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Revisions to FHA Condo. Project Approval Policy - by Michelle Rosin

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A whopping 84% of Federal Housing Administration (FHA)-insured condominium buyers have never owned a home, and while there are over 15,000 condominium projects in the U.S., only 6.5% are approved to participate in FHA's mortgage insurance programs. On August 14, 2019, the FHA announced changes to its condominium project approval policy that are expected to ease access to FHA financing, and in doing so, may help revive the entry-level condominium market for first-time buyers.

The condominium approval policy changes—which encompass a Final Rule codified in the Federal Register (Docket No. FR-5715-F-02) and associated changes to the Condominium Project Approval section of the Single Family Housing Policy Handbook—went into effect on October 15, 2019. The FHA estimates that as a result of the revisions as many as 60,000 additional condominium units will become eligible for FHA-insured financing annually.

“Condominiums have increasingly become a source of affordable, sustainable homeownership for many families and it's critical that FHA be there to help them...Today, we take an important step to open more doors to homeownership for younger, first-time American buyers as well as seniors hoping to age-in-place.” –Ben Carson, U.S. Housing and Urban Development Secretary.

The new condominium approval policy includes the following key changes:

Single Family Housing Policy Handbook Changes: FHA has updated the Single Family Housing Policy Handbook (Handbook) to incorporate guidance for FHA condominium project approvals. Two new sections—Section II.A.8.p “Condominiums” and Section II.C “Condominium Project Approval”—have been added to the Handbook, and existing sections of the Handbook have been updated to incorporate new condominium project approval policy guidance. The key updates include additional requirements that lenders and industry participants will need in order to implement FHA's new policy, including requirements for single-unit approvals, minimum owner occupancy requirements, and commercial/non-residential space limits.

General Condominium Project Eligibility Requirements: To be eligible for project approval, the condominium project must:

- (1) Be primarily residential in nature and not be intended for rental for transient or hotel purposes;
- (2) Consist only of one-family dwelling units;
- (3) Be in full compliance with all applicable federal, state, and local laws with respect to zoning, fair housing, and accessibility;
- (4) Be complete and ready for occupancy; and
- (5) Be reviewed and approved by the local jurisdiction.

Single-Unit Approvals Allowed: New individual condominium units may be eligible for an FHA mortgage even if the condominium project is not FHA approved. Selected condominium units in projects that are not currently FHA-approved may be eligible for single-unit approval if the following conditions are met:

- (1) The individual condominium unit is located in a completed project that is not approved;
- (2) Where a condominium project consist of 10 or more units, no more than 10% of individual condo units can be FHA-insured; and
- (3) For condominium projects with fewer than 10 units, no more than two individual condo units can be FHA-insured units.

This change will enable more owners of individual condominium to access FHA-insured loans since many associations are unable to become FHA-certified due to high cost of certification.

Recertification Process Simplified: FHA has extended the recertification requirement for approved condominium projects from two years to three years, and will allow recertification by updating previously submitted information, rather than requiring resubmission of all project information.

Minimum Level of Required Owner-Occupancy Lowered: Condominium projects with owner occupancy rates as low as 35% may be eligible for FHA approval based on a number of factors, including whether there is existing or new construction on the project, and the project's financial and operational stability.

More Mixed-Use Projects Eligible for FHA Insurance: FHA's Final Rule has set the maximum commercial space%age upper limit to 55% of the total floor area, which will allow more mixed-use projects to be eligible for FHA insurance.

FHA Insurance Concentration in Condominium Projects: FHA will insure up to 75% of the total number of units in an approved condominium project.

Future Policy Changes Open to Public Comment: FHA will provide a 30-day public comment period prior to implementing future changes to the condominium approval process.

Many individuals and organizations, including the Community Associations Institute, have applauded the actions by the Department of Housing and Urban Development to streamline the FHA condominium project approval process. There is hardly a doubt that FHA's condominium approval policy changes will expand homeownership in an important part of the housing stock.

Nonetheless, some skeptics worry that it is a risky time for the government to back more condominium loans. Time will tell.

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