Rapid Financing for Critical Condo Repairs Act of 2022
Summary and Analysis (July 7, 2022)

Background

Aging condominium buildings and infrastructure has been a growing concern over the past several years. The Foundation for Community Association Research has produced research and reports calling for community association board members and managers to take reasonable steps to repair and preserve aging community infrastructure.

A key question for CAI and policymakers is the number and location of condominium associations that are aging and may require repair to remain structurally sound. CAI used data from the U.S. Census Bureau to answer this question.

According to the U.S. Census American Community Survey, nationwide 79% of ownership housing units in buildings with more than 20 units were constructed prior to 1999. These data indicate the buildings containing these ownership housing units (e.g., condominium units) are in buildings that are aged at least 23-years.

The Census data show the distribution of these housing units across the country. New York, Florida, California, and Illinois have large concentrations of condominium units in buildings that are aged at least 23-years.

Using Florida to go deeper in the data illustrates why the aging condominium and cooperative housing issue is critical. CAI calculated the number of aging condominium units in each Florida congressional district and identified 10 districts where aging condominium units account for more than 10% of all ownership housing in the district. Aging condominium units account for 20% of ownership housing in one district.

The demand for financial resources to make building repairs is likely to increase as states and localities follow the lead of Florida and enact condominium building structural safety inspection requirements and reform reserve requirements. As the nature of a building structural inspection is different than a reserve study with a site visit, it is anticipated many association boards will be faced with important decisions on how to proceed with unanticipated repairs.

Condominium associations often finance unanticipated building repairs with loans from private lenders. These loans tend to have short payment terms, ranging from 10 to 15 years and include prepayment penalties. Some association loans are structured so payments are made as if the loan has a longer term (e.g., payment amortized on 20- or 30-year schedule), but have a balloon payment due by year 10, which requires the association to refinance the loan.

Rep. Crist's legislation, ***the Rapid Financing for Critical Condo Repairs Act of 2022***, allows the U.S. Department of Housing and Urban Development's Federal Housing Administration (FHA) to insure condominium association building rehabilitation loans made by private lenders. According to responses to a CAI request for information (RFI) circulated to lenders specializing in condominium association loans, access to FHA-insured building rehabilitation loans will provide significant benefits to condominium associations.

Legislative Summary

The Rapid Financing for Critical Condo Repairs Act amends Section 234 of the National Housing Act to authorize FHA insurance for condominium association building rehabilitation loans.

Condominium association loans are collateralized with pledges of future association assessment income. As FHA's mortgage insurance programs are collateralized by real property, the legislation authorizes the agency to insure condominium association loans collateralized by assessment income or real property or a combination of the two.

Under the legislation, FHA-insured condominium association loans may be used for the rehabilitation, alteration, repair, improvement, or replacement of a condominium project's common systems, infrastructure, and facilities.

To protect FHA and the U.S. government against financial loss, the legislation allows FHA insurance for only 90% of the cost of building rehabilitation work. This restriction operates in other FHA multifamily housing rehabilitation loan insurance programs.

Condominium Association Loan RFI

In May and June 2022, CAI circulated a RFI to private lenders specializing in condominium association lending. The RFI generated responses from 21 lenders, which included 4 national lenders and 17 regional lenders. Respondents reported aggregate condominium association loan volume of $1.05 billion in 2021, with one respondent declining to provide 2021 loan volume information.

Summary RFI results include–

- 75% of condo association loans have a term of 10 years or less
- 65% of condo association loans have fixed interest rates
- 50% of respondents reported prepayment penalties

» 100% of respondents reported association loans are rarely or never seriously delinquent

» 100% of respondents reported NO condo association loan foreclosures

» 100% of respondents originate and hold condo association loans in portfolio

» 100% of respondents reported no secondary market for condo association loans or significant involvement of federal or state agencies in condo association lending

Impact of Legislation on Condominium Associations

Loans insured by FHA are standardized products with 30-year terms, fixed-interest rates, and no prepayment penalties. Private lenders will continue to work with condominium associations to develop loan packages suitable to an association's needs, but lenders will now have additional options for funding the loan. This can potentially have a significant beneficial impact for condominium associations and homeowners.

Improved Loan Terms

In the current condominium association loan market, lenders use their institution's resources to fund the loan rather than originating the loan and selling it in the secondary market. This approach to lending (portfolio lending) is why most condominium association loans have short terms (e.g., 10-years or fewer). FHA-insured loans are typically eligible for sale in the secondary market and have 30-year terms.

Extending a loan's term means debt service payments are reduced. Consider the following hypothetical example (simplified for explanatory services). A condominium association secures a loan in the current market for $12 million with an interest rate of 5.5%. With a 10-year term, annual loan payments are $1.6 million or $130,231 per month. Debt service for the same loan with a 30-year term is $817,600 or $$68,134 per month, a 50% reduction.

Budget Certainty

A 30-year loan with a fixed interest rate supports budget certainty for association boards over the life of the loan. Debt service costs are fixed and pressure to refinance a loan prior to a balloon payment coming due is removed.

Budget certainty also means association boards can account for loan payments, or a portion thereof, in the regular operating budget. This eases the financial pressure on association homeowners that accompanies special assessments with compressed payment schedules (e.g., 5 years) and ensures future owners and residents pay a fair share of building rehabilitation and maintenance costs.

Lower Interest Rates
FHA-insured loans tend to have a lower interest rate than portfolio loans as lenders do not carry the full risk of a loan default. Additionally, allowing lenders to sell condominium association loans in the secondary market lowers the risk to lenders that interest rates will fall. Interest rate risk is a key reason portfolio loans have comparatively shorter terms than loans sold in the secondary market.

Interest rate risk is also the reason condominium association loans often have prepayment penalties. FHA-insured loans do not have prepayment penalties, which allows a condominium association to refinance a loan if interest rates fall and the refinance transaction is economically beneficial to the association.

Please contact your Member of Congress and encourage them to support this important legislation moving towards condominium safety.
www.caionline.org/takeaction

For more information, contact government@caionline.org.