

THE BASICS

- The Federal Housing Administration (FHA) is routinely implementing new approval processes and requirements for FHA loans in condominium communities.
- Under recent guidelines, “spot” approvals are no longer permitted. This means that the FHA will no longer approve a specific loan for a specific unit. The entire condominium project must be approved.
- An FHA approval lasts for two years. At the end of two years, the condominium must be re-approved.
- As part of the FHA approval process, an association must provide several supplementary documents, including, but not limited to, copies of the recorded governing legal documents, the recorded plats and plans, the budget, a complete list of the members, a FEMA flood map, delinquency report, reserve study (if necessary), copies of the insurance declaration pages, and a copy of the management agreement if the condominium is professionally managed.

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STANDARD REQUIREMENTS FOR FHA APPROVAL:

FHA approval is determined on a case-by-case basis and greatly depends on the individual status of the condominium project seeking approval. The following are some of the main requirements for FHA approval:

- ◆ **Delinquent Assessments:** No more than 15% of the total units in the condominium can be more than 60 days past due in the payment of assessments (does not include late fees or other administrative expenses). No exceptions will be granted.
- ◆ **Budget:** The annual budget must: (a) include allocations/line items to ensure sufficient funds are available to maintain and preserve all amenities and features unique to the condominium; (b) provide for the funding of replacement reserves for capital expenditures and deferred maintenance in reserve account representing at least 10% of the budget; and (c) provide adequate funding for insurance coverage and deductibles.
- ◆ **Owner Occupancy-Ratios:** At least 50% of the units in the condominium must be owner-occupied or sold to owners who intend to occupy the unit.
- ◆ **Insurance Requirements:** The condominium must be covered by hazard and liability insurance, and, when applicable, flood insurance. Existing condominiums of 20 units or more must also carry a fidelity bond or fidelity insurance covering all officers, directors, employees and agents handling or responsible for association funds, in an amount equal to three months’ assessments in all units, plus the amount of reserve funds.
- ◆ **Investor Ownership:** In general, no more than 50% of the units may be owned by one or multiple investors.
- ◆ **Commercial Space:** No more than 50% of the total floor area of the condominium can be used for commercial purposes. Provided, however, the commercial use does not affect the health and safety of the occupants of the residential property.
- ◆ **Reserve Study:** If 10% of the annual budget is not allocated towards reserves, then, in order to ensure the budget includes sufficient funds to maintain and preserve the amenities, a capital reserve study no more than 12 months old, must be provided.

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**Individual situations may vary. This document is not intended to use as specific legal advice.*

