

COMMUNITY ASSOCIATION INSTITUTE

LONG ISLAND CHAPTER

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GUIDELINES FOR FHA

CONDOMINIUM

PROJECT

ELIGIBILITY



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I. HIGHLIGHTS

A. TEMPORARY GUIDANCE FOR CONDOMINIUM PROJECT ELIGIBILITY;

Mortgage Letter 2009-46 A

1. Spot Loan Approval Process

a) Ended February 1, 2010. Replaced by

b) Direct Endorsement Lender Review &
Approval Process (DELRAP)

c) HUD Review and Approval Process (HRAP)
continues

2. FHA Concentration Requirements

- a) Cap on FHA loans per Condo Project increases to 50% from 30% through December 31, 2010
- b) Cap increases to 100% if
 - i) project has been 100% completed for at least 1 year; and
 - ii) 100% of units are sold and other FHA requirements are met
- c) Cap on FHA loans per Condo Project reverts to 30% beginning January 1, 2011

3. Owner-Occupancy Requirements

- a) 50% of Units must be owner occupied or sold to owner occupants
- b) REO's may be excluded from calculation (remove from numerator + denominator)

4. Pre-Sale Requirements for New Construction

- a) Reduced to 30% through December 31, 2010, if properly documented

- b) Documentation consists of
 - i) copies of sales agreements
 - ii) evidence that lender is willing to make loan
 - iii) evidence that units have closed and occupied or certification from developer

5. Florida Condominium Project Approval

- a) Require review and approval from the Atlanta Homeownership Center under HRAP
- b) Not eligible for DELRAP

B. PERMANENT GUIDANCE: FHA APPROVAL PROCESS FOR CONDOMINIUM PROJECTS AND MORTGAGE INSURANCE REQUIREMENTS

Pursuant to the
Housing and Economic Recovery Act of 2008 (HERA)
Mortgagee Letter 2009-46 B

1. PROJECT APPROVAL

a) Site Condominiums: NOT required

Defined as Single Family Detached Dwelling
(no shared garage or attached building)

- b) Land-Home Co-operative Developments are ineligible, per revised guidelines
- c) Environmental Review: NOT required under
 - i) HRAP for projects with infrastructure substantially complete; or
 - ii) DELRAP, subject to known conditions

2. MANUFACTURED HOUSING CONDO PROJECTS (MHCP)

- a) Now eligible for FHA Mortgage Insurance (Per HERA)
- b) Requires HRAP (DELRAP not applicable)

3. CONDOMINIUM CONVERSIONS

- a) Condo Conversion waiting period eliminated
- b) Conversion from non-residential or rental will be treated as new construction

4. PROJECT ELIGIBILITY:

- a) Right of First Refusal now permitted
- b) Commercial Space limited to 25%
- c) Single Investor limited to 10% of units
- d) Delinquency (over 30 days) not to exceed 15%
(Defined by total number of units)
- e) Owner-Occupied percentage at least 50%
- f) Legal Phasing (NOT Market Phasing) required

- g) Capital Reserve Study: requirement eliminated
- h) Reserve Requirement: 10% of Annual Budget
- i) Budget Review required by Lenders
 - Lenders are now required to confirm:
 - i) Provision for sufficient funds to “maintain and preserve all amenities and features unique to the condominium project”
 - ii) Funding for the replacement of capital maintenance reserves in an amount at least equal to 10% of the Condo’s Budget
 - iii) A separate Capital Reserve Fund bank account

5. Lenders' Authority

Lenders now allowed to

- a) Determine eligibility
- b) Review project documentation
- c) Certify Section 203 (b)
compliance

6. INSURANCE REQUIREMENTS

a) Hazard Insurance required:

100% of current replacement cost

b) Borrower must obtain “walls-in” coverage (HO-6 policy)

c) Comprehensive Liability Insurance required for common elements and commercial space owned by HOA

- d) Fidelity Bond/Insurance required for 20+ units
- e) Flood Insurance required if HOA is located in a Special Flood Hazard Area (SFHA) or in a 100 year flood plain
- f) HOA, not unit owner, is responsible for amounts up to the National Flood Insurance Program (NFIP) standards.
- g) Lender Review to confirm adequate funding of insurance coverage and deductibles.

7. CERTIFICATION FOR INITIAL APPROVAL

a) Lender Certification required on Lender letterhead indicating:

i) project complies with FHA requirements

ii) all legal docs meet HUD requirements

iii) Pre-sale, owner-occupancy and FHA concentration ratios met



b) Developer Certification

Same as for Lender

8. RECERTIFICATION OF PROJECT

a) Approvals expire 2 years from placement on approved list

b) Re-certification required every 2 years

C. MORTGAGEE LIABILITY

1. Deficiencies

Mortgagees are responsible for “material deficiencies” associated with projects approved using DELREP

2. Projects approved by Others

Mortgagees who rely upon a project approved by another mortgagee are responsible for loan certification



II. IMPACT & POINTS OF VIEW

A. HOA'S AND BOARDS OF MANAGERS

1. Provision for Capital Reserves

Budgets will now require provision for a capital reserve

2. Capital Reserve Studies

Capital Reserve Study not be formally required, but planning for capital projects still required for compliance

3. Insurance requirements

Insurance costs may increase

4. Increased Dollars Needed

Increased dollars to be raised from unit owners present a challenge in this fiscal environment

5. Fiduciary Responsibility

Improved financial condition in line with increased fiduciary responsibility

B. LENDERS

1. Due Diligence Requirements: increased

2. Liability for compliance: increased



C. COMMUNITY ASSOCIATION INSTITUTE

1. Guidelines counter-productive?
CAI opposed Guidelines as burdensome
2. Delinquencies Cap
Cap of 15% on delinquencies a challenge
in this environment

Thank you.

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