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CAI supports new federal condo safety legislation

September 02, 2022 - Owners Developers & Managers

Boston, MA Community Associations Institute (CAI) applauds Reps. Charlie Crist (D-Fla.) and Debbie Wasserman Schultz (D-Fla.) for introducing the Rapid Financing for Critical Condo Repairs Act of 2022, H.R.8304, legislation that allows the U.S. Department of Housing and Urban Development's Federal Housing Administration to insure condominium association building rehabilitation loans made by private lenders. Access to FHA-insured building rehabilitation loans will provide significant benefits to condominium associations, according to lenders specializing in the loans.

CAI has been working with Rep. Crist for the past year on legislation to help condominium associations finance critical repairs. In April, Reps. Crist and Wasserman Schultz also introduced the CAI-backed legislation Securing Access to Finance Exterior Repairs (SAFER) in Condos Act of 2022.

Aging condominium buildings and infrastructure has been a growing concern over the past year, following the tragic partial collapse of Champlain Towers South Condominium Association in Surfside, Fla. CAI and the Foundation for Community Association Research have produced condo safety resources, research, and reports calling for community association board members and managers to take reasonable steps to repair and preserve aging community infrastructure.

The American Housing Survey estimates there are roughly 7.4 million condominium units nationally. The demand for financial resources to make building repairs is likely to increase as states and localities follow the lead of Florida and enact structural safety inspection requirements and reform reserve requirements. Unlike reserve studies, a building structural inspection requires a site visit. CAI anticipates that many association boards will be faced with important decisions on how to proceed with unexpected repairs.

Condominium associations often finance unanticipated building repairs with loans from private lenders. These loans tend to have short payment terms, ranging from 10 to 15 years and include prepayment penalties. Some association loans are structured so payments are made as if the loan has a longer term (e.g., payment amortized on 20- or 30-year schedule) but have a balloon payment due by year 10, which requires the association to refinance.

Legislative Summary

The Rapid Financing for Critical Condo Repairs Act amends Section 234 of the National Housing

Act to authorize FHA insurance for condominium association building rehabilitation loans.

Condominium association loans are collateralized with pledges of future association assessment income. As FHA's mortgage insurance programs are collateralized by real property, the legislation authorizes the agency to insure condominium association loans collateralized by assessment income or real property or a combination of the two.

Under the legislation, FHA-insured condominium association loans may be used for the rehabilitation, alteration, repair, improvement, or replacement of a condominium project's common systems, infrastructure, and facilities.

To protect FHA and the U.S. government against financial loss, the legislation allows FHA insurance for only 90% of the cost of building rehabilitation work. This restriction operates in other FHA multifamily housing rehabilitation loan insurance programs.

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