YOUR ASSOCIATION & THE FHA – WHAT'S IN IT FOR ME? WEBINAR OUTLINE

by Robert M. Nordlund, PE, RS
& Eric Boucher

www.ReserveStudy.com
www.ReadySetLoan.com

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What is it, and why do I care?

FHA approval is a status associations can attain, allowing loans for their units to receive FHA insurance, making those loans more attractive to lenders. Depending on your location, 30% - 40% of all residential loans are for people who enjoy FHA insurance. Without your association on the FHA's "approved" list, you are instantly reducing the buyer pool for units at your association by a significant fraction. If your association is FHA-approved, significantly more buyers can shop for homes in your association, with more favorable loan terms. Current owners benefit by lower time on the market and stronger sales prices.

What types of associations should be interested?

FHA approval applies to condominium associations (only). The FHA does not "approve" Co-Ops. In addition, the FHA treats homes in Planned Developments or Homeowner Associations as stand-alone homes, so the association's status in those cases is irrelevant to the FHA.

Other Major Factors?

FHA approval of an association is a two-year term, to ensure an association doesn't drift from its favorable "approved" status. There is no maximum # of units for a condo association to qualify, and the minimum # of units is 2.

Loan limits: Approximately 60% of all FHA loans are in the $50,000 to $250,000 range. The typical FHA maximum loan limit is $271,000, but in regions of higher local average home sales, their loan limits rise to as much as $625,500.

Rentals: the FHA has a firm limit that no more than 50% of units in the association can be rented. Short-term rentals and third-party approval of potential tenants are not allowed.

Delinquencies: Associations can have no more than 15% of owners more than 60-days delinquent in the payment of their homeowner assessments. Note that fines, late fees, and special assessment payments are not included in this count.

Finances: Associations need to demonstrate a balanced budget (based on prior year Income Statement and current Balance Sheet). In addition, associations need to demonstrate that 10% of their assessment income is going towards Reserve contributions, and that their Reserve Fund is greater than 10% of their annual assessment income. Remember, across the country most associations with adequate Reserves (lack of special assessments and deferred maintenance) contribute 15-40% of their total budget to Reserves. In the rare case an association believes Reserve contributions less than 10% of total budget are sufficient, they will need to provide a Reserve Study to the FHA that documents that figure.

Who benefits from a FHA-Insured Loan?

First-time home buyers, current owners wishing to refinance, seniors seeking a "reverse" mortgage to pull some cash out of their home, qualified buyers looking for a "low down payment" mortgage, etc.

Aren't FHA-Insured Loans risky for the association?

No. FHA-Insured loans are not sub-prime (risky) loans. Across the country, FHA-Insured loans have about half the default risk of other residential loans. Remember, FHA-Insured loans have favorable terms because the buyer is well-qualified and the approved condominium association is "low risk". FHA is not a "benefit" organization, it is an insurance organization, and thus it likes to keep its risk low. Plus, remember that FHA-Insured buyers are owner-occupiers!

If you are interested, how does a condo association become FHA-approved?

The recommended first step is to engage an experienced consultant. The FHA does not charge to evaluate or approve an association, but expect to pay consultant fees in the range of $1000 (or more if there are additional complications). The FHA is a government entity, so while the approval process doesn't require any particular skill, the experience of multiple successful submissions will save an inexperienced applicant a significant amount of time, effort, and frustration. Expect the document assembly process to take anywhere from two weeks (for an association with all its paperwork in perfect order!) to 90 days. Expect the FHA to respond to applications in the range of 30 days.

For additional resources, see:

www.ReserveStudy.com and www.ReadySetLoan.com

You can view the entire webinar at your convenience by clicking on this link:
https://www.youtube.com/watch?v=0QiTC2s2PVk

Post-webinar Q&A session:

Q: Are spot loans coming back?

A: A “spot loan” is a historical term from when the FHA would allow a single loan in an un-approved association on a case-by-case basis. The “spot loan” opportunity stopped on Feb 1, 2010. It is unlikely that “spot loans” will return.

Q: Is there a difference in quality of Reserve Studies? How does the FHA evaluate if a Reserve Study (documenting appropriateness of low Reserve contributions) is worth the paper it is printed on?

A: There are two national credentials in the field of Reserve Studies: the Reserve Specialist (RS) and the PRA (Professional Reserve Analyst). While the FHA may not be sensitive to industry credentials, you should be aware that you will get a Reserve Study reflective of the true situation at your association with a Reserve Study prepared by an individual with RS or PRA behind their name.

Q: Is there a national list of FHA-Approved Associations?

A: Yes. Click on: **https://entp.hud.gov/idapp/html/condlook.cfm**

Q: Will getting FHA-Approval for our association allow more “affordable housing” or “low-income” buyers in our association?

A: Affordable Housing to low- to moderate-income buyers is only available within a condominium if the legal governing documents so state. If the documents do not allow for Affordable Housing, it does not exist in the community. Obtaining FHA approval does not alter the legal documents to allow Affordable Housing, nor will it allow subsidized “low-income” purchases.

Q: Does an association have to demonstrate a “net” 10% contribution towards Reserves?

A: No. The association needs to show at least 10% of common assessments going towards the Reserve Fund. Reserve expenses by nature fluctuate significantly from year to year. So in “large Reserve expense” years, the Reserve balance may legitimately decrease. That is typically not a problem so long as evidence can be provided that the funds were used for legitimate Reserve projects.

Q: How many FHA-Approved associations are there across the country?

A: Approximately 8,000 at the current time, but it fluctuates monthly.

Q: If one owner wants to sell to a FHA-qualified buyer, can they?

A: Only if the association is approved. Then all owner-sellers can sell their units to FHA buyers who are interested in purchasing units in the condominium.

Q: Is the FHA done making changes?

A: It is likely there will continue to be minor changes through the years. But we have entered into a “new normal”, where we should expect FHA-Approval to open the association to a significantly larger pool of buyers, and none of those prospective buyers will be able to get favorable FHA loan terms if the association is not “approved”.

Q: How much does the FHA charge?

A: The FHA does not have an application or approval fee.

Q: Is a second home treated as a rental by the FHA?

A: Only if it is occupied at times by others than the owners, whether or not the occupant pays rent to the unit owner.

Q: Is FHA-Approval the same as VA-Approval?

A: No. Two different organizations. The approval process has some similarities, but they are different.

Q: Is FHA-Approval required for every Reverse Mortgage, or just “FHA-Insured” Reverse mortgages?

A: Reverse Mortgages are FHA-Insured. Thus FHA-Approved is required for an owner to have a Reverse Mortgage.

Q: How does a lender know if a person qualifies for a FHA-Insured loan, and within a few months decides to rent out their home? What are the implications?

A: As with anything, there are those who wish to circumvent the owner-occupancy requirement of the FHA. However, a FHA buyer cannot obtain a second FHA loan without first paying off the existing loan with few exceptions. It is not commonplace for investors to purchase rental properties with FHA-insured loans. If the FHA determines that the investor’s initial intention was to rent the unit, that would constitute fraud against the Federal Government, which can levy a fine up to 30 years imprisonment, $1,000,000, or both. Homes with mortgages insured by the FHA are subject to inspection to ensure the owner is living in the property.