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How can a condominium maintain liquidity in the current economic environment?

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When condominium homeowners finally get an opportunity to sell their units, they are now faced with even bigger challenges than finding a buyer. Within the last year alone guidelines for residential mortgages on condominium units have gone through some of the most extensive changes in decades. Condominium owners now face some of the most stringent lending guidelines in history. What has changed? Just about everything.

To fully comprehend what it means to obtain a mortgage for a condominium unit you must first understand who holds the keys to these mortgages. Essentially there are two governing bodies that control most of the guidelines for mortgages on residential condominium units: FHA and Fannie Mae. Fannie Mae is a congressionally chartered corporation that buys multifamily and single family mortgages on the secondary market, pools them and sells them as mortgage-backed securities to investors. Fannie Mae mortgages are the most popular in the United States. Typically high credit scores and at least 20% equity or down payments are needed for these condominium loans.

For decades, Fannie Mae has been the "go-to" purchaser of residential condominium mortgages. Then the bottom fell out. Hundreds of thousands of condominium units across the country are in foreclosure, and Fannie Mae is on the hook for a majority of them. In states like Nevada, New Jersey, Arizona and Florida, homeowners have either walked away from their units or have just stopped paying. Developers who built development after development are just unable to sell their product. The problem is continuing to grow.

FHA stands for Federal Housing Administration. Created in 1939 to help effectuate the possibility of lending after the Great Depression, the FHA loan has been a sleeping giant while cheap money was everywhere. Now that it is difficult to get a mortgage for a pack of gum, this giant has been awoken.

FHA mortgages for condominiums require equally stringent compliance with guidelines; however, there are several additional benefits to obtaining an FHA condominium project approval. Mortgages are given to borrowers with credit scores as low as 620 in most cases. Also, the FHA offers one of the only reverse mortgage products in the country. A reverse mortgage is offered to homeowners who are 62 years of age or older and requires no income check. The loan does require equity in the condominium unit financed, but it is a widely used solution for homeowners who are on a fixed income.

The Good News and the Bad News: Financing is available at historically low interest rates but there has been a shift in lending. The community is now viewed as the collateral. Stringent new guidelines have been put into place by the FHA and Fannie Mae in order to mitigate the risk of lending on condominium units. Because a condominium is a community and homeowners affect each other in ways that were once seen as unimportant, Fannie Mae and the FHA have instituted rigorous qualification guidelines for that community.

Specifically, there are three main areas in focus:

* Current Health of the Development: How many homeowners are paying their maintenance on time?

* Percentages of homeowners who actually occupy the units: Historically, it has been shown that the higher the concentration of owner-occupied units the more likely it is that the community is cared for and the more likely it is for those occupying owners to pay their mortgages on time.

* Future health of the development: The repair reserve. It used to be that if something broke you fixed it and everybody paid his or her share. However, in light of the fact that foreclosures are rampant and homeowners are not paying their maintenance on time, an environment for disaster abounds. If the windows in a development need to be replaced and a large enough reserve is not in place, a special assessment must be charged to unit owners. Who pays that special assessment if the units are in foreclosure? The homeowners who are not in foreclosure. That will not happen for long, if at all. Both Fannie Mae and the FHA have created a stringent guideline that requires a development to have a line item in the budget for repairs that is equal to 10% of the yearly budget ... it also has to be there forever if lending is to take place in a condominium development.

The result of these guidelines has been mixed over the last six months. There is definitely a division amongst condominium developments nationally. It has been divided into two groups: those who know and those who do not. The developments in the know have taken measures to guarantee the health of the development. They have taken the necessary steps of bylaw review, budget review and delinquency review. In all cases, resistance is futile. There are few lenders willing to lend outside these new guidelines.

Condominium developments have also begun to take a new approach. In order to guarantee that loans will be available when they are needed, they have begun to align themselves with two or three lenders who are familiar with the development. In this way they can make sure that at least someone is able to provide financing.

There are ways to create and maintain liquidity in condominium developments. The dialogue within these communities must begin to take place immediately. The worst results can only come from inaction.

For more information about condominium project approval, you can utilize the following resources:

www.efanniemae.com

www.hud.gov

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