PUBLIC POLICY POSITION PAPER



January 2014

Lead Committee: Home Ownership Housing Committee Level of Government Committee: Federal Committee

FEDERAL HOUSING ADMINISTRATION (FHA) CONDO POLICY

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THE QUESTION:

Should C.A.R., in conjunction with NAR, "SUPPORT" an easing of the Federal Housing Administration's condominium requirements?

ACTION:

Staff is requesting direction at this time as REALTORS® and their clients continue to struggle with condominiums meeting the new FHA requirements.

POSITIONS:

- 1. "SUPPORT" an easing of the Federal Housing Administration's condominium requirements.
- 2. "SUPPORT" an easing of the Federal Housing Administrations condominium requirements that include, but are not limited to:
 - Extending the time between recertification,
 - Simplifying recertification process, and
 - Mirroring Fannie Mae's and Freddie Mac's condo requirements
- 3. Take no action
- 4. Other

DISCUSSION:

C.A.R.'s members and REALTORS® across the country continue to struggle with getting FHA approval under the new Approval Requirements. C.A.R. had taken policy (see below) to extend the "temporary" FHA condo Approval Requirements, which were more lenient than the permanent FHA condo rules. At C.A.R.'s 2013 Fall Meetings the Homeownership Housing Committee requested staff background the issue

FHA's data shows approximately 60 percent of condo projects seeking approval in 2013 were denied, that's up from 2011 when only 20 percent of projects were denied. Problems members are encountering in qualifying common interest developments for FHA include:

- Financial Instability,
- · Pending litigation,
- Insufficient insurance coverage, and
- Outdated or missing documentation.

In addition to these hurdles, many CID associations simply choose not to attempt to gain FHA approval either because they don't meet the criteria or the process is too difficult. Making approval more difficult is the requirement of renewing every two years that requires the same amount of documentation and work as the initial approval.

SUPPORT:

Supporters of easing FHA's condo requirements say:

- The high disapproval rate is proof that something needs to be done to ease the FHA condo requirements,
- Many CID boards are small and comprised of volunteers, and the twoyear renewal requirement is too frequent and burdensome for them.
- FHA is hindering the ability of HOAs to get back on sound financial footing by denying strong homebuyers access to mortgage financing..

OPPOSE:

Opponents of easing FHA's condo requirements say:

- Given FHA's financial difficulties it is important that they only insure mortgages in stable and financially healthy CIDs.
- Many homebuyers who use FHA financing on condos are often less informed first-time homebuyers; FHA's condo approval process protects not just FHA but homebuyers from purchasing a unit in an unstable development.

C.A.R. POLICY:

C.A.R. had taken policy to extend the "temporary" FHA condo Approval Requirements, which were more lenient than the permanent FHA condo rules.

Policy adopted in October 2010:

That C.A.R., in conjunction with NAR, seek to extend the current Temporary FHA condo Approval Requirements that are set to expire at the end of the vear.

These are:

- a. Maintaining the FHA concentration level at 50% and not letting it decrease to 30%.
- b. Pre-sale requirements be maintained at 30% and not increase to 50%.

In light of current economic conditions, FHA should reconsider some of its FHA approval criteria specifically:

- a. Raising the cap on the percentage of units one entity may own from the current 10 percent.
- b. Raising the cap on the percentage of units that can be in arrears (more than 30 days past due) from the current 15 percent.
- c. Create an "excellent buyer exception." The BOD believes if the homebuyer in the transaction is an excellent buyer, FHA should make the condo qualifying requirements less restrictive. The BOD felt FHA

should work to get this type of homebuyer into condominium projects to help stabilize them.

NAR POLICY:

NAR took policy in 1997 that states "to further the goal of making this affordable form of homeownership more available there is a need for the government agencies involved with condominium and cooperative financing to continue to streamline and update their policies."

Under this policy NAR has been advocating for the following changes to the FHA condo policy:

- Extend the recertification process from two years to five years.
- Simplify the recertification process which currently requires the same amount of paperwork as the initial approval.
- Standardize condo requirements by having FHA mirror Fannie Mae's and Freddie Mac's condo requirements.

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