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FHA revises guidance in condo. loan approval process

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On Friday, November 6th, the Federal Housing Administration (FHA) issued two documents related to FHA mortgage insurance requirements for condominium associations. These two documents: HUD Mortgagee Letter 2009-46A and Mortgagee Letter 2009-46B provide an overview of the FHA-proposed transitional criteria and successor criteria for condominium association requirements for FHA mortgage insurance.

These letters which can be found on the HUD website at www.hud.gov replace earlier proposals issued by FHA that triggered a strong response from affected industries. Community Associations Institute (CAI) provided FHA with its feed back on the earlier drafts of the criteria. The new transitional criteria and the successor criteria found in these documents demonstrate a positive movement by FHA in areas in which CAI provided comments, but will continue to pose a challenge for condominium associations.

One Step Forward, but More Issues to Address

In response to the condominium regulations initially proposed by FHA, the flexibility and revisions found in the temporary guidance should be seen as a positive step in our efforts to help shape FHA's current and future direction. We can accomplish this by providing expertise from CAI homeowner volunteers, managers, management companies and business partners. The CAI letter to FHA on October 23rd, 2009, provided an outline of concerns and recommendations in the following areas:

- *Presale requirements
- *Developer turnover
- *Certificates of occupancy
- *Reserve study requirements
- *FHA concentration limits
- *Commercial area percentages
- *A 15%, 30-day delinquency rate for assessments
- *Project recertification

CAI also encouraged the FHA to consider delaying the implementation of any new requirements by at least 120 days to allow for further dialogue. In the final analysis, FHA moved in a positive direction on our expressed concerns related to presales, reserve studies, concentration limits and a more gradual approach to migrating to a new regulatory regime. This positive development is balanced against the larger concerns related to delinquencies, commercial area and accurate data collection to meet these new requirements. CAI will continue the dialogue with CAI members and with FHA on both the temporary guidelines and the successor guidelines.

Why Associations Care about FHA Requirements

This is an issue of interest for condominium associations as FHA insured mortgages are playing an

increasingly important role as a financing mechanism for those seeking to purchase condominium units. While traditionally, FHA-insured mortgages played a small role in the housing markets (approximately 5% in 2007) that number has increased to roughly 20% of mortgage originations in 2008.

As lenders continue to reexamine and tighten lending criteria, qualifying for FHA mortgage insurance provides potential buyers with an additional financing option and makes units in condominium associations marketable to a larger pool of potential buyers.

A full summary of the new requirements as well as an analysis and answers to frequently asked questions regarding FHA condominium guidelines can be found at www.caionline.org or by contacting the chapter office at info@caine.org. Community Associations Institute is a national nonprofit education and advocacy organization that provides education, tools and resources to association board members, community managers and other professionals who serve associations. Tony Chiarelli is the 2010 CAI-NE chapter president and president of RMX Northeast, Inc. Milford, Mass.

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