

A stylized silhouette of a city skyline with various building shapes, set against a background of light blue diagonal rays.

# FHA Condominium Resources Book



NATIONAL  
ASSOCIATION *of*  
REALTORS®

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# Introduction

Condominiums are often the most affordable homeownership option for first-time buyers, small families, single people, urban residents, and older Americans. Unfortunately, current FHA regulations prevent buyers from purchasing condominiums, harm homeowners who need to sell their condominiums, and limit the ability of condominium projects to attract resident buyers. Rules were tightened in 2009 in the belief that condominiums are more risky than single family structures; however, current data shows this simply isn't true. In 2012, FHA made some improvements to the condominium approval process, but the changes did not go far enough. The current regulations include limits on the number of units that can be rented, limits on the number of units that can be delinquent in dues - regardless of the financial standing of the property, unreasonable burdens on properties to be approved, and limits on commercial space. NAR continues to work with FHA to insure that people who wish to purchase a condominium have access to safe, affordable mortgage credit.

NAR President Chris Polychron, executive broker with 1st Choice Realty in Hot Springs, Ark. has pointed out that FHA's overly restrictive approval process limits buyers' access to condos even though these loans are among the strongest in the agency's portfolio.

*"Condominiums offer an affordable option and are the first step to homeownership for many home buyers," said Polychron. "NAR has urged the FHA to develop policies that will give buyers access to more flexible and affordable financing opportunities and a wider choice of approved condo developments."*

This packet of information demonstrates the negative impact of current FHA regulations on access to credit for condominium purchases. It also includes NAR's suggested improvements to the program.

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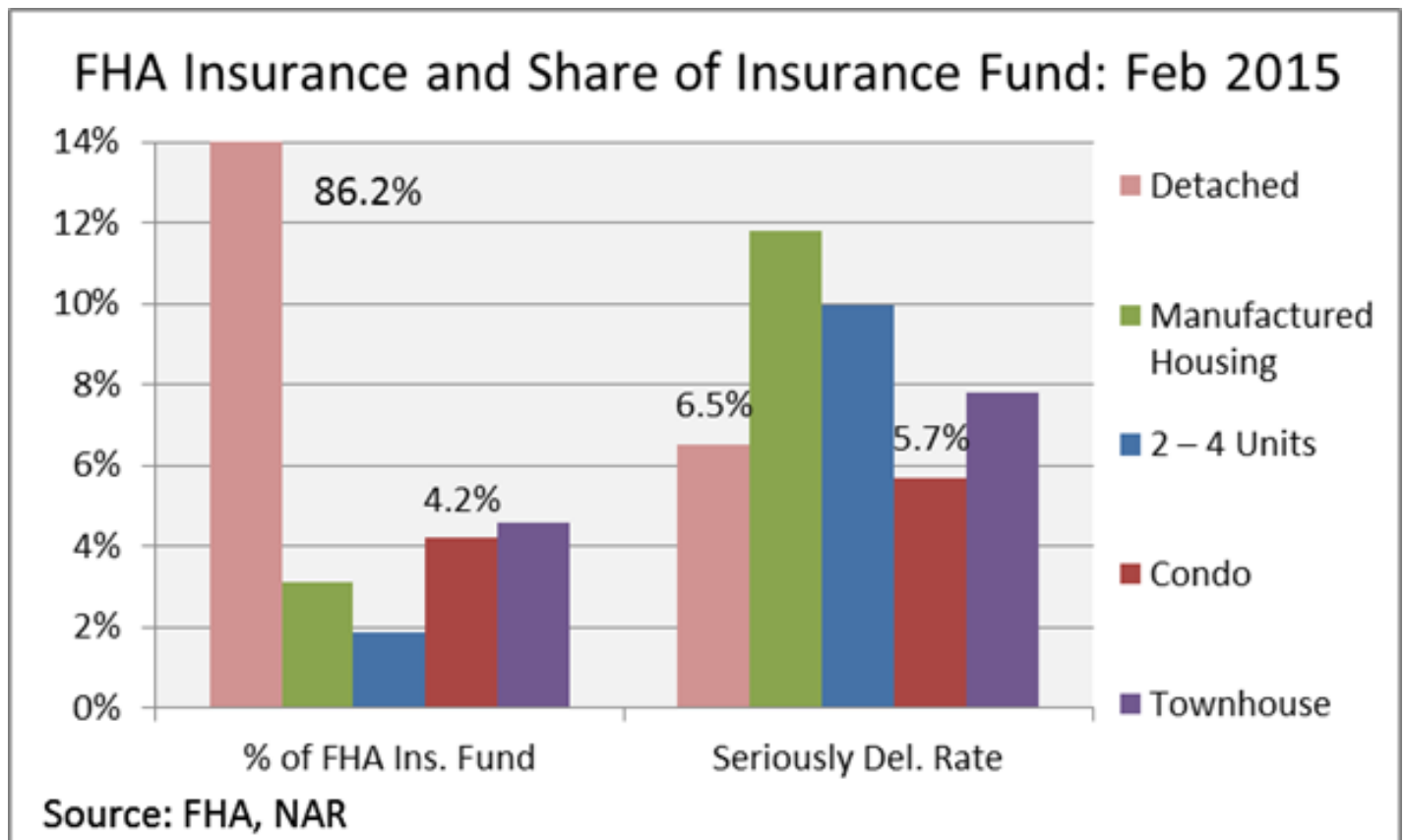
### Legislative Issues

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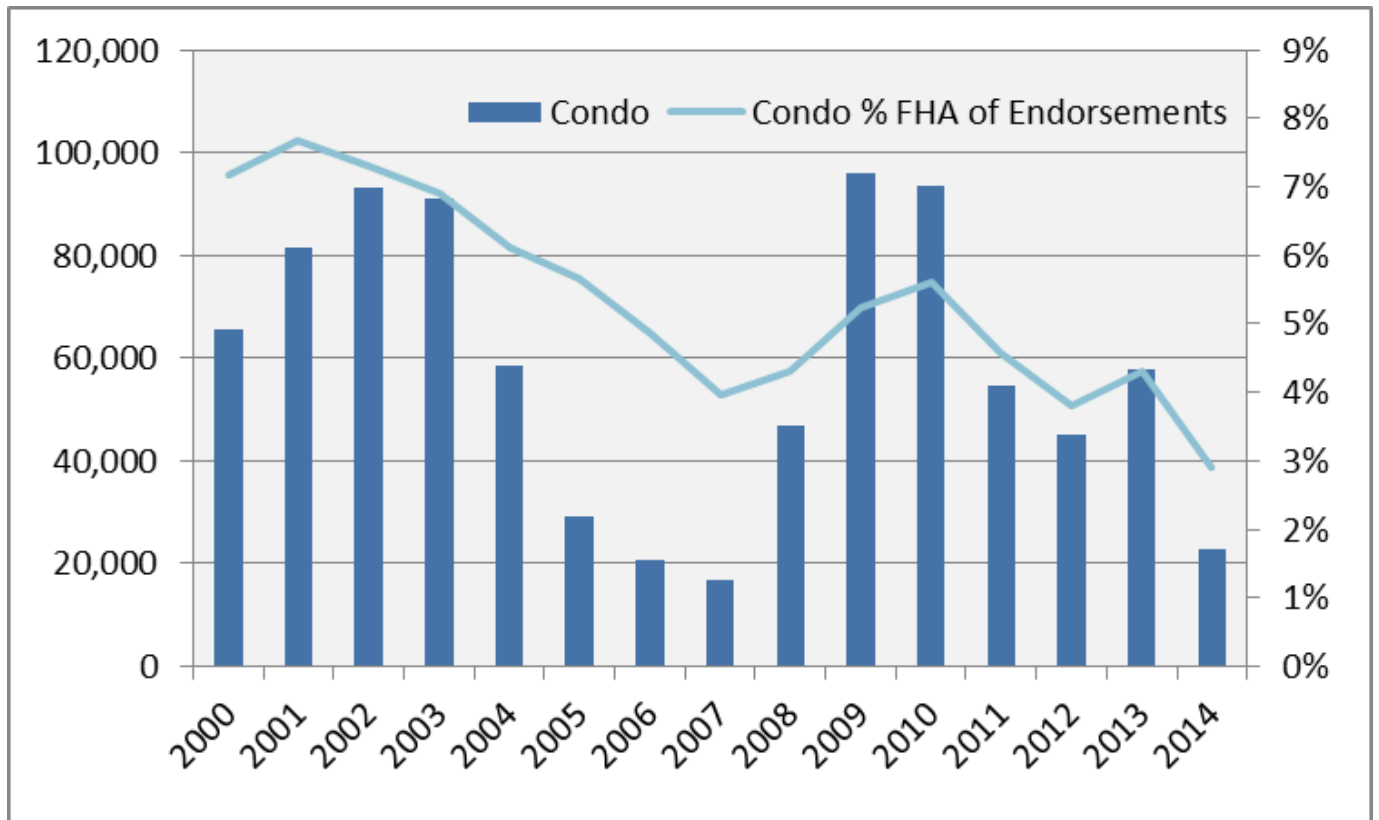
# FHA Condominium Mortgages Perform Well

Condominium unit mortgages are among the strongest performing loans in FHA's portfolio. The seriously delinquent rate for all FHA loans is 6.96 percent; condominiums have a 5.79 percent rate, which is the lowest seriously delinquent rate in the FHA portfolio.



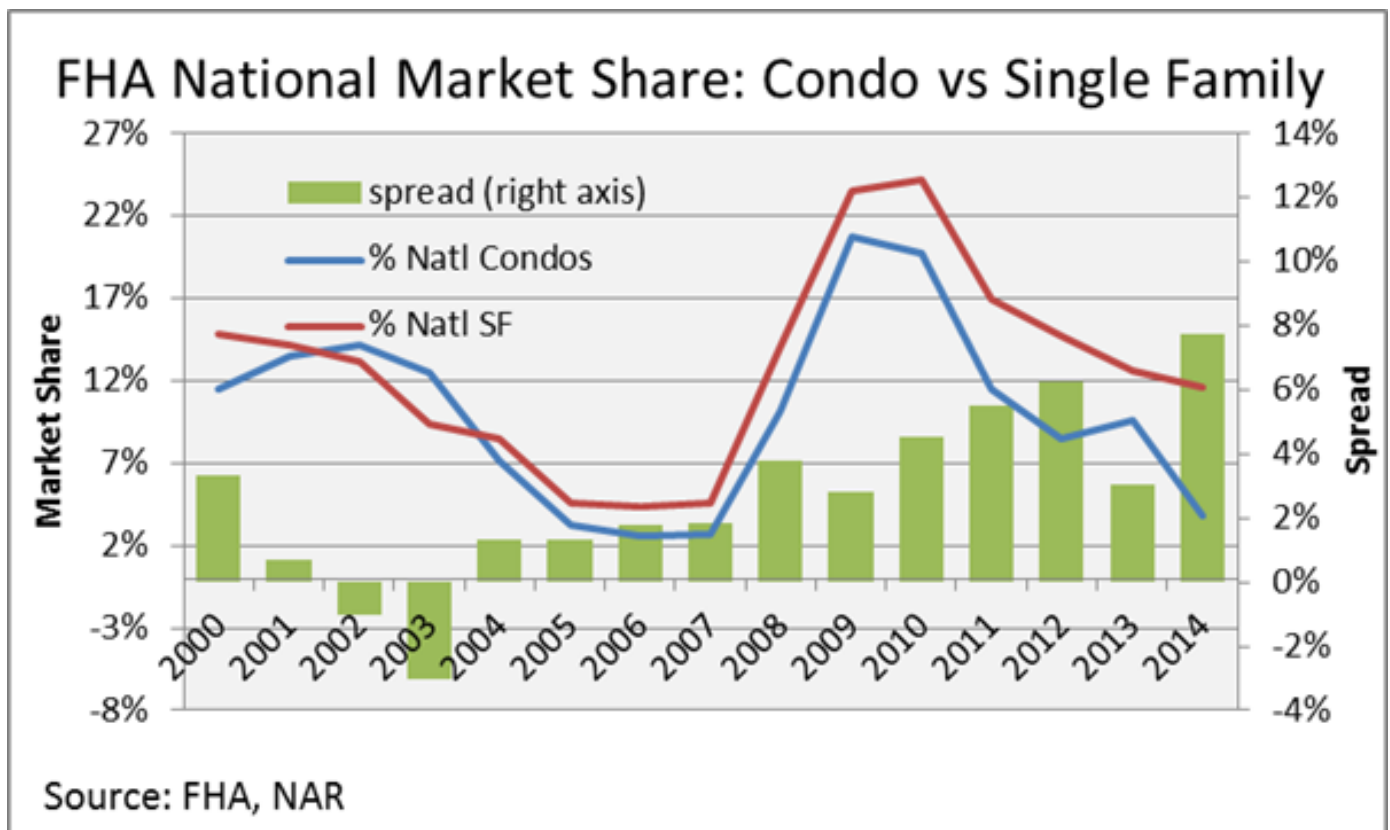
## FHA Condominium Loans Have Dropped 72% Since 2001

There are over 10 million condo homes in the United States, up over a million units since 2009. FHA endorsed 81,336 condo mortgages in 2001, but only 22,804 in 2014.



# Gap Between FHA Single Family and Condo Loans is Growing

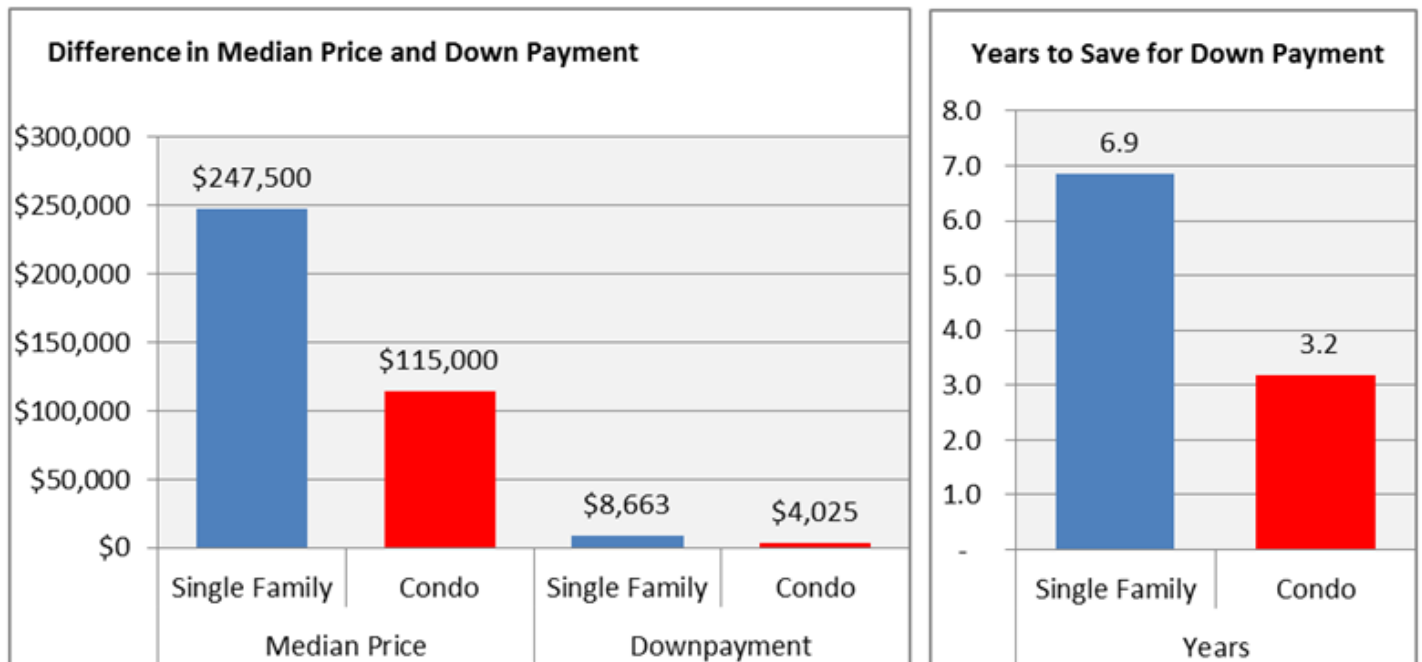
As depicted below, prior to the change in FHA's condo policy, the FHA's market share of condos and single family moved closely together, even as the FHA receded from the market at the height of the bubble. Since the policy change, the two market shares have diverged steadily over time with the exception of 2013.



# Condominium Median Prices & Time to Save for Down Payments - Reno

Condominiums are often the most affordable homeownership option for first time buyers, small families, single people, urban residents, and older Americans. These examples illustrate the price difference between single family homes and condominiums. The time needed to save for a down payment can be significantly higher for a single family home, if FHA condominium financing is not available.

## Difference Between Single Family and Condo: Reno

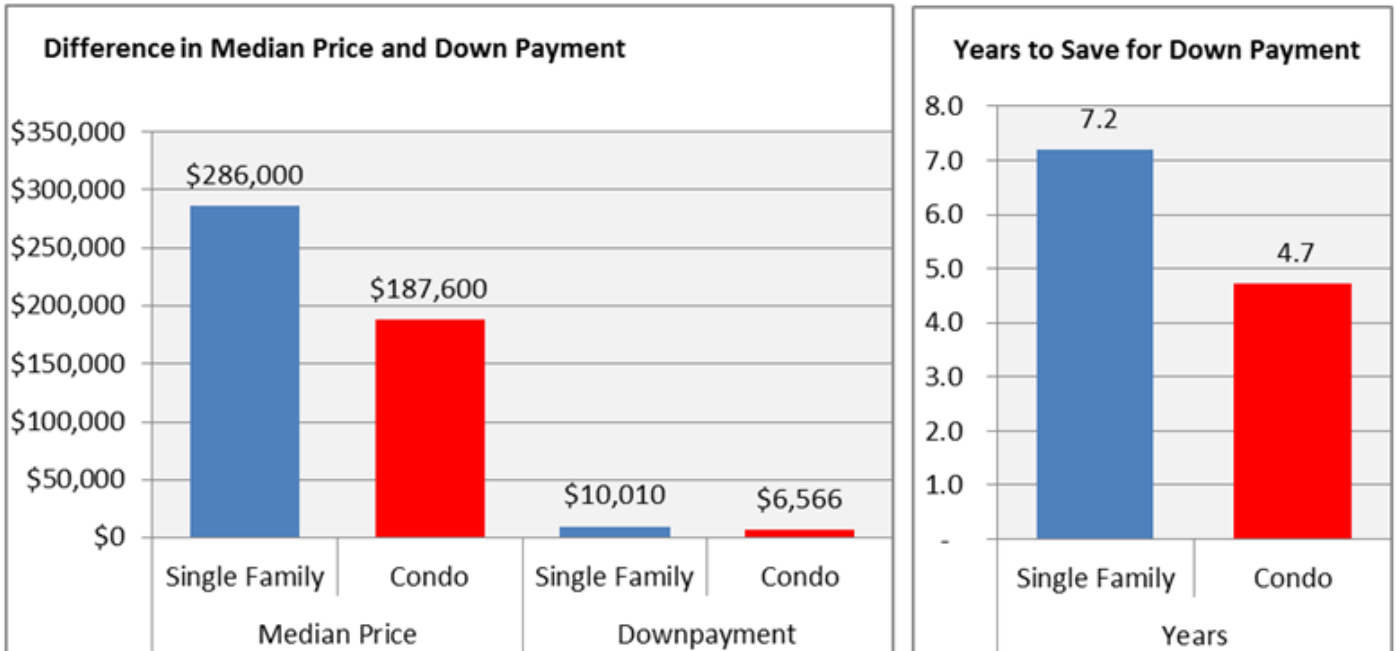


Source: NAR



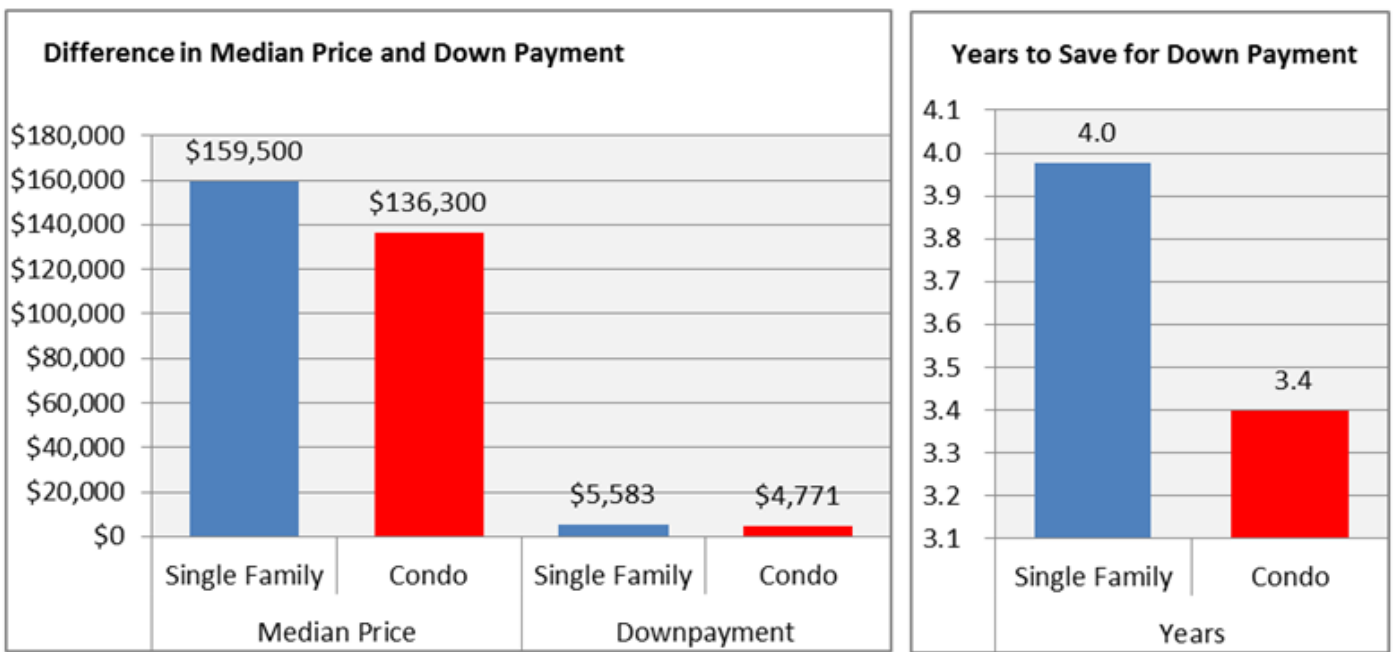
# Condominium Median Prices & Time to Save for Down Payments – Portland & Atlanta

## Difference Between Single Family and Condo: Portland



Source: NAR

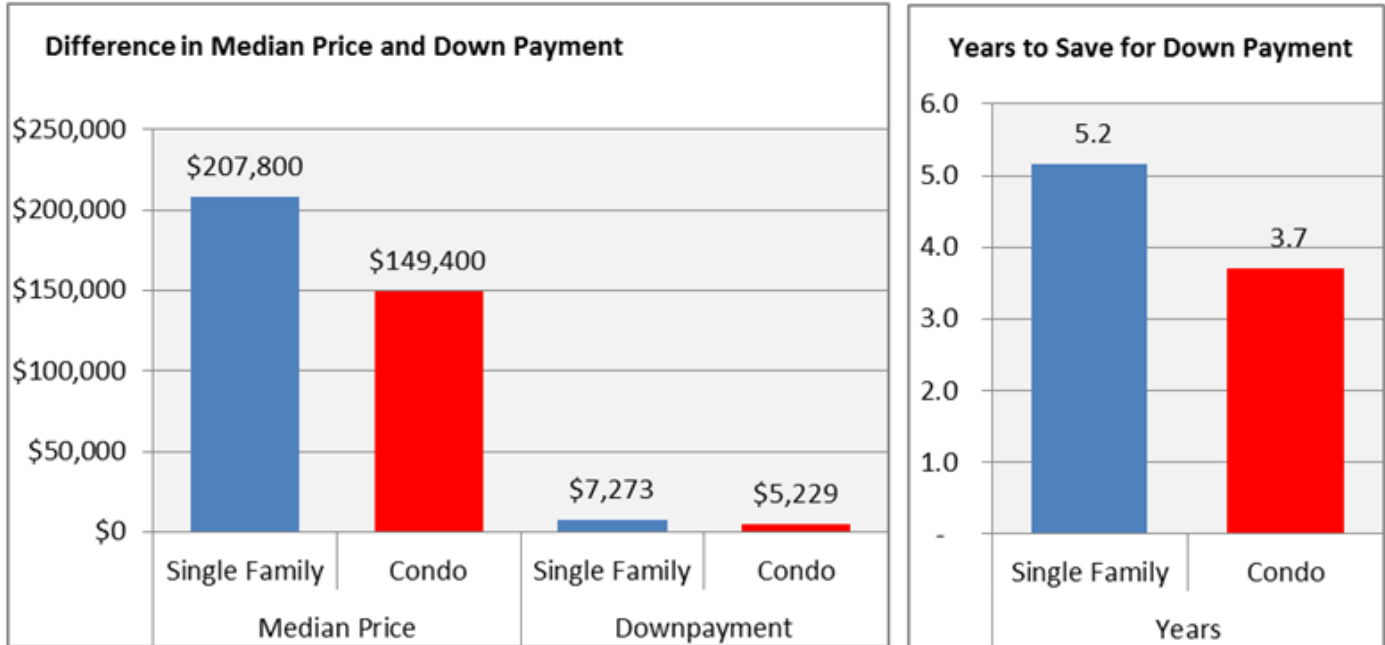
## Difference Between Single Family and Condo: Atlanta



Source: NAR

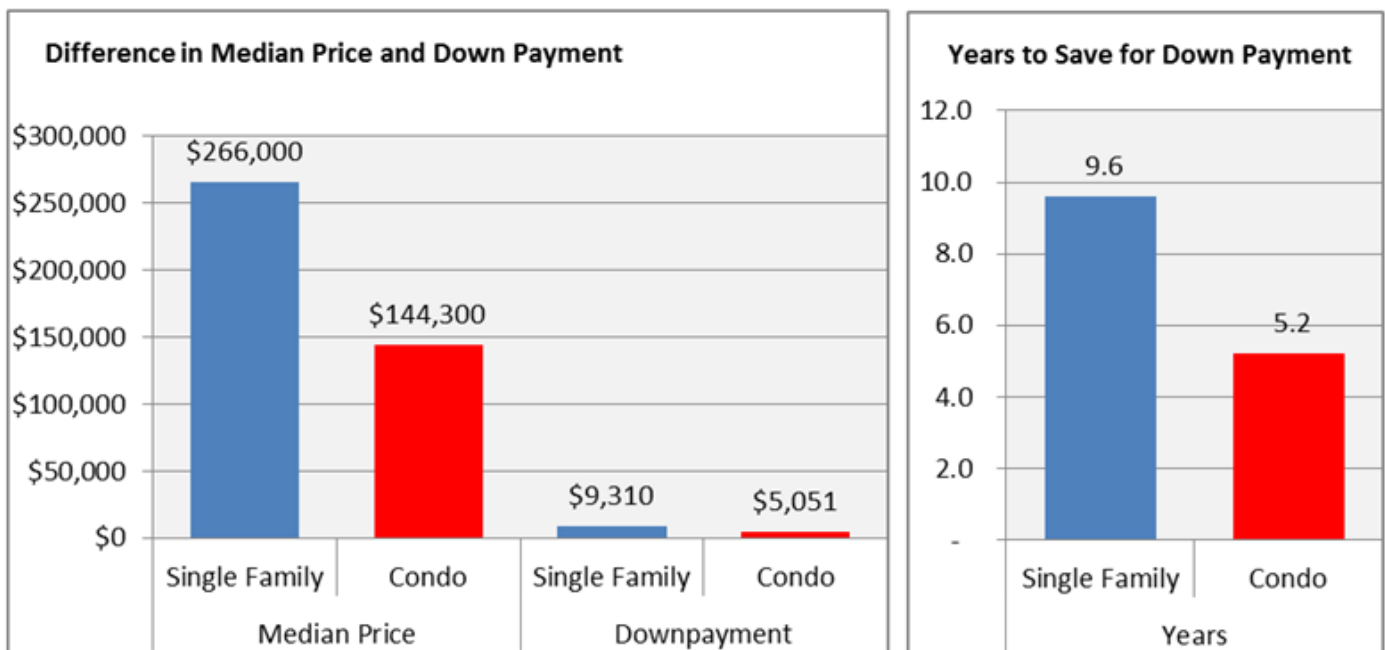
# Condominium Median Prices & Time to Save for Down Payments – Milwaukee & Miami

## Difference Between Single Family and Condo: Milwaukee



Source: NAR

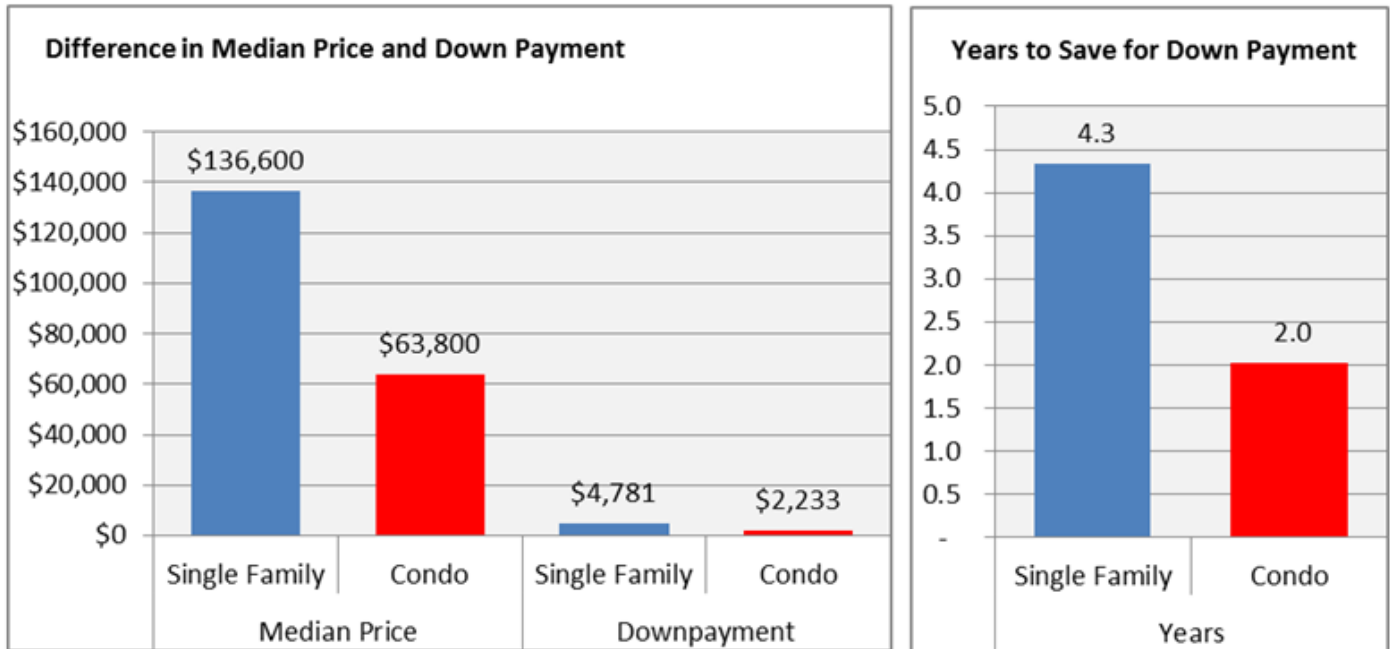
## Difference Between Single Family and Condo: Miami



Source: NAR

# Condominium Median Prices & Time to Save for Down Payments – Greensboro

## Difference Between Single Family and Condo: Greensboro



Source: NAR



## Affordability of Condominiums vs Single Family Homes

This chart shows the median home prices for single family homes and condominiums in major Metropolitan areas across the US. As you can see, on average, condos are 27% less expensive than single family homes.

MSA	Median Price		
	Single Family	Aprt.-Condo-Coops	% Difference
Atlanta-Sandy Springs-Marietta, GA	\$159,500	\$136,300	-15%
Austin-Round Rock, TX	\$240,700	\$215,400	-11%
Baltimore-Towson, MD	\$244,100	\$195,900	-20%
Barnstable Town, MA	\$345,200	\$243,800	-29%
Bismarck, ND	\$237,800	\$175,900	-26%
Boston-Cambridge-Quincy, MA-NH	\$389,800	\$339,200	-13%
Boulder, CO	\$390,700	\$231,800	-41%
Bridgeport-Stamford-Norwalk, CT	\$397,600	\$224,600	-44%
Cape Coral-Fort Myers, FL	\$188,700	\$167,300	-11%
Chicago-Naperville-Joliet, IL	\$205,900	\$163,600	-21%
Cincinnati-Middletown, OH-KY-IN	\$140,600	\$111,200	-21%
Colorado Springs, CO	\$222,300	\$146,000	-34%
Columbus, OH	\$156,300	\$126,000	-19%
Dallas-Fort Worth-Arlington, TX	\$188,300	\$152,300	-19%
Greensboro-High Point, NC	\$136,600	\$63,800	-53%
Hartford-West Hartford-East Hartford, CT	\$220,900	\$143,000	-35%
Honolulu, HI	\$682,800	\$346,500	-49%
Houston-Baytown-Sugar Land, TX	\$198,400	\$149,800	-24%
Indianapolis, IN	\$144,600	\$124,700	-14%
Jacksonville, FL	\$181,100	\$115,300	-36%
Knoxville, TN	\$149,700	\$143,200	-4%
Las Vegas-Paradise, NV	\$198,000	\$100,700	-49%
Los Angeles-Long Beach-Santa Ana, CA	\$449,500	\$382,200	-15%
Louisville, KY-IN	\$142,800	\$128,500	-10%
Madison, WI	\$228,200	\$154,200	-32%
Manchester-Nashua, NH	\$234,800	\$156,600	-33%
Miami-Fort Lauderdale-Miami Beach, FL	\$266,000	\$144,300	-46%
Milwaukee-Waukesha-West Allis, WI	\$207,800	\$149,400	-28%
Myrtle Beach-Conway-North Myrtle Beach, SC-NC	\$177,800	\$107,000	-40%
New Haven-Milford, CT	\$233,300	\$140,300	-40%
New Orleans-Metairie-Kenner, LA	\$165,000	\$193,100	17%
New York-Wayne-White Plains, NY-NJ	\$468,200	\$268,900	-43%
NY: Edison, NJ	\$305,100	\$243,900	-20%

## Affordability of Condominiums vs Single Family Homes

MSA	Median Price		
	Single Family	Appt.-Condo-Coops	% Difference
NY: Nassau-Suffolk, NY	\$405,900	\$228,000	-44%
NY: Newark-Union, NJ-PA	\$381,500	\$263,600	-31%
Norwich-New London, CT	\$180,200	\$112,700	-37%
Palm Bay-Melbourne-Titusville, FL	\$137,600	\$120,800	-12%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	\$220,700	\$176,600	-20%
Phoenix-Mesa-Scottsdale, AZ	\$198,500	\$109,100	-45%
Portland-South Portland-Biddeford, ME	\$227,700	\$209,800	-8%
Portland-Vancouver-Beaverton, OR-WA	\$286,000	\$187,600	-34%
Providence-New Bedford-Fall River, RI-MA	\$238,800	\$179,600	-25%
Reno-Sparks, NV	\$247,500	\$115,000	-54%
Richmond, VA	\$220,200	\$206,600	-6%
Rochester, NY	\$125,300	\$120,600	-4%
Sacramento--Arden-Arcade--Roseville, CA	\$268,700	\$138,900	-48%
Salt Lake City, UT	\$239,100	\$174,300	-27%
San Diego-Carlsbad-San Marcos, CA	\$497,900	\$331,800	-33%
San Francisco-Oakland-Fremont, CA	\$737,600	\$580,100	-21%
Sarasota-Bradenton-Venice, FL	\$220,200	\$166,600	-24%
Springfield, MA	\$193,300	\$151,300	-22%
Syracuse, NY	\$125,800	\$129,900	3%
Tallahassee, FL	\$167,500	\$80,900	-52%
Tampa-St. Petersburg-Clearwater, FL	\$151,500	\$106,800	-30%
Trenton-Ewing, NJ	\$267,100	\$186,800	-30%
Tucson, AZ	\$175,800	\$112,300	-36%
Virginia Beach-Norfolk-Newport News, VA-NC	\$196,000	\$171,000	-13%
Washington-Arlington-Alexandria, DC-VA-MD-WV	\$383,800	\$275,700	-28%
Wichita, KS	\$125,700	\$86,600	-31%
Wilmington, NC	\$211,400	\$143,600	-32%
Winston-Salem, NC	\$135,200	\$68,100	-50%
Worcester, MA	\$236,100	\$186,700	-21%
<b>National Average</b>			<b>-27%</b>

## Number of Condominiums Approved for FHA Mortgage Insurance by State

This chart shows the number of condominiums that have applied for FHA certification across the US. Approximately 20% of condos that have ever applied are currently approved.

State	FHA Condo Projects*	Approved Condos	Expired Projects	% approved
Alabama	188	36	116	19%
Alaska	447	234	121	52%
Arizona	651	100	432	15%
Arkansas	53	3	40	6%
California	7817	1487	4894	19%
Colorado	1866	438	1186	23%
Connecticut	1634	369	1068	23%
Delaware	77	22	38	29%
DC	710	142	499	20%
Florida	2346	198	1674	8%
Georgia	794	232	444	29%
Hawaii	628	36	511	6%
Idaho	112	10	83	9%
Illinois	3794	707	2650	19%
Indiana	255	64	133	25%
Iowa	339	41	238	12%
Kansas	63	8	38	13%
Kentucky	443	115	261	26%
Louisiana	176	28	95	16%
Maine	261	22	181	8%
Maryland	1625	516	919	32%
Massachusetts	3057	420	2251	14%
Michigan	1248	291	729	23%
Minnesota	1098	365	459	33%
Mississippi	21	5	13	24%
Missouri	399	126	165	32%
Montana	330	37	255	11%
Nebraska	62	6	41	10%
Nevada	288	25	237	9%
New Hampshire	676	154	411	23%
New Jersey	1659	319	964	19%
New Mexico	104	23	65	22%
New York	1000	121	639	12%
North Carolina	666	112	442	17%
North Dakota	251	23	187	9%

## Number of Condominiums Approved for FHA Mortgage Insurance by State

State	FHA Condo Projects*	Approved Condos	Expired Projects	% approved
Ohio	1578	337	893	21%
Oklahoma	191	19	137	10%
Oregon	416	121	208	29%
Pennsylvania	841	260	421	31%
Rhode Island	731	70	430	10%
South Carolina	224	29	141	13%
South Dakota	65	11	42	17%
Tennessee	537	135	306	25%
Texas	1243	218	165	18%
Utah	738	201	364	27%
Vermont	147	14	102	10%
Virginia	2265	647	1185	29%
Washington	2365	499	1384	21%
West Virginia	20	2	13	10%
Wisconsin	671	95	415	14%
Wyoming	45	2	40	4%
<b>Total</b>	<b>47215</b>	<b>9495</b>	<b>28725</b>	<b>20%</b>
*includes all condominium properties that have ever had or applied for FHA certification				





# Outstanding Issues

## FHA Condominium Rules

On September 13, 2012, HUD published Mortgage Letter 2012-18 with temporary guidance on condominium mortgages. NAR had been working with HUD for years on these needed changes and continues to encourage the following improvements to the rules so that more homebuyers have access to FHA if they want to buy a condo.

### 1. **Owner-Occupancy Requirement**

The owner-occupancy requirement is 50% with a temporary waiver for REOs.

NAR recommends that HUD eliminate the occupancy ratio. Fannie Mae and Freddie Mac do not have an occupancy requirement. FHA's ratio greatly limits the number of condominium buildings available to credit-worthy borrowers who might want to live in a building closer to retail shops, work or public transportation options. Many of these potential homebuyers are not able to secure a conventional loan that would allow them access to homeownership in these properties. As a result, potential homebuyers are forced to look at properties in locations or communities that don't meet their needs.

### 2. **FHA Concentration**

No more than 50% of units can be FHA insured.

NAR recommends expanding the concentration percentage to 100%, especially for new construction. FHA is often the only financing available for many condominium buyers, especially first time or middle-income homebuyers who have limited resources for a downpayment. These are credit worthy borrowers who deserve to live in buildings and communities that meet their needs.

### 3. **Certification Requirements**

HUD softened its certification language by acknowledging that associations may rely on attorney's advice for compliance with state and local condo laws. HUD also removed previous language from the project certification documents requiring associations to state whether they are aware of circumstances or conditions that may cause a mortgage to become delinquent. Penalties for false certification and/or failure to report remain at up to 30 years in prison and \$1 million.

NAR recommends further easing restrictions. Thousands of condo boards still find the certification process much too complicated to even try, especially with the legal liability of fines and potential prison time.

### 4. **Delinquent HOA dues**

No more than 15% of units can be more than 60 days past due on HOA fees.

NAR recommends that no more than 15% of units be more than 90 days due, excluding REOs. Dues for lender owned units are rarely received by associations in a timely fashion. Some state laws prohibit collection of delinquent assessments until 90 days past due, and many association governing documents do not consider owners to be delinquent until 60-90 days.

Exceptions should also be provided when an association's budget has sufficient funds. Some associations may have compensated for delinquencies by building reserves or taking other steps to ensure that delinquencies are not impacting their financial stability.

## Outstanding Issues

### FHA Condominium Rules

#### 5. Pre-Sale Requirement

Currently 30% of the units must be sold prior to FHA endorsement of any unit. This can apply to each individual phase of a development, as opposed to the entire project.

NAR recommends that FHA reduce or eliminate the presale requirement. With many homebuyers not being served by the private market, meeting the 30% requirement is a longer and more difficult process. Some condominium projects are at risk of remaining vacant or becoming rental properties.

#### 6. Investor Ownership

A single investor can own up to 50% of the units at the time of project approval provided at least 50% of the units are conveyed or under contract as owner-occupied. Unoccupied and unsold units owned by a builder/developer are not included in the calculation of investor ownership.

NAR recommends that FHA increase the number of units a single investor can own. Builders should be exempted when renting out units prior to completion. Vacant units often deter potential buyers from purchasing in a project whereas occupied units, even as investor-owned rental units, can be a sign of strength for a project.

#### 7. Commercial Space

Current law states that no more than 25% of a property's floor area can be commercial. Exceptions can be provided up to 50%. Requests for commercial space from 25-35% of floor area must be processed at the local level. Requests for commercial space from 35-50% must be approved by the Philadelphia HOC with significant additional documentation. Exceptions may also be made over 50%, but must be approved by the FHA Commissioner or her designee.

NAR recommends increasing allowable commercial space to 45% without requiring additional documentation and processing by the Philadelphia HOC. The current policy hinders efforts to build neighborhoods that have a mix of residential housing and businesses with access to public transit.

#### 8. Transfer Fees

FHA has a policy that prohibits FHA mortgage insurance on any property that has a transfer fee covenant. Fees that increase the costs of housing can disenfranchise those who wish to obtain the American dream.

NAR recommends that fees that provide a direct benefit to homeowners and improve the property are legitimate and should be permitted. The blanket policy used by FHA can greatly disadvantage the millions of homeowners living in community associations, making it much harder for them to sell their homes. FHFA has previously dealt with this issue, following a thoughtful and lengthy rule-making. FHFA's final rule on transfer fee covenants establishes a clear, national standard to protect homeowners from equity-stripping private transfer fees while preserving the preeminence of State and local governments over land use standards.

FHA should accept a mortgagee's compliance with FHFA's transfer fee covenant regulation as compliance with relevant FHA mortgage insurance program rules, guidelines and requirements. Any additional and potentially conflicting federal standard on transfer fee covenants by FHA will cause confusion in the housing market and require community associations to amend governing documents. Amendments to community association covenants, conditions, and restrictions can be difficult to execute and by statute generally require legal counsel and the approval of at least a supermajority of owners. We urge FHA to mirror FHFA's rule, and prohibit only those fees that don't benefit the homeowner and association where they live.

