FHA Condo Eligibility Requirements

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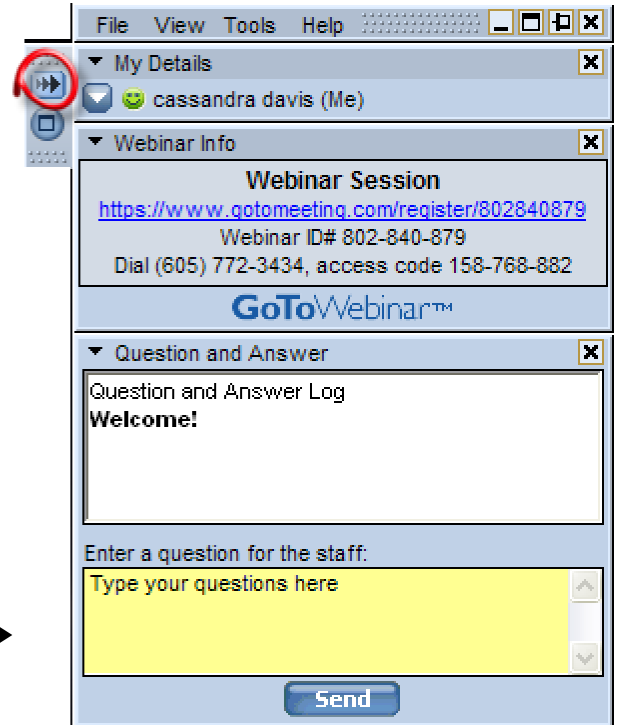

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FHA Condominium Eligibility

U.S. Department of Housing and Urban Development

December 2011

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Your Door to FHA HOMEOWNERSHIP

EQUAL HOUSING OPPORTUNITY

Today's Agenda

- Clarify the difference between an "approved" project and an "eligible" project when already approved
  - An approved project may not be eligible project
- Focus on condominium eligibility requirements
- Who can help in determining eligibility
- Steps you should take

Condominium Project Approval By Definition

- Project approval requirements are contained in Mortgagee Letter 2011 – 22 and all attachments
- The physical characteristics of the property and structure(s) have been satisfied
- The eligibility requirements have satisfied
- Project approvals are for two years
  - **Subject to continued eligibility**

Who Approves Condominium Projects?

- Lender
  - Known as the **DELRAP**
    - **D**irect **E**ndorsement **L**ender **R**eview and **A**pproval **P**rocess
- HUD/FHA
  - Known as the **HRAP**
    - **H**UD **R**eview and **A**pproval **P**rocess
    - Lender submits documentation to the Homeownership Center where the subject property is located for project approval
    - 30 business days processing time
      - Initial requests and reconsiderations

Project Eligibility

- Must be determined *every time* a mortgage will be insured with the Department
  - Even when a project is an FHA approved project
- Eligibility certifies initial and ***continued approval*** of a project

Basic Eligibility Requirements

- The FHA approved lender's Direct Endorsement underwriter certifies initial eligibility and <u>**continued eligibility**</u>
  - Except on initial approval if using the HRAP method
- Project must consist of a minimum of 2 units
- Right of first refusal permitted
  - Unless violates Fair Housing Act regulations

Basic Eligibility Requirements

- **Owner Occupancy**
  - 50% owner-occupancy required
    - ***Initial project approval requires 51%***
  - REO's owned by the foreclosing lender are not counted in total number of units for calculation
    - Example: 100 unit project, 25 are foreclosures owned only by the lender that foreclosed, 50% calculation is done on remaining 75 units (100 – 25 = 75)
  - Second homes are treated as owner-occupied
  - Not required on a HUD REO when buyer using FHA insured financing

Basic Eligibility Requirements

- **<u>Non-Residential/Commercial Space</u>**
  - No more than 25% of the property's total floor space of the project or unit
  - Some exceptions may be granted by the Homeownership Center – See Page 29 of the Mortgagee Letter attachment
  - Be homogenous with residential use and free of adverse conditions to the occupants
    - What most would not find as offensive or objectionable

Basic Eligibility Requirements

- **Live/Work Projects**
  - Similar to non-residential commercial space guidelines but no exceptions allowed
  - Work space cannot exceed 25% of the unit's total floor space; ***and***
  - Non-residential workspace may not exceed 25% of the project's total floor area; ***and***
  - The non-residential use must be subordinate to the units' residential use and character

Basic Eligibility Requirements

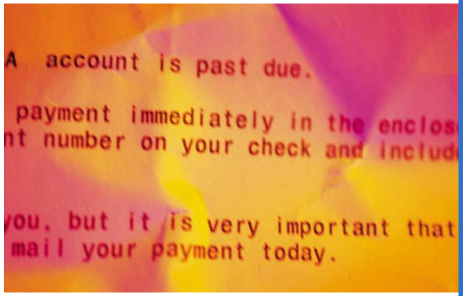
- **<u>Investor Ownership</u>**
  - No more than 10% of the units may be owned by one investor/entity (single or multiple owner entities)
  - Includes all rented and leased units that a builder/developer owns
    - Including those acquired during project acquisition
      - Unoccupied and unsold units owned by a builder/developer are not considered investor owned

Investor Ownership Continued

- Eligible non-profits and/or eligible governmental housing programs are not subject to the 10% ownership interest limitation
  - For more information on eligible non-profit organizations as defined by the Department please refer to 24 CFR 203.41
- At time of initial project approval, investor ownership interest cannot exceed 49%
  - 51% owner occupied required for *initial project approval*

Basic Eligibility Requirements

- **<u>Delinquent Homeowners Association Dues</u>**
  - No more than 15% of the total number of units can be in more than 30 days in arrears/past due
    - Does not include late fees or administration expenses
  - Includes all units (occupied, investor, REO, vacant)
  - Possible exceptions to a *maximum of 20%*
    - Decided by Homeownership Center where project located
    - Requires additional documentation



Delinquent HOA Dues Continued

- Documentation required to review for exception of 15% delinquent HOA Dues are:
  - HOA provided report for past 6 months that reflects the history of unpaid assessments
  - HOA Balance and Income/Expense statements dated less than 90 days from submission for exception
  - HOA financial statements and verification of the reserve account revealing the HOA has sufficiently accounted for bad debt and arrearages

Continued Documentation For HOA Delinquent Dues Exception

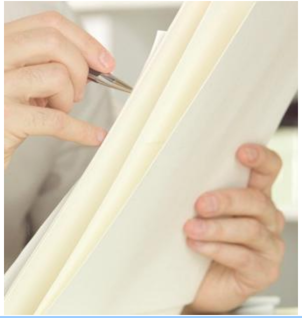
- Current reserve study no greater than 24 months old
  - Supporting the sufficiency of the current HOA assessments to meet the project component replacement needs
- HOA provides evidence of actions to collect unpaid arrearages, including legal action, execution of payment plans, etc.
- Exceptions terminate
  - With the expiration date of the project approval

Basic Eligibility Requirements

- **<u>HOA Budget and Financial Documents</u>**
  - Budget and operating expenses must be reviewed
    - Including allocations/line items to ensure sufficient funds available to maintain and preserve amenities and features; **<u>and</u>**
    - Provide for funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10% of the budget; **<u>and</u>**
    - Provide adequate funding for insurance coverage and deductibles

HOA Budget/Financial Documents Continued

- When budget documents do not meet standards
  - A reserve study may be requested
  - Reserve study cannot be more than 24 months old
  - Consideration must be given to any item that had been replaced after the date of the reserve study



Basic Eligibility Requirements

- **<u>Special Assessments – Current or Pending</u>**
  - Require additional documentation
  - Signed and dated explanation for special assessment must be obtained from
    - Builder, developer, sponsor, HOA, or management company

NOTE: The list on the following slide is not all inclusive. Any additional items evidencing a negative impact on the project must be reviewed

Special Assessments - Continued

- Signed and dated explanation must address:
  - Purpose of the assessment?
  - Does the assessment affect marketability?
  - Have other special assessments been required?
  - When “yes”, need complete explanation regarding purpose and timing of those assessment must be provided
  - How the overall financial stability of the project is impacted by the assessment
  - What the impact the assessment will have on the future value and marketability of the property

Basic Eligibility Requirements

- **<u>Pending Litigation</u>**
  - Signed and dated explanation from
    - Attorney representing builder, developer, sponsor, HOA, or management company
  - Items to be addressed
    - Reason(s) for litigation
    - Anticipated settlement/judgment date
    - Could action impact future solvency of HOA *<u>and</u>* how
    - Could transfer of title be affected *<u>and</u>* how
    - Could action impact homeowner's rights
  - Responses determine adverse effect for eligibility

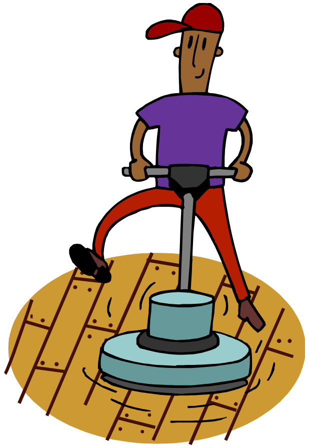
Basic Eligibility Requirements

- **<u>Insurance Requirements</u>**
  - Project must be covered by hazard, flood, liability, and those required by state or local laws or acceptable to FHA

- **Hazard Insurance**
  - Adequate “Master” or “Blanket” policy in an amount =/> 100% current replacement cost
    - Exclusive of land, foundation, excavation, and items normally excluded from coverage
  - Gap insurance is acceptable when “Master” or “Blanket policy does not maintain 100% coverage

Insurance Requirements – Cont.

- **HO-6 Policy**
  - “Walls in” coverage policy
  - Required if “master” or “blanket” policy does not include interior of unit coverage
    - Must include replacement of interior improvements and betterment



Insurance Requirements – Cont.

- **Fidelity Bond**
  - Required for projects with more than 20 units
    - Coverage must include
      - Officers, directors, and employees of the association, and all other persons handling or responsible for funds administered by the association

Fidelity Bond Requirements Continued

- When a HOA engages the services of a management company, the HOA must require that the management company maintain this coverage
  - Coverage must include
    - Officers, directors, and employees of the association, and all other persons handling or responsible for funds administered by the association

Additional Management Company's Fidelity Bond Requirements

- Coverage must be no less than
  - A sum equal to three months aggregate assessments on all units plus reserve funds
    - Unless state law mandates a maximum dollar amount of coverage
  - In no event may the aggregate amount of the bond be less than a sum equal to 3 months aggregate assessments on all units plus reserves

Additional Management Company’s Fidelity Bond Requirements

- Actual coverage must
  - Name the owners association as an obligee
  - Be in an amount not less than the estimated maximum funds including reserve funds in the custody of the owner’s association or management agent at any given time during the term of the bond

Insurance Requirements – Cont.

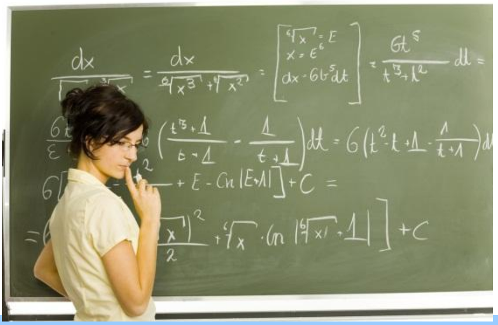
- **Flood Insurance**
  - Required when property located in a 100 year flood plain
    
    - Dwelling and structures/equipment
    - Refer to Mortgagee Letters 2009 – 37 and 2010 – 43
  - HOA must obtain and maintain coverage
    - Equal to replacement cost of project less land cost or up to the maximum National Flood Insurance Progam
    - Maximum coverage is $250,000 x # of units in a building (not to exceed building replacement cost)
    - HOA ***not*** borrower/individual unit owner must obtain
    - Protect individual unit owners and common areas

Basic Eligibility Requirements

- **<u>Leaseholds</u>**
  - Leasehold interest
    - Not less than 99 years renewable ***<u>or</u>***
    - Under a lease of not less than 10 years to run beyond the maturity of the mortgage
  - HOA must be the lessee under the ground lease
  - HOA must not be in default under any provisions of the lease

Basic Eligibility Requirements

- **<u>FHA Concentration</u>**
  - FHA will not insure more than 50% of units in a project
    - Some exceptions to 100%
      - See page 45 of Mortgagee Letter 2011 – 22 attachment
      - Must meet **<u>all</u>** additional requirements



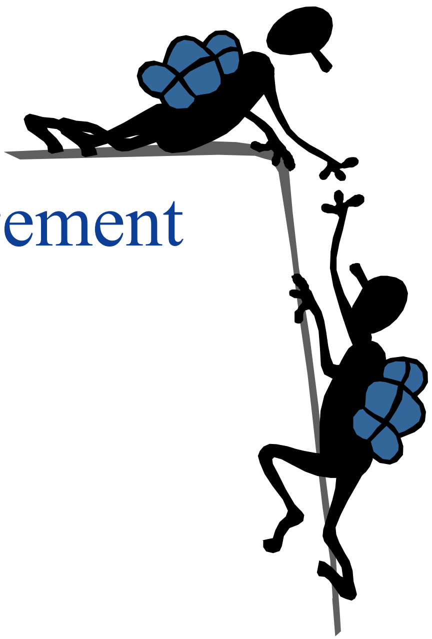
FHA Concentration – Continued

- Once a project has 50% FHA concentration
  - New case numbers will not be issued
  - Small tolerance for possible fallout
- Concentration information can be obtained at HUD's approved condominium listing web-site

https://entp.hud.gov/idapp/html/condlook.cfm

Who Can Help With Verifications And Documentation?

- An FHA approved lender's direct endorsement underwriter
  - Reviewing the documentation
- The Homeowner's Association or Management Company
  - Providing documentation
- FHA's web-site for project approval and concentration (see previous slide)
- Tax roll data and information
  - Public records
  - Title companies



Steps You Should Take When A Project Is Currently Approved

- Verify the FHA concentration
- Verify owner-occupancy
- Obtain all HOA certifications
  - Pending litigation, insurance coverage, bond, etc.
- Submit everything to the FHA approved lender's direct endorsement underwriter to certify the project continues to meet FHA eligibility requirements

Remember, an approved project may not be an eligible project

Mortgage Certification Document

- Must be executed and included in Case binder
  - On company letterhead of the lender insuring the mortgage
  - Signed by the company's authorized representative
    - Direct Endorsement underwriter or other representative authorized to bind the company when the loan approval decision is made
      - Signature stamps and/or electronic signatures not permitted
  - Dated
    - Within 30 days prior to closing
      - Cannot be executed/dated "after" closing date

Required Certification - Appendix “B”

PROJECT NAME:____

PROJECT LOCATION:____

The undersigned hereby certifies that:

1. The Mortgagee has verified that the condominium unit in connection with this loan file has been verified to be in a project that appears on FHA’s list of approved condominium projects as of the date that the FHA case number is assigned;
2. To the best of his or her knowledge and belief, the information and statements contained in this application are true and correct;
3. The Mortgagee has no knowledge of circumstances or conditions that might have an adverse effect on the project or cause a mortgage secured by a unit in the project to become delinquent (including but not limited to defects in construction; substantial disputes or dissatisfaction among unit owners about the operation of the project or the owners association; and disputes concerning unit owners, rights privileges, and obligations); and
4. The Mortgagee has reviewed and verified that the investor ownership, percentage of owners in arrears for condominium association fees and owner-occupancy percentage meets FHA requirements.

____ __________

Authorized Mortgagee Representative (Print and Sign) and Title Date

Where to Get More Information

- **1-800-CALL - FHA (1 – 800 – 225 - 5342)**
  - A source for all FHA questions
    - Lenders and Consumers
- **www.hud.gov**
  - On-line resource for info about FHA and FHA programs
  - On-line resource for other types of programs, forms, press releases, etc.
  - User friendly
- **www.hud.gov/answers**
  - On-line resource to frequently asked questions

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The homebuying process can seem complicated, but if you take things step-by-step, you will soon be holding the keys to your own home.

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Staff Photo

Overview

The Federal Housing Administration, generally known as "FHA", is the largest government insurer of mortgages in the world. A part of the United States Department of Housing and Urban Development (HUD), FHA provides mortgage insurance on single-family, multifamily, manufactured homes and hospital loans made by FHA-approved lenders throughout the United States and its territories. While borrowers must meet certain requirements established by FHA to qualify for the insurance, lenders bear less risk because FHA will pay the lender if a homeowner defaults on his or her loan. FHA has insured over 38 million home mortgages and 47,205 multifamily project mortgages since 1934. Currently, FHA has 6.1 million insured single-family mortgages and 13,000 insured multifamily projects in its portfolio. Clearly, FHA provides a huge economic boost to the country in the form of home and community development, particularly in today's challenging financial climate.

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FHFA, Treasury, HUD Seek Input on Disposition of Real Estate Owned Properties
Wednesday, August 10, 2011
HUD Unveils New Web-based Mapping Tool to Display Nearly Half of U.S. Foreclosed Properties
Friday, August 5, 2011
Obama Administration Releases July Housing Scorecard
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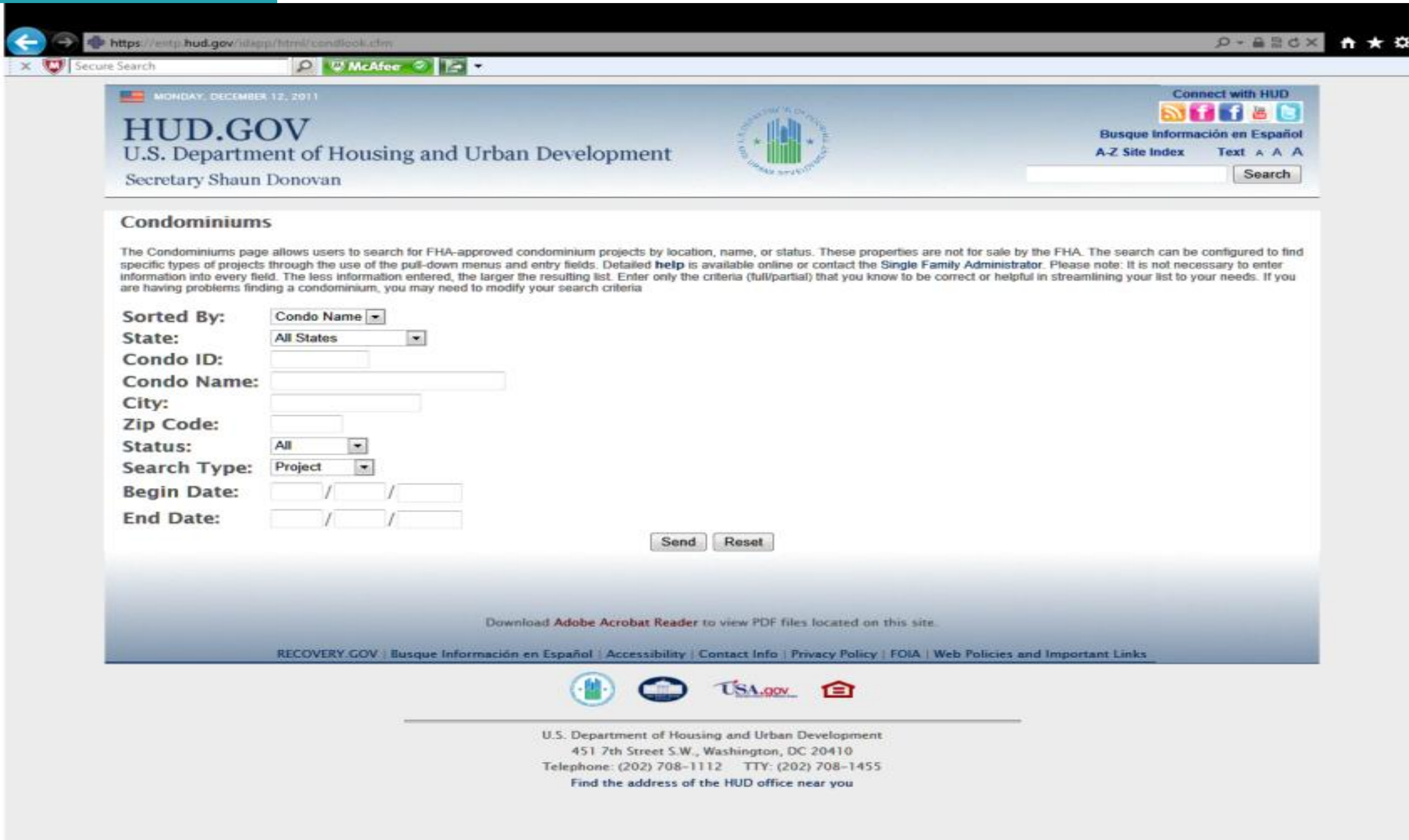

www.hud.gov/answers

http://portal.hud.gov/hudportal/HUD?src=/FHAFAQ

FHAFAQ

FHA Frequently Asked Questions

----- FHA RESOURCE CENTER BULLETIN BOARD -----

Important Changes to HUD/FHA Communication Options

The FHA Resource Center acts as the first line of response for the majority of industry and public inquiries about FHA programs and services. HUD/FHA believes that the Resource Center allows members of the industry and the general public to quickly obtain the information they need while improving the consistency and accuracy of the information FHA provides. The email address and FAQ site are integral parts of the FHA Resource Center and FHA is anxious to spread the recent changes to our internal and external partners.

Due to an internal system change we are now able to provide a more appropriate and easier to remember email address and FAQ site address for our clients.

The address changes outlined below go into effect on Saturday, August 13. Both the existing FAQ site and email address will no longer be valid beyond that date and clients should begin utilizing these new addresses exclusively on August 13.

The new address information is:

- Primary Email address is now answers@hud.gov
- Site address for the FHA FAQ site is now: **www.hud.gov/answers**

Please note that there is no change to the primary Resource Center telephone number which remains 1-800-CALLFHA (225-5342)

SEARCH BY KEYWORD SEARCH BY CATEGORY SEARCH TIPS

Keyword: gift funds [Search] [Reset]

Submit a Question

13 Answers Found

NBR	FAQ's	LAST EDIT
1	Can gift funds be used to pay for prepaids and closing costs?	2011-05-06
2	Can gift funds be provided from a friend or other unrelated party?	2011-05-06
3	Can a non-profit who is the seller of a property provide gift funds?	2011-05-06
4	Can gift funds come from the employer?	2011-05-06
5	Where can I find the guidelines regarding gift funds?	2011-05-06
6	Can gift funds come from the seller, lender or other interested party?	2011-05-06
7	How do lenders document gifts given in the form of cash?	2011-05-06
8	Can I receive a loan from a family member rather than a gift?	2011-05-06
9	Does HUD allow gifts of equity?	2011-05-06
10	What seller contributions are considered inducements to purchase?	2011-05-06
11	How do I know if funds received from a non-profit or downpayment assistance provider are eligible?	2011-05-06
12	How do I find HUD approved nonprofit organizations that provide down payment assistance using secondary financing programs or gifts?	2011-05-06
13	Can a realtor give a gift of their commission for the downpayment?	2011-05-06

http://portal.hud.gov/FHAFAQ/controllerServlet?method=showPopup&faqId=1-51D-1981

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