurance on Condominium Units in Non-FHA Approved Projects

AGENCY: Office of the Assistant Secretary for Housing-Federal Housing Commissioner (HUD).

**ACTION:** Proposed rule.

**SUMMARY:** This rule would add provisions to the regulations governing Federal Housing Administration (FHA) mortgage insurance on condominium units to permit insurance of mortgages on individual units in condominium projects that have not received FHA approval in advance under existing regulatory requirements. These "spot loans" would be approved under less stringent requirements than the existing requirements for mortgage insurance for condominiums, but the revised rule would require satisfaction of standards that would assure FHA adequate protection of the reduced risk involved of mortgage insurance on only a few loans in any particular project.

**DATES:** Comments due date: August 22, 1995.

**ADDRESSES:** Interested persons are invited to submit comments regarding this proposed rule to the Rules Docket Clerk, Office of General Counsel, Room 10276, Department of Housing and Urban Development, 451 Seventh Street SW., Washington, DC 20410.

Communications should refer to the above docket number and title. A copy of each communication submitted will be available for public inspection and copying between 7:30 a.m. and 5:30 p.m. weekdays at the above address. Faxed comments will not be accepted.

**FOR FURTHER INFORMATION CONTACT:** Richard Manuel, Acting Director, Single Family Development Division, Office of Insured Single Family Housing, Department of Housing and Urban Development, 451 Seventh Street SW., Washington, DC 20410. He may be reached at (202) 708-2700 (voice) or (202) 708-4594 (TDD). These telephone numbers are not toll-free.

**SUPPLEMENTARY INFORMATION:**

**Paperwork Reduction Act Statement**

The information collection requirements contained in § 234.26(i) of this proposed rule have been submitted to the Office of Management and Budget for review under the Paperwork Reduction Act of 1980 (42 U.S.C. 3501-3520). The estimated public reporting burden is not expected to increase significantly over the burden previously estimated, since the Department does not expect more than 2,000 loans to be insured under this new provision.

The estimated public reporting burden of these collections is stated under the Preamble heading Findings and Certifications. Send comments regarding this burden estimate or any other aspect of these collections of information, including suggestions for

reducing the burden, to the Department of Housing and Urban Development, Rules Docket Clerk at the above address; and to the Office of Information and Regulatory Affairs, Office of Management and Budget, Attention: Desk Officer for HUD, Washington, DC 20503.

**I. Background**

The impetus for this proposed rule came from forums conducted by the FHA Commissioner in the Northwest/Alaska region. Individuals have been unable to obtain FHA mortgage insurance because condominium units that were being purchased were not in projects that had received approval under existing requirements. Existing regulations and handbook provisions contain requirements that serve as obstacles to obtaining mortgage insurance for units in condominium projects that have not been approved during or after development.

For example, in order to conform with the policies expressed by FHA in Handbook 4265.1, Appendix 24, a high percentage of the unit owners must vote to approve certain changes in the common area, such as converting any part of it to units, or selling or mortgaging any part of the common areas. Such changes, while not a frequent occurrence—because they affect the common area that is an undivided part of each property—obviously impact on the interest of lenders and mortgage insurers who look to the property as security for the mortgage. When FHA's involvement in a project is sizeable, any such change to the common area must be supported by a substantial part of the membership.

For an existing project that has not been approved during development, it is often not possible to obtain the requisite majority to approve the change and amend the documents accordingly just for the benefit of a single association member wishing to apply for Section 234 mortgage insurance. FHA has determined that approval of a unit on a spot loan basis would represent a reasonable underwriting risk even where such document changes have not been made, provided that its involvement is limited.

**II. Action**

The Department has determined that it is possible to insure a few condominium units in a project that has not received project approval by reducing the paperwork involved in obtaining approval. To assure that this new provision would not be used as a way to avoid the greater protections afforded the Department under the

existing provisions for project approval, it would be limited to approvals of no more than 10 percent of the units in a condominium project.

The intent of this proposed rule, therefore, is to facilitate sales of units in well-managed condominium projects that are in good condition. To accomplish this end, this proposed rule would add a new paragraph to the section describing eligibility of condominium projects for mortgage insurance (§ 234.26) to deal with these unit-by-unit ("spot loan") approvals for mortgage insurance. It also would add, in the section dealing with reverse equity mortgages (§ 206.51), a cross-reference to the new provision authorizing spot loan approvals. To make clear that the requirements for assumability, such as no right of first refusal given in any governing document, would still apply, the condominium mortgage insurance provision would include a cross-reference to that section (§ 234.66).

**Findings and Certifications**

*Impact on the Environment*

A Finding of No Significant Impact with respect to the environment has been made in accordance with HUD regulations at 24 CFR part 50 that implement section 102(2)(C) of the National Environmental Policy Act of 1969, 42 U.S.C. 4332. The Finding of No Significant Impact is available for public inspection and copying during regular business hours (7:30 a.m. to 5:30 p.m.) in the Office of the Rules Docket Clerk, room 10276, 451 Seventh Street, SW, Washington, DC 20410-0500.

*Federalism Impact*

The General Counsel, as the Designated Official under section 6(a) of Executive Order 12612, Federalism, has determined that the policies contained in this proposed rule do not have significant impact on States or their political subdivisions since the provisions of the proposed rule affect private purchasers and sellers of condominium units.

*Impact on the Family*

The General Counsel, as the Designated Official under Executive Order 12606, The Family, has determined that this proposed rule does not have potential for significant impact on family formation, maintenance, and general well-being. Therefore, the proposed rule is not subject to review under the Order. The proposed rule merely broadens the coverage of condominium units for which mortgage insurance can be obtained.

*Impact on Small Entities*

The Secretary, in accordance with the Regulatory Flexibility Act (5 U.S.C. 605(b)), has reviewed this proposed rule before publication and by approving it certifies that this proposed rule will not have a significant impact on a substantial number of small entities, because it makes available additional financing options for purchasers and sellers of condominium units.

*Regulatory Agenda*

This proposed rule was listed as item number 1417 under the Office of Housing in the Department's Semiannual Agenda of Regulations published on May 8, 1995 (60 FR 23368, 23384) under Executive Order 12866 and the Regulatory Flexibility Act.

*Public Reporting Burden*

The Department has estimated the public reporting burden involved in the

information collections contained in the proposed rule as shown below. The public reporting burden for each of these collections of information is estimated to include the time for reviewing the instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

TABULATION OF ANNUAL REPORTING BURDEN

Description of information collection	Number of respondents	Responses per respondents	Total annual responses	Hours per response	Total annual burden hours
HUD/FHA ..... Condominium "Spot Loan" Checklist & Warranty.	2,000	1	2,000	.1	200

*Catalog*

The Catalog of Federal Domestic Assistance number for the program affected by this proposed rule is 14.133.

**List of Subjects**

*24 CFR Part 206*

Aged, Condominiums, Loan programs—housing and community development, Mortgage insurance, Reporting and recordkeeping requirements.

*24 CFR Part 234*

Condominiums, Mortgage insurance, Reporting and recordkeeping requirements.

Accordingly, for the reasons stated in the preamble, parts 206 and 234 of title 24 of the Code of Federal Regulations would be amended as follows:

**PART 206—HOME EQUITY CONVERSION MORTGAGE INSURANCE**

1. The authority citation would continue to read as follows:

**Authority:** 12 U.S.C. 1715b, 1715z-20; 42 U.S.C. 3535(d).

2. Section 206.51 would be revised to read as follows:

**§ 206.51 Eligibility of mortgages involving a dwelling unit in a condominium.**

If the mortgage involves a dwelling unit in a condominium, the project in which the unit is located shall have been committed to a plan of condominium ownership by deed, or other recorded instrument, that is acceptable to the Secretary, except as provided in § 234.26(i) of this chapter.

**PART 234—CONDOMINIUM OWNERSHIP MORTGAGE INSURANCE**

3. The authority citation for part 234 would continue to read as follows:

**Authority:** 12 U.S.C. 1715b and 1715y; 42 U.S.C. 3535(d). Section 234.520(a)(2)(ii) is also issued under 12 U.S.C. 1701(a).

4. In § 234.26, a new paragraph (i) would be added, to read as follows:

**§ 234.26 Project requirements.**

\* \* \* \* \*

(i) Notwithstanding the requirements of paragraphs (a) through (h) of this section, a loan on a single unit in an unapproved condominium project ("spot loan") may qualify for mortgage insurance under this part.

(1) The project must meet the following criteria:

(i) All units, common elements, and facilities—including those that are part of any master association—must have been completed, and the project cannot be subject to additional phasing or annexation. The project must provide for undivided ownership of common areas by unit owners;

(ii) Control of the owners' association must have been turned over to the unit purchasers, and the unit purchasers must have been in control for at least one year;

(iii) At least 90% of the total units in the project must have been conveyed to the unit purchasers, and at least 51% of the total units in the project must have been conveyed to purchasers who are occupying the units as their principal residences or second homes. No single entity (the same individual, investor group, partnership, or corporation) may own more than 10% of the total units in the project;

(iv) The units in the project must be owned in fee simple or be an eligible leasehold interest, as described in § 234.65, and the unit owners must have sole ownership interest in, and right to the use of, the project's facilities, common elements, and limited common elements including parking, recreational facilities, etc.;

(v) The project must be covered by hazard, flood, and liability insurance acceptable to the Commissioner;

(vi) No more than 10% of the total units in the project may be encumbered by FHA-insured mortgages. (If more than 10% of the units in the project are encumbered by FHA-insured mortgages, the condominium project must be approved under paragraphs (a) through (h) of this section); and

(vii) The assumability provisions of § 234.66 must be satisfied.

(2) Lenders must perform an underwriting analysis and certify that a project satisfies the eligibility criteria for a "spot loan" on a condominium project that has not been approved by FHA. Lenders may use information from the appraiser, the owners' association, the management company, the real estate broker, and the project developer, but the lender must ensure the accuracy of the information obtained from these sources.

Dated: May 22, 1995.

**Nicolas P. Retsinas,**

*Assistant Secretary for Housing-Federal Housing Commissioner.*

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