



FHA Loan Requirements for Condominiums

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1. What is an FHA Loan?

- a. An FHA loan is simply a mortgage issued by a conventional lender (e.g., bank), but insured by the Federal Housing Administration.
- b. To obtain an FHA loan your association must be both FHA:
 - i. Approved; and
 - ii. Eligible (this is the key requirement).

2. Why Do I Care About FHA Loans?

- a. Currently many condominium loans (50%+) are FHA loans
- b. They are assignable (This is a huge plus)
- c. Can have a loan value of 95% of the purchase price

3. HUD Letters on FHA Loan Requirements:

- a. HUD Mortgagee Letter 2012-18
- b. HUD Mortgagee letter 2011-22
- c. These letters set forth the compliance guidelines for obtaining a FHA loan. They can be read in their entirety at:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee

4. Key Requirements to Obtain an FHA Loan:

- a. No more than 25% of the property can be used for commercial purposes;
- b. No more than 10% of the units may be owned by one investor;
- c. No more than 15% of the total units can be delinquent more than 60 days in assessments;
- d. No more than 50% of the units in an association can be subject to FHA loans;
- e. At least 50% of the units must be owner-occupied;
- f. The budget of the association must be adequate to ensure sufficient reserves are available to maintain all of the community's common elements and devote at least 10% of the budget to reserves; and
- g. The budget must also provide adequate funding for the payment of insurance premiums and potential insurance deductibles.
- h. If the Condominium is more than 20 units, it must obtain employee dishonesty insurance coverage. The policy must:
 - i. Cover all officers, directors, employees and other person's responsible for the funds of the association;
 - ii. The coverage amount must be at least 3 months assessments on all units plus reserve funds, unless State law mandates a maximum dollar amount of coverage;

- iii. If the association uses a management company, the management company must
 - a. Have its own fidelity coverage that meets FHA association coverage requirements;
 - b. Have the association's policy name the management company as an insured; or
 - c. Have the association's policy include an endorsement stating that state the management company employees subject to the direction and control of the association are covered by the policy.
- i. The individual submitting the project approval certification must certify that
 - i. To the best of their knowledge the information in the approval request is accurate;
 - ii. They have reviewed the project application and upon the advice given by than attorney it meets all State and local laws;
 - iii. They have reviewed the application and it meets all current FHA condominium approval requirements; and
 - iv. They have no knowledge of circumstances or conditions that may have an adverse impact on the condominium project (construction defects, substantial operational issues, or litigation, mediation or arbitration).

5. Condominiums with Commercial Space:

- a. FHA will now consider condominium projects for certification with commercial space of between 25-35%, but only through the HRAP program; and
- b. FHA will consider (case-by-case basis), exceptions for mixed-use condominiums with up to 50% commercial space. There is substantial documentation involved and the exception must be filed at the Philadelphia Center.

6. Types of FHA Loans (Two types):

- a. HRAP (Performed by your attorney or a national organization)
 - i. This requires that your association be approved;
 - ii. It takes currently 2-6 weeks to obtain approval;
 - iii. It will cost between \$1,500 and \$2,000 in total to obtain approval;
 - iv. The approval lasts for two years, at which point the association can be recertified;
 - v. Does not limit the selling price of your unit; and
 - vi. Costs can be recovered from the subsequent buyers and sellers (e.g., if the total fees and costs are \$1,700, the association can charge the next 10 sellers \$170 each).
- b. DelRAP (Performed by banks)
 - i. Approval may be quicker;
 - ii. Bank is guarantying every HUD loan within the association (which makes sophisticated banks very hesitant to makes these loans); and
 - iii. Amount of HUD Loan for every unit within the association is limited by the appraisal on the first unit. (This makes associations more likely to prefer having the H-RAP process performed.)