

FHA CONDOMINIUM INSURANCE REGULATIONS DELAYED — BUT STILL FLAWED

September 28, 2009 Update

Background and Actions

The Federal Housing Administration (FHA) still plans to implement new regulations changing the approval process for a condominium to be eligible for FHA mortgage insurance. As proposed, the spot approval process would be replaced by a comprehensive approval process that expires every two years. Originally scheduled to be implemented on October 1, the new regulations are now slated to take effect November 2, 2009.

CAI believes the new regulations would be a serious burden for condominium associations, and lead to market confusion that could hinder the housing and economic recovery.

Under the proposed regulations, all condominiums previously approved for FHA financing would have to be reapproved or FHA financing would not be available. Also, instead of FHA staff reviewing and underwriting condominium projects, FHA would follow Fannie Mae and Freddie Mac by allowing lenders to review and underwrite these projects and certify compliance to FHA. This is the same system that resulted in the current mortgage default crisis. Furthermore, condominium boards (and management) would be asked to provide legal documents, contracts, plans, insurance coverage, pre-sale and owner occupancy percentages and other documentation to lenders performing the underwriting reviews. Condominium associations would also be required to compile, maintain and provide the necessary documentation and information requiring them to develop and implement new procedures -- adding significantly to the workload of community managers and condominium boards.

CAI Initiatives

During the summer, CAI reached out to the National Home Builders Association, National Association Realtors and the Mortgage Bankers Association to express our interest in working together to propose solutions to the challenges created by the new FHA approval process. Additionally, CAI leaders have met with federal regulatory officials, political officials and legislative staff to express our concern about the new process, and to prepare them for our specific feedback on the flaws in the new process. These meetings have started the dialogue and put CAI on the radar screen with federal officials as a resource for information and perspective on the residential housing market. FHA subsequently decided to delay the effective date of the new regulations until November 2.

CAI has formed a working group of industry experts to identify specific areas of the regulations that need to be changed, and to prepare a policy position and supporting data to advocate the changes that are needed to make these regulations an effective tool for the housing market. CAI's federal lobbyist and members of the working group will meet with HUD, FHA, Fannie Mae

and Freddie Mac, as well as members of various House and Senate committees, to provide information and data in support of the necessary modifications.

Specific Issues and Concerns

Below are examples of proposed regulatory provisions that the CAI working group believes need to be addressed. The working group functions under the CAI Government & Public Affairs Committee, and will seek input from the CAI membership throughout the process.

1. FHA requires 50% of the units in a new development to be pre-sold before any mortgage loan in that development can be insured by FHA.
2. FHA requires 50% of the units to be owner-occupied or sold to owners who intend to occupy the units.
3. No more than 25% of the property's total floor area can be used for commercial purposes.
4. FHA will not insure a loan if more than 15% of the units in the development are 30 days past due on their assessments.
5. FHA wants to limit its exposure by insuring no more than 30% of the units in any one development.
6. FHA will require an annual reserve study.
7. FHA will require the association to fund at least 60% of the reserves called for in the most recent reserve study.
8. Fannie Mae, Freddie Mac, VA and FHA have issued revised underwriting requirements, not all of which are consistent.

NOTE: CAI believes it is essential that these agencies coordinate their actions. These agencies are all essential to mortgage financing and the housing market. Different requirements create confusion for lenders, borrowers, associations and the general public. Such confusion can only slow the recovery of the housing market and the economy in general.

Mortgagee Letter

Here is the full version of the Mortgagee [Letter](#) from FHA to Mortgage Underwriters. Attachment A in the document is a Condominium Project Approval Matrix. This will give community managers and association boards an idea of what the lenders may be looking for from the association.

We will keep you posted in the coming weeks as additional information becomes available. Updates will be posted in this section. CAI members with questions should call Dawn M. Bauman, CAE, CAI's Vice President of Strategic Initiatives, at 703.797.6287 or email g&pa@caionline.org.