
CLIENT ADVISORY

FHA CHANGES CONDOMINIUM MORTGAGE APPROVAL REQUIREMENTS

INTRODUCTION

The Federal Housing Administration (FHA) recently changed their condominium mortgage approval requirements. The FHA changes were announced by the U.S. Department of Housing and Urban Development (HUD) in its release of Mortgagee Letter 2019-13. **The changes become effective October 15, 2019.**

This Client Advisory addresses the recent changes to the FHA underwriting requirements and condominium approval process. Please note that the following is only an overview of these changes. As such, a complete review of the FHA loan underwriting guidelines and Condominium Project Approval and Processing Guide should be undertaken when determining condominium project eligibility.

FHA “SPOT” LOANS AGAIN PERMITTED; CONDOMINIUM PROJECT CERTIFICATION

Prior to 2011, FHA “spot loans” (individual loans that do not require full project approval) were available to co-owners and prospective purchasers. These types of spot loans permitted a borrower to obtain approval for an FHA loan on their individual unit even though the entire condominium project was not FHA-certified. In 2011 the FHA underwriting guidelines changed, creating the system that we’ve become accustomed to, which prohibits spot loans and instead requires full project approval for any FHA loan to be issued in attached (and certain detached or site) condominiums.

Effective October 15, 2019, the FHA will again begin issuing “spot” or individual unit loan approvals under certain circumstances. As such, condominium unit buyers or co-owners desiring to refinance their units via FHA-insured financing may find they will no longer have to rely solely upon the association obtaining condominium project certification/approval.

CHANGES TO FULL PROJECT APPROVAL STANDARDS

Under the revised FHA condominium project approval requirements, full project approval will be good for a 3-year period from date of placement on the FHA list of approved condominiums instead of the previous 2-year approval term (please note that the 3-year approval period only applies to condominiums obtaining approval after October 15, 2019). Additionally, as much as 35% of the total floor area may now be utilized for commercial space, expanding this limitation from 25%. Other project eligibility requirements have remained the same under the new approval requirements.

FHA ELIGIBILITY REQUIREMENTS FOR SPOT LOAN APPROVALS

The following requirements must be met for the FHA to provide a spot loan:

- **FHA Concentration** – For condominium projects with 10 or more units, no more than 10% of total units may be encumbered with an FHA-insured mortgage. For condominium projects with 10 or fewer units, no more than 2 units may be encumbered at any given time with an FHA-insured mortgage. Because of this 10% limitation, those condominium communities that have higher levels of FHA insured mortgages should continue to obtain full project approval because with full project approval up to 50% of the units in the development can be financed with FHA insured mortgages.
- **Certificate of Occupancy** – The unit must have a certificate of occupancy issued at least one year prior to approval.
- **Minimum Size** – The condominium project must have at least 5 units.
- **No Manufactured Homes** – The unit must not be a manufactured home.
- **Prohibited Characteristics** – There must not be any project characteristics that have traditionally prohibited FHA certification, such as cooperative ownership, condominium hotel or condotel characteristics, mandatory rental agreements, timeshare or segmented ownership, projects where each unit

has more than one dwelling, or projects that are subject to an adverse determination for significant issues identified by FHA.

- **Project Approval** – The unit must not be in a condominium that has full project approval or in an unapproved phase of a condominium with other approved legal phases.
- **Delinquencies** – No more than 15 % of the total units in the condominium can be in arrears (more than 30 days late) of their condominium assessments.
- **Owner Occupancy** – At least 50% of units must be owner-occupied or sold to owners who intend to occupy.

CONCLUSION

Under the revised guidelines and with the availability of spot loans some associations who do not see significant numbers of FHA insured mortgages may choose to forego full project certification, redirecting funds budgeted for obtaining FHA project approval for other important expenses. Those associations who have higher levels of FHA insured mortgages should continue to obtain full project approval because with full project approval up to 50% of the units in the project can be financed with FHA insured mortgages. Although spot loans will be available under these new guidelines, a spot loan will not be approved if more than 10% of the units are financed with FHA insured mortgages.

If you would like further information regarding these new guidelines or if you would like to obtain full project approval for your condominium, please contact our office.