

FHA & You

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What is FHA?

The Federal Housing Administration, generally known as "FHA", provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. FHA insures mortgages on single family and multifamily homes. It is the largest insurer of mortgages in the world, insuring over 34 million properties since its inception in 1934.

Why does FHA Mortgage Insurance exist?

Unlike conventional loans that adhere to strict underwriting guidelines, FHA-insured loans require very little cash investment to close a loan. There is more flexibility in calculating household income and payment ratios. The cost of the mortgage insurance is passed along to the homeowner and typically is included in the monthly payment. In most cases, the insurance cost to the homeowner will drop off after five years or when the remaining balance on the loan is 78 percent of the value of the property -whichever is longer.

Why Condos Should Care:

- Understanding the FHA requirements is critical to ensuring condo units are marketable to the largest pool of potential buyers possible.
- Non-FHA approved properties lock out nearly 1/3 of potential buyers.

Why FHA Why Now

- Pre 2007 less than 5% of all mortgages were FHA Insured
- 2009 that number had jumped up to approximately 30%
- Potentially up to 60 – 70% for Condo's

Basics to get FHA Approved

- Minimum number of units: Projects must consist of two or more units.
- Insurance Coverage: Projects must be covered by hazard and liability insurance and, when applicable, flood and fidelity insurance.
- Right of First Refusal: Right of first refusal is permitted unless it violates discriminatory conduct under the Fair Housing Act regulation at 24 CFR part100

Basics to get FHA Approved

- Commercial Space: No more than 25 percent of the property's total floor area in a project can be used for commercial purposes. The commercial portion of the project must be of a nature that is homogenous with residential use, which is free of adverse conditions to the occupants of the individual condominium units.
- Investor Ownership: No more than 10 percent of the units may be owned by one investor. This limitation also applies to developers/builders that subsequently rent vacant and unsold units. For condominium projects with ten or fewer units, no single entity may own more than one unit within the project; all units, common elements, and facilities within the project must be 100 percent complete.

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- Delinquent Home Owners Association (HOA) Dues: No more than 15 percent of the total units can be in arrears (more than **30 days** past due) of their condominium association fee payments.
- Owner-occupancy Ratios: At least 50 percent of the units of a project must be owner-occupied or sold to owners who intend to occupy the units.
- Budget: Must be adequate and include the following:
 - Includes allocations/line items to ensure sufficient funds are available to maintain and preserve all amenities and features unique to the condominium project;

Basics to get FHA Approved

- Provides for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10% of the budget; and
- Provides adequate funding for insurance coverage and deductibles
- In cases where the budget documents do not meet these standards, a reserve study may be requested to assess the financial stability of the project. The reserve study cannot be more than 12 months old. When reviewing the reserve study, consideration must be given to items that have been replaced after the time that the reserve study was completed.

Basics to get FHA Approved

- FHA Concentration: Projects consisting of four or more units will have no more than 50% of the units encumbered by FHA insurance.
 - a. Projects consisting of three or fewer units will have no more than one unit encumbered with FHA insurance.
 - b. Projects consisting of four or more units will have no more than 50 percent of the total units encumbered with FHA insurance.
- **Exceptions to 50 percent Concentration Level.** The FHA concentration may be increased up to 100 percent if the project meets all of the basic condominium standards plus the additional items stated below:

Basics to get FHA Approved

- The project is 100 percent complete and construction has been completed for at least one year, as evidenced by issuance of the final or temporary/conditional certificate of occupancy for last unit conveyed;
- 100 percent of the units have been sold and no entity owns more than 10 percent of the units in the project (for projects with fewer than 10 units, single entity may own no more than 1 unit);
- The project's budget provides for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10% of the budget;

Basics to get FHA Approved

- Control of the Homeowners Association has transferred to the owners; *and*
- The owner-occupancy ratio is at least 50 percent
- Insurance: The condominium project must be covered by hazard, flood, liability and other insurance required by state or local condominium laws or acceptable to FHA as defined below:
 - Hazard Insurance: The homeowners association (HOA) is required to maintain adequate "master or blanket" property insurance in an amount equal to 100% of current replacement cost of the condominium exclusive of land, foundation, excavation and other items normally excluded from coverage. If the HOA does not maintain 100% coverage, the unit owner may not obtain "gap" coverage to meet this requirement.

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- **HO-6 Coverage:** In cases where the master policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the borrower may have made to the unit, the borrower must obtain a "walls-in" coverage policy (HO-6 policy).
- **Liability Insurance:** The HOA is required to maintain comprehensive general liability insurance covering all of the common elements, commercial space owned and leased by the owner's association, and public ways of the condominium project.

Basics to get FHA Approved

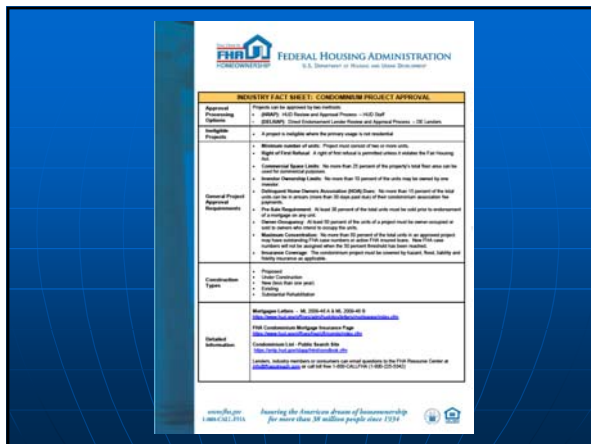
- **Fidelity Bond/Fidelity Insurance:** Fidelity Bond/Fidelity Insurance is required for new and established condominium projects with 20 or more units. The HOA must maintain this insurance for all officers, directors, and employees of the association and all other persons handling or responsible for funds administered by the association. The coverage must be no less than a sum equal to three months aggregate assessments on all units plus reserve funds.

Basics to get FHA Approved

- **Flood Insurance (if applicable):** Insurance coverage equal to the replacement cost of the project less land costs or up to the National Flood Insurance Program (NFIP) standard of \$250,000 per unit, whichever is less. In the insuring of a residential condominium building in a regular program community, the maximum limit of building coverage is \$250,000 times the number of units in the building (not to exceed the building's replacement cost). The HOA, not the borrower or individual unit owner, is responsible for obtaining and maintaining adequate flood insurance under the NFIP on buildings located in a Special Flood Hazard Area (SFHA). The flood insurance coverage must protect the interest of borrowers who hold title to an individual unit as well as the common areas of the condominium project.

How do we get Certified?

- Associations can become certified in one of two ways. The first is to wait for an FHA buyer to come along and let the buyer's lender do the work. Certain lenders, typically the largest ones, are eligible to certify associations under the Direct Endorsement Lender Review and Approval Process, or DELRAP. The association supplies the necessary documents and information. Certification via lender takes two to four weeks, and fees vary, depending on the size of the association and company policies.
- The second way is for associations to apply directly to the U.S. Department of Housing and Urban Development, which oversees the FHA. This is called the HUD Review and Approval Process, or HRAP. Decisions are coming down in four to six weeks.



How do I know if my Community is already FHA approved

Go to www.hud.gov

There will be a link on the top to "Resources" click that link.

From there go to HUD Approved Condominiums.

<http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/09-46bml.pdf>