Condominium Project Approval Reference Guide
2013 REALTORS® CONFERENCE AND EXPO
November 8, 2013
General Condominium Approval Requirements

- **Housing & Economic Recovery Act of 2008 (HERA)**
  - Moved the insurance of a single unit condo from Section 234 to Section 203 of the National Housing Act
  - Requires drafting of new condo rule
  - Until publication of final condo rule, guidelines are issued in the form of administrative notices
  - Condominium Project Approval and Processing Guide (Guide) and published Mortgagee Letters 2011-22 and 2012-18 serve as condo regulations

- **Check FHA Approval List**
  - Status
  - Comments
  - Case number assignments
Condominium Status

Use link on slide 2 to search list
General Condominium Approval Requirements (cont.)

- Eligible Projects
  - Declared and exist in full compliance with applicable state laws of the jurisdiction in which the project is located
  - In good standing with the State and all other applicable laws and regulations (local and FHA)
  - Single unit condo
  - Up to a 30 year term for purchase or refinance in an FHA approved condominium project
  - Project must be primarily residential
  - Project must contain a minimum of 2 dwelling units
  - May be detached, semi-detached, row house, walk-up, mid-rise, high-rise, manufactured housing
General Condominium Approval Requirements (cont.)

• Ineligible Projects (not limited to the examples provided)
  – FHA reserves the right to determine the eligibility of condominium project types
  – Projects not deemed to be used primarily as residential
  – Projects that restrict the owner’s ability to occupy the unit
  – Projects with greater than 25% commercial space (exceptions may be granted on a case-by-case basis)
  – Condominium Hotel or Condotels
  – Projects located in Coastal Barrier areas
  – Timeshares or segmented ownership projects
  – Multi-dwelling unit condos
General Condominium Approval Requirements (cont.)

- Assisted living facilities
- Projects where the developer retains ownership of the common areas or amenities once transfer of control has been turned over to the Association
General Condominium Approval Requirements (cont.)

- Eligible Construction Types
  - Existing
  - Proposed
  - Under Construction (including existing less than 12 months old)
  - Conversions (gut rehab and non-gut rehab)

- Submission Types
  - Approvals, recertifications, annexations, reconsiderations

- Required Submission Documents
  - Cover Letter & Applicable Checklist ("E" Appendices), Appendix "A"
  - Other requirements as defined in the Guide and Mortgagee Letters
General Condominium Approval Requirements (cont.)

• Florida Projects
  – Must be processed by the Atlanta Homeownership Center

• Eligible Submission Sources
  – Builder, Developer, Lender, Homeowners Association, Management Company, Project Consultant, Attorney

• Approval Processing Options
  – HUD Review and Approval Process (HRAP)
  – Direct Endorsement Lender Review and Approval Process (DELRAP)
General Condominium Approval Requirements (cont.)

- **Processing Times**
  - 30 days from date of receipt (initial and reconsideration actions)
  - No status provided until after this time frame has passed

- **Condo application review fees**
  - FHA does not charge a fee to complete HRAP reviews
  - Project Consultants charge a fee
  - Lenders may or may not charge a fee

- **Owner-Occupancy**
  - 50% for existing; minimum of 30% for proposed, under construction

- **HOA Delinquencies**
  - No more than 15% of total units may be more than 60 days past due (in arrears); includes all occupied, investor owned, vacant, bank owned
  - Parties to the transaction may not bring the account current
Top Reasons for FHA Project Approval Denial

• Financial Instability
  – Insufficient reserve allocation not reflected on budget – doesn’t meet required 10% contribution requirement
  – Reserve balance not provided
  – No income reflected
  – Balance Sheet aged more than 90 days (existing projects)
  – Negative cash flow
  – Income and Expense Statement not provided or incomplete (existing projects)

• Insurance Requirements
  – Fidelity/Crime coverage insufficient
  – Incorrect calculations
Top Reasons for FHA Project Approval Denial (cont.)

– Management Company coverage does not meet FHA requirements
– Expired insurance policies
– No FEMA Flood Map

• Checklists/Project Certification (Appendix “A”)
  – Information on checklist conflicts with legal documents or other supporting documentation submitted for application approval
  – Pages missing/incomplete
  – Missing required project certification
  – Outdated (see Mortgagee Letter 2012-18)
  – Missing penalty clause
Top Reasons for FHA Project Approval Denial (cont.)

• Legal Documents
  – Evidence of recording not provided
  – Unable to determine number of units, amendments not provided
  – Affordable housing and live/work units not addressed

• Special Assessments/Litigation
  – Not addressed as required

• FEMA Flood Map
  – Missing
  – Map provided is not the FEMA map (regulatory requirement)
  – Does not identify project location on map
Top Reasons for FHA Project Approval Denial (cont.)

• Deed Restrictions/Leasing
  – Restrictions survive foreclosure
  – Verbiage in legal documents provides the HOA with the ability to screen/approve/deny potential tenants
  – Transient usage including mortgagee clause; legal documents allow the HOA to approve lease terms for less than 30 days
  – Age restrictions (not including 55+ communities)
  – Exceptions for eligible Governmental or Non-Profit programs can be found in 24 Code of Federal Regulations (CFR) 203.41 (c) and (d)
Reasons for FHA Project Approval Denial (cont.)

• Deed Restrictions/Affordable Housing
  – Restriction survives foreclosure
  – Documents not in compliance – does not specify number of units
  – If not addressed in legal documents, required recorded Affordable Housing Agreement is not provided
  – Exception for eligible Governmental of Non-Profit programs can be found in 24 Code of Federal Regulations (CFR) 203.41 (c) and (d)

• Resubmissions
  – Documentation resubmitted is incomplete
  – Duplication of original documents is submitted versus requested information
Top Reasons for FHA Project Approval Denial (cont.)

– Documentation is outdated
– Documentation is submitted “piece meal”

• Annexations
  – Actual budget does not reflect annexed units or reserves
  – Insurance insufficient to include annexed units
  – Missing recorded Plat Map indicating annexed area
Approval/Recertification Cover Letter/Document (Checklists)

- Current Documents
  - “E” Appendices, Condominium Project Approval and Processing Guide (pgs. 77 – 94)
  - Revisions underway
Miscellaneous

• Financial and insurance issues (reference slide 10)
• Reciprocity
  – Fannie Mae and Freddie Mac
  – VA
  – Rural Development
• Spot Loan Approval Process
  – Eliminated for FHA case numbers assigned on or after 2/1/10
Resources

Subscribe/Unsubscribe Instructions
To subscribe to the FHA Homeownership Update mailing list, you can use this link: http://bit.ly/FHARCPage or send a request by email to answers@hud.gov.

Bulk subscriptions: To sign up your entire office or a large group, send the list of email addresses (in the format below) to answers@hud.gov.

aaa@xyz.com
bbb@xyz.com
ccc@xyz.com

FHA Homeownership Listserv Archive Page
FHA recently began posting prior messages from this Homeownership Listserv on a Departmental web site. Currently the archives include messages from calendar year 2013 and a portion of calendar year 2012. To view messages sent by fhainfo@hud.gov and previously by jerrold.mayer@hud.gov, please visit the following site: http://bit.lyFHAINfo
Resources (cont.)

Other Helpful Links:

FHA Questions?
For FHA technical support, please search the FHA Frequently Asked Question site: http://bitly.com/FHAFaq or contact the FHA Resource Center by email at: answers@hud.gov or by telephone toll-free between 8:00 a.m. & 8:00 p.m. ET at: (800) CALLFHA OR (800) 225-5342.

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