



OFFICE OF SINGLE FAMILY HOUSING

FEDERAL HOUSING ADMINISTRATION



Single Family Housing Policy Handbook 4000.1

Module 2C4:

FHA Condo Approval - Underwriting Condominium Loans

Presenter: Dorian Humphrey

Disclaimer

- The purpose of this presentation is to provide an overview and summary of recent changes to the Federal Housing Administration (FHA) policy. It introduces and explains official policy issued in Department of Housing and Urban Development (HUD) Handbooks and Mortgagee Letters. If you find a discrepancy between the presentation and Handbooks, Mortgagee Letters, etc., the official policies prevail. Please note, the information provided in this training is subject to change.
- Please consult HUD Handbooks and Mortgagee Letters through HUDCLIPS for the most recent updates and current policy.



Learning Agenda

Overview of Changes

Part 1: Units Not Requiring Approval

Part 2 : Requirements for Units in Approved
Condominium Projects

Part 3 : Single-Unit Approval

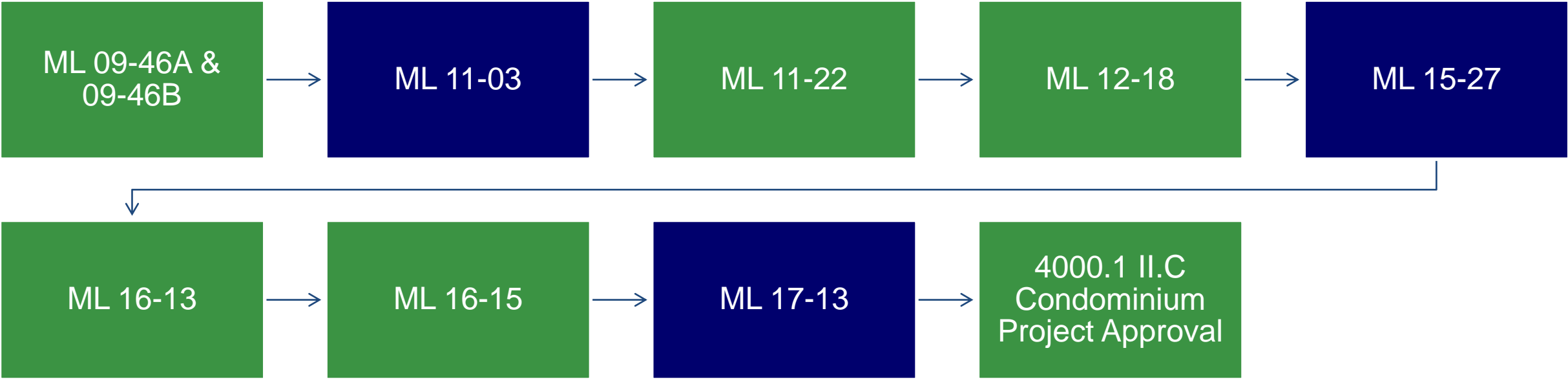
Requirements for Eligible Properties



Overview of Changes

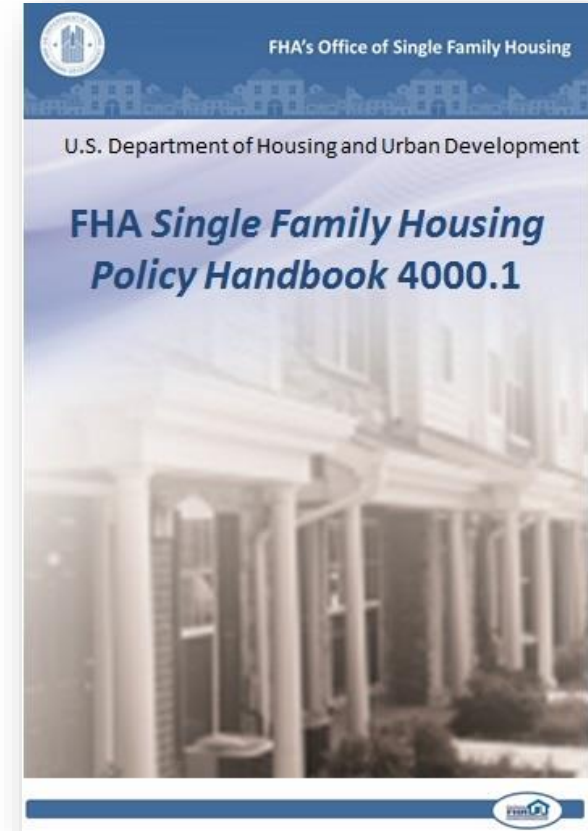


HUD Policy



Single Family Housing Policy Handbook 4000.1 Overview

- The structure follows the logical process flow for stakeholders.
- The five major sections are:
 - I. Doing Business with FHA
 - II. Origination through Post-Closing/Endorsement
 - III. Servicing and Loss Mitigation
 - IV. Claims and Disposition
 - V. Quality Control, Oversight, and Compliance



Glossary Terms

(b) Information Obtained via Internet

The **Mortgagee** must authenticate documents obtained from an Internet website and examine portions of printouts downloaded from the Internet website. The Uniform Resource Locator (URL) address, as well as the date and time the Mortgagee must visit the URL or password protected to verify the Mortgagee's visit to the URL and website.

Capitalized words in this module can be found in the SF Handbook glossary.

Documentation obtained through the Internet must contain the same information as would be found in an original hard copy of the document.

SF Handbook Topics

II. Origination through Post-Closing/Endorsement

A. Title II Insured Housing Programs Forward Mortgages

8. Programs and Products

p. Condominiums

i. Units Not Requiring Approval

ii. Requirements for Units in Approved Condominium Projects

iii. Single-Unit Approval

iv. Site Condominium



Common Terms and Definitions

Term	Definition
Condominium Project	A project in which one-family dwelling units are attached, semi-detached, detached, or manufactured housing units, and in which owners hold an undivided interest in the Common Elements
Common Elements	Condominium Project's common areas and facilities including underlying land and buildings, driveways, parking areas, elevators, outside hallways, recreation and landscaped areas, and other elements described in the condominium declaration.
Condominium Unit (Unit)	Real estate consisting of a one-family dwelling unit within a Condominium Project.



Common Terms and Definitions (cont.)

Term	Definition
Condominium Project Approval	The process to determine a Condominium Project's compliance with FHA's Condominium Project Approval Requirements.
Approved Condominium Project	A Condominium Project that meets FHA Condominium Project Approval Requirements as determined by review under DELRAP or HRAP.
Condominium Association	The organization, regardless of its formal legal name, that consists of homeowners within a Condominium Project for the purpose of managing the financial and common-area assets.



Part 1: Units Not Requiring Approval



Units Not Requiring Approval: HUD Real Estate Owned

HUD Real Estate Owned (REO) Mortgages

HUD Real Estate Owned (REO) Mortgage transactions do not require Condominium Project Approval or Single-Unit Approval.

If the Unit is in a Condominium Project that has an FHA Condo ID, the Mortgagee must enter the FHA Condo ID when the case number is requested.



Units Not Requiring Approval

FHA does not require a Condominium Project to be Approved for:

- ➔ HUD Real Estate Owned (REO) Mortgage Transactions
- ➔ Streamlines Refinances
- ➔ Condominiums that Meet the Site Condominium Requirements

Units Not Requiring Approval: Streamline Refinances

Streamline Refinances

Streamline Refinances do not require Condominium Project Approval or Single-Unit Approval.

If the Unit is in a Condominium Project that has an FHA Condo ID, the Mortgagee must enter the FHA Condo ID when the FHA case number is requested.



Units Not Requiring Approval: Site Condominium

Site Condominium refers to a Condominium Project that consists entirely of Single-Family detached dwellings that have no shared garages, or any other attached buildings; or

A Condominium Project that:

- Consists of single family detached or horizontally attached (townhouse) dwellings where the Unit consists of the dwelling and land;
- Does not contain any Manufactured Housing Units; and
- Is encumbered by a declaration of condominium covenants or a condominium form of ownership.



Units Not Requiring Approval: Site Condominium (cont.)

- ➔ Site Condominiums must have insurance and maintenance costs that are the sole responsibility of the Unit owner, excluding landscaping.
- ➔ Site Condominiums, as defined by FHA, meeting the insurance and maintenance standard, do not require Condominium Project Approval or Single-Unit Approval.

Units Not Requiring Approval: Site Condominium (cont.)

Site Condominium – Required Submission Documentation

- ✓ Condominium Rider;
- ✓ Appraisal completed on Fannie Mae Form 1073/Freddie Mac Form 465, *Individual Condominium Unit Appraisal Report*, evidencing that all Units satisfy the site condominium definition;
- ✓ Certificate of Hazard Insurance or complete copy of the insurance policy evidencing coverage of the entire dwelling; and
- ✓ If applicable, certificate of Flood Insurance or complete copy of the insurance policy evidencing coverage of the entire dwelling.

Programs and Products: Condominiums

FHA will insure Mortgages on Condominium Units (Units):

- In Approved Condominium Projects that have been approved under the HUD Review and Approval Process (HRAP) or Direct Endorsement Lender Review and Approval Process (DELRAP);
- That are approved in accordance with the Single-Unit Approval section; or
- That meet the definition and standards for a Site Condominium.



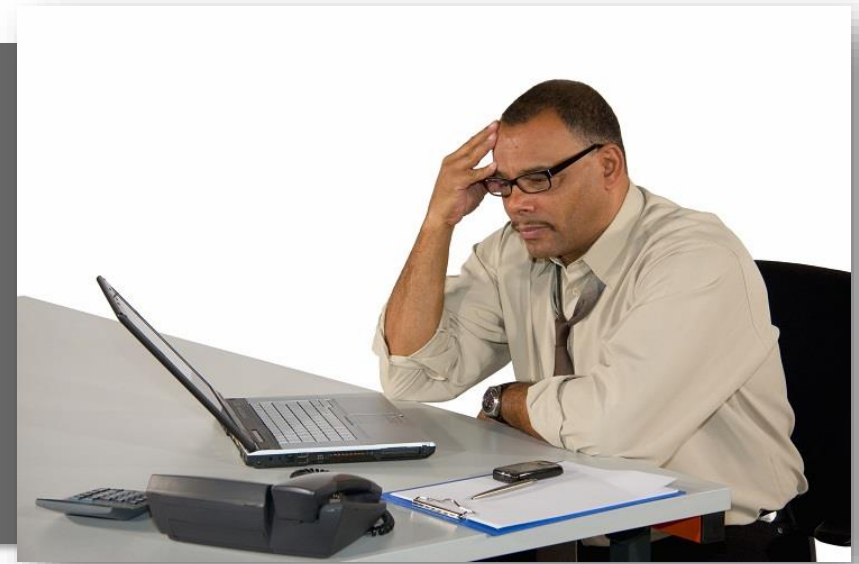
Part 2: Requirements for Units in Approved Projects



Condominium Project Approval Status

The Mortgagee must verify the requirements for individual Units located in an Approved Condominium Project or Legal Phase.

The Mortgagee must confirm the Condominium Project is on the list of FHA-Approved Condominium Projects at the time of case number assignment and must enter the FHA Condo ID in the Federal Housing Administration Connection (FHAC) Case Assignment screen.



FHA Insurance Concentration

FHA Insurance Concentration refers to the number of FHA-insured Mortgages within a Condominium Project.



FHA may suspend the issuance of new FHA case numbers for a Mortgage on a Unit in a Condominium Project where the number of FHA-insured Mortgages is greater than 50 percent of the total number of Units in the Condominium Project.

Condominium Loan Level/Single-Unit Questionnaire

Form HUD-9991, *FHA Condominium Loan Level/Single-Unit Approval Questionnaire* refers to a set of questions designed to collect pertinent Condominium Project and Unit information for FHA insurance endorsement.



You can view the questionnaire at www.HUD.gov on the Single Family Mortgages/ Model documents page.

Owner Occupancy Percentage

Owner Occupancy Percentage refers to the percentage of Units considered owner-occupied.

- The Mortgagee must determine that the Approved Condominium Project has an Owner Occupancy Percentage of at least 35 percent of the total number of Units; and
- The Mortgagee must report the Owner Occupancy Percentage in FHAC, when it becomes available.



Owner Occupancy Percentage Calculations

Numerator

Includes all the following Units:

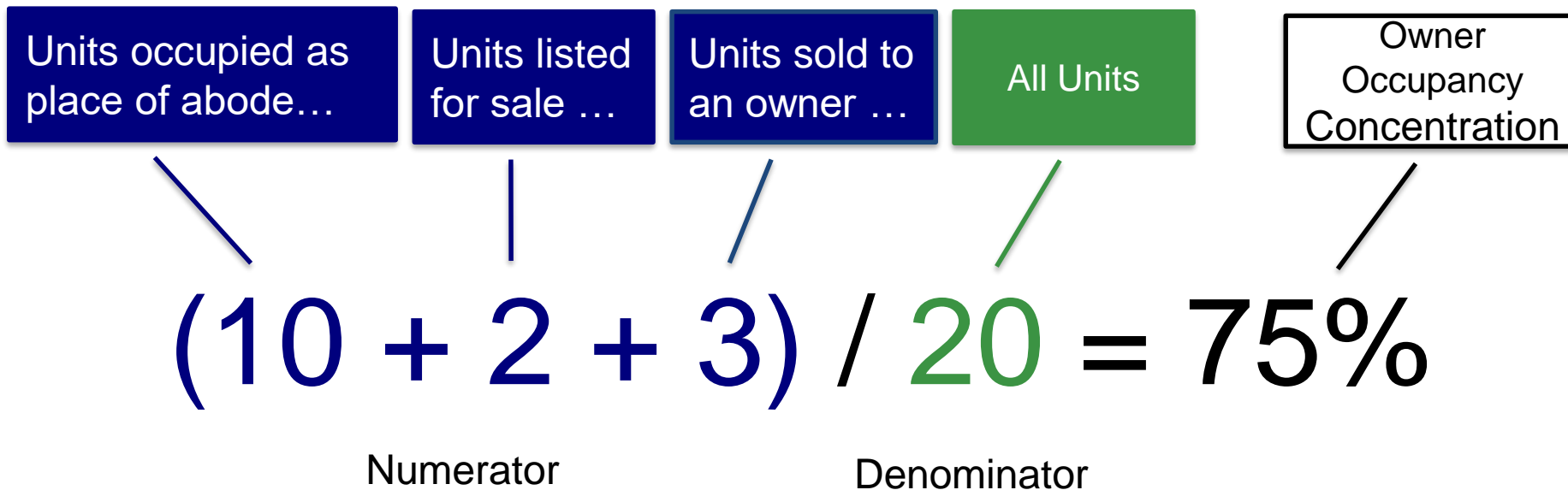
- Any Unit that is occupied by the owner as his or her place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year;
- Any Unit listed for sale that was previously occupied by the owner as his or her place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year; or
- Any Unit sold to an owner who intends to occupy the Unit as his or her place of abode for any portion of the calendar year and has no intent to rent the Unit for a majority of the calendar year.

Denominator

Includes:

- Multi-phased Condominium Project, the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- Single-phased Condominium Project, all Units.

Owner Occupancy Percentage Example



Owner Occupancy Percentage (cont.)

For the sole purposes of calculating the Owner Occupancy Percentage, the following Units are included in the denominator of the calculation for a multi-phased or single-phased Condominium Project:

Multi-Phased

The total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases

Single-Phased

All Units.

Financial Condition: Units in Arrears



- Units in Arrears refer to each Unit with Condominium Association dues or any special assessments that are more than 60 Days past due.
- The Mortgagee must verify that no more than 15 percent of the total Units are Units in Arrears.
 - Does not include late fees or administrative expenses.

Financial Condition: Individual Owner Concentration

Individual Owner Concentration refers to the percentage of Units owned by a single owner or Related Party.

Condominium Projects with ≥ 20 Units

The Individual Owner Concentration must be 10 percent or less.

Condominium Projects with < 20 Units

The Unit owner may not own more than one Unit. No Related Party may own a Unit.

Individual Owner Concentration Calculation

To determine Individual Owner Concentration percentages:

Multi-Phased

On a multi-phased Condominium Project, the Individual Owner Concentration is calculated on the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or

Single-Phased

For a single-phased Condominium Project, all Units are used in the denominator when calculating the Individual Owner Concentration.

Insurance Coverage

The Condominium Project where the Unit is located must be insured to FHA standards as well as any applicable state and local condominium requirements.



Insurance Requirements: Walls-In (HO-6)

Walls-In Insurance refers to insurance that covers the interior of the Unit and Personal Property inside the Unit.



The Mortgagee must verify that the Borrower has obtained a Walls-In policy (HO-6) if the master or blanket policy does not include interior Unit coverage, including replacement of interior improvements and betterment coverage, to insure improvements that the Borrower may have made to the Unit.

Insurance Requirements: Hazard Insurance

Hazard Insurance refers to insurance coverage that compensates for physical damage by fire, wind, natural occurrences, or other events outside of the Condominium Project's control.



Insurance Requirements: Hazard Insurance (cont.)

The Mortgagee must verify that the Condominium Association has a master or blanket Hazard Insurance policy in place for the entire Approved Condominium Project in an amount equal to at least 100 percent of the insurable replacement cost of the Approved Condominium Project, including the individual Units in the Approved Condominium Project.



Insurance Requirements: Hazard Insurance (cont.)

The Mortgagee must verify that any policy with a coinsurance clause includes an agreed amount endorsement or selection of the agreed value option.

The Mortgagee must verify that any pooled insurance policy satisfies the insurance coverage standard for each Condominium Project insured under the policy.



Insurance Requirements: Flood Insurance



Flood Insurance refers to insurance that covers physical damage by floods.

The Mortgagee must verify that Units in an Approved Condominium Project located in a Special Flood Hazard Area (SFHA) continue to meet the Flood Insurance requirements in the Condominium Project Approval section of the Handbook 4000.1.

Flood Insurance: SFHA



The Condominium Association must have Flood Insurance in place for buildings in the Condominium Project that are located within an SFHA including “A” or “V” zones, which are determined by the Federal Emergency Management Agency (FEMA).

Leasehold Interest

Leasehold Interest

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

The Condominium Association must:

- be the lessee under the lease.
- not be in default under any provisions of the lease.
- comply with the Title II or Home Equity Conversion Mortgage (HECM) Leasehold guidance as applicable.

Leasehold Interest: Requirements (cont.)

The lease:

- ✓ provides that a default of the Condominium Association does not result in a disturbance of any rights of the Unit owners to use the Common Elements.
- ✓ provides that the Mortgagee receives notice of any monetary or Non-Monetary Default by the Condominium Association and is given the right to cure any defaults on behalf of the Condominium Association.
- ✓ provides for the payment of taxes and insurance related to the land, in addition to those being paid for the improvements.
- ✓ does not include any default provisions that could result in forfeiture or termination of the lease except for nonpayment of lease rents.

New Construction

New Construction includes the following property types:

Not Eligible for Project Approval

Proposed Construction:

- Refers to a Property where no concrete or permanent material has been placed.

Properties Under Construction:

- Refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.

Eligible for Project Approval

Properties Existing Less than One Year:

- Refers to a Property that is 100 percent complete and has been completed less than one year from the date of issuance of the CO or equivalent.
- The Property must have never been occupied.

New Construction Complete Condominium Project

A Condominium Project or Legal Phase consisting of Units that are Existing Less than One Year and that are ready for occupancy, including completion of all the Infrastructure of the Condominium Project or Legal Phase, and not subject to further rehabilitation or construction.

New Construction Complete Condominium Projects (cont.)

For New Construction Complete Condominium Projects, the Mortgagee must verify compliance with the Condominium Project Approval Requirements and the general guidance for New Construction.



See the New Construction Product Sheet in the Origination through Post-Closing/Endorsement section of the SF Handbook II.A.8.i.iii—Required Documentation for Maximum Financing.

Gut Rehabilitation



Gut Rehabilitation (Gut Rehab) refers to the renovation of a Property down to the shell of the structure, including the replacement of all Heating, Ventilation and Air Conditioning (HVAC) and electrical components.

Gut Rehabs meet the general Condominium Requirements and New Construction standards.

Manufactured Housing

Manufactured Housing refers to structures that are transportable in one or more sections and meet the additional definition standards prescribed in the SF Handbook, Section II.D.5.

- They may be part of an Approved Condominium Project, provided the Condominium Project meets applicable FHA requirements.



Part 3: Single-Unit Approval



Single-Unit Approval Definition

Single-Unit Approval refers to the approval of a Unit in a Condominium Project that is not an Approved Condominium Project.

The Mortgagee must confirm the Condominium Project is not on the list of FHA-Approved Condominium Projects at the time of case number assignment.



Borrower Eligibility

To be eligible for Single-Unit Approval, the Mortgagee must verify that the Mortgage application receives an Accept from the Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard or has a maximum Loan-to-Value (LTV) of 90 percent.



Property Eligibility

The Mortgagee must confirm that the Condominium Project:

- 1 Has a Certificate of Occupancy that was issued at least one year ago or has been occupied;
 - 2 Has at least five Units;
 - 3 Is not a Manufactured Home;
 - 4 Does not have ineligible characteristics;
 - 5 Is not located in an Approved Condominium Project or unapproved phase of a
 - 6 Condominium Project with an approved Legal Phase; and
- It must not be subject to any adverse actions identified by FHA.

You can visit FHA's page dedicated to projects that have been reviewed and deemed ineligible by FHA. Visit [HUD.gov](https://www.hud.gov) to learn more.



Ineligible Property Characteristics

Loans secured by Units within the following types of projects are not eligible for FHA insurance:

- ➔ Cooperative ownership;
- ➔ Condominium hotel or condotel;
- ➔ Mandatory rental pooling agreements that require Unit owners to either rent their Units or give a management firm control over the occupancy of the Units; and
- ➔ Timeshare or segmented ownership projects.

List continued on next slide.

Ineligible Property Characteristics (cont.)

Other ineligible project types include:



Multi-dwelling condominiums (more than one dwelling per Condominium Unit);



Houseboat project;



Continuing care facility; and



Coastal Barrier Resources System.



Requirements for Eligible Properties



FHA Insurance Concentration

FHA Insurance Concentration refers to the number of FHA-insured Mortgages within a Condominium Project.



FHA may suspend the issuance of new FHA case numbers for a Mortgage on a Unit in a Condominium Project when the number of FHA-insured Mortgages exceeds:

- 10 percent of the total number of Units in the Condominium Project for Condominium Projects with 10 or more Units; or
- exceeds two FHA-insured Mortgages for Condominium Projects with less than 10 Units.

Owner Occupancy Percentage

For Single-Unit Approval:

- The Mortgagee must determine that the Condominium Project has an Owner Occupancy Percentage of at least **50 percent** of the total number of Units; and
- The Mortgagee must report the Owner Occupancy Percentage in FHAC, when it becomes available.



Individual Owner Concentration

Individual Owner Concentration standard for Single-Unit Approval is the same as for Units in Approved Condominium Projects.

Condominium Projects with ≥ 20 Units

The Individual Owner Concentration must be 10 percent or less, including a Related Party.

Condominium Projects with < 20 Units

The Unit owner may not own more than one Unit. No Related Party may own a Unit.

Transfer of Control

- Transfer of Control refers to the shift of existing control over the Condominium Association from the developer/builder to the Unit owners.
- Control of the Condominium Association refers to the ability to directly or indirectly control, direct, modify or veto any action of the Condominium Association.
- The Mortgagee must verify:
 - Control of the Condominium Association has been transferred to the Unit owners and the Covenants, Conditions, and Restrictions (CC&R) have been recorded.

Recorded Documents



Recorded Documents refer to the Condominium Project's legal, project and governing documents that are required to operate legally as required by state and local law.

The Recorded Documents must be recorded in accordance with applicable state and local law to ensure the Condominium Project can be legally operated in the local jurisdiction.

Financial Stability

Financial Stability for refers to the ability of the Condominium Association to meet the Condominium Project's needs in the future through positive cash flow and adequately funded reserves.

The Mortgagee must verify the Financial Stability of the Condominium Project.

The Condominium Association maintains separate accounts for operating and reserve funds;

A reserve account for capital expenditures and deferred maintenance that is funded with at least 10 percent of the aggregate monthly Unit assessments, unless a lower amount is deemed sufficient based upon an acceptable reserve study; and

No more than 15 percent of the total Units are Units in Arrears (does not include late fees or administrative expenses).

Financial Distress Events

A Financial Distress Event refers to a Condominium Project or Condominium Project Sponsor that has:

- Sought protection under bankruptcy laws;
- Been placed into receivership (mandated or voluntary);
- Been subject to foreclosure or any seizure of assets by creditors; or
- Offered a Deed-in-Lieu (DIL) of Foreclosure.



The Mortgagee must verify that a Condominium Project has not experienced a Financial Distress Event within the last three years.

Commercial/Non-Residential Financial Independence



Commercial/Non-Residential Financial Independence refers to the ability of the residential and commercial portions of the Condominium Project to be independently sustainable such that neither portion of the Condominium Project is financially reliant on the other.

For projects with Commercial/Non-Residential use, the Mortgagee must verify there is Commercial/Non-Residential Financial Independence.

Insurance Coverage

The Condominium Project where the single Unit is located must be insured to FHA standards as well as any applicable state and local condominium requirements.



Insurance Requirements: Walls-In, Hazard, and Flood Insurance

Walls-In, Hazard, and Flood Insurance coverage for Single Unit Approval are the same as Loan Level Approval.



The Mortgagee must verify that the Borrower has obtained HO-6 (walls In) Insurance and that the Condominium Project's insurance coverage includes:

- Hazard Insurance; and
- Flood Insurance (if, applicable).

Insurance Requirements: Liability Insurance



Liability Insurance refers to insurance that protects against legal claims.

- The Mortgagee must verify that the Condominium Association maintains comprehensive Liability Insurance for the entire Condominium Project, including all common areas, elements, public ways, and all other areas that are under its supervision, in the amount of at least \$1 million for each occurrence.

Insurance Requirements: Fidelity Insurance

Fidelity Insurance refers to insurance that protects the Condominium Association against employee dishonesty, crime and other fraudulent acts conducted by one or more employees.



Insurance Requirements: Fidelity Insurance (cont.)

The Mortgagee must verify that for all Condominium Projects with more than 20 Units, the Condominium Association maintains Fidelity Insurance for all officers, directors, and employees of the Condominium Association and all other persons handling or responsible for funds administered by the Condominium Association.



Insurance Requirements: Fidelity Insurance (cont.)

The Mortgagee must verify that the insurance coverage is the greater of:

- Three months of aggregate assessments on all Units plus reserve funds; or
- The minimum amount required by state law.



Insurance Requirements: Fidelity Insurance (cont.)

How to calculate the Fidelity Insurance Coverage?

Three months of aggregate assessments...

Reserve funds...

Fidelity Coverage

$$(3,000 + 20,000) = 23,000$$

Commercial/Non-Residential Space

Commercial Space refers to the floor area allocated to retail and commercial square footage, excluding Live/Work Units.

- The Mortgagee must verify that the Condominium Project's Commercial/Non-Residential Space does not exceed 35 percent of the Condominium Project's Total Floor Area.



Retail and commercial

Multi-level parking garage that is not allocated to residential Unit owners

Non-residential common areas

Any privately-owned square footage

Residential Space



Residential Space refers to the floor area allocated to:

- All Unit square footage;
- All building common area square footage exclusively for the use of residential Unit owners; and
- All parking garage square footage allocated to residential Unit owners.

Live/Work Units

A Live/Work Condominium Project refers to a Condominium Project that allows space within the individual Unit to be used jointly for non-residential and residential purposes.

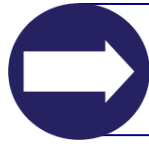


Live Work Units (Cont.)

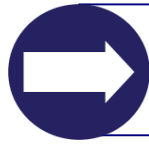
- The Mortgagee must verify that the Condominium Project governing documents allow Live/Work arrangements.
- The Mortgagee must verify that the individual Live/Work Unit does not contain more than 49 percent Commercial/Non-Residential Space.

Litigation

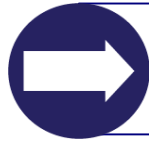
Litigation refers to a:



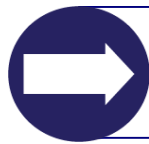
Current or pending lawsuit or proceedings in a court,



Arbitration, or



Mediation involving the Condominium Project or Condominium Association, or



Those concluded within 12 months of the application date.

Litigation does not include foreclosure or actions to collect past due assessments brought by the Condominium Association or Condominium Project as plaintiff.

Litigation (Cont.)

For all Condominium Projects that have an active litigation as defined by FHA, the mortgagee must:

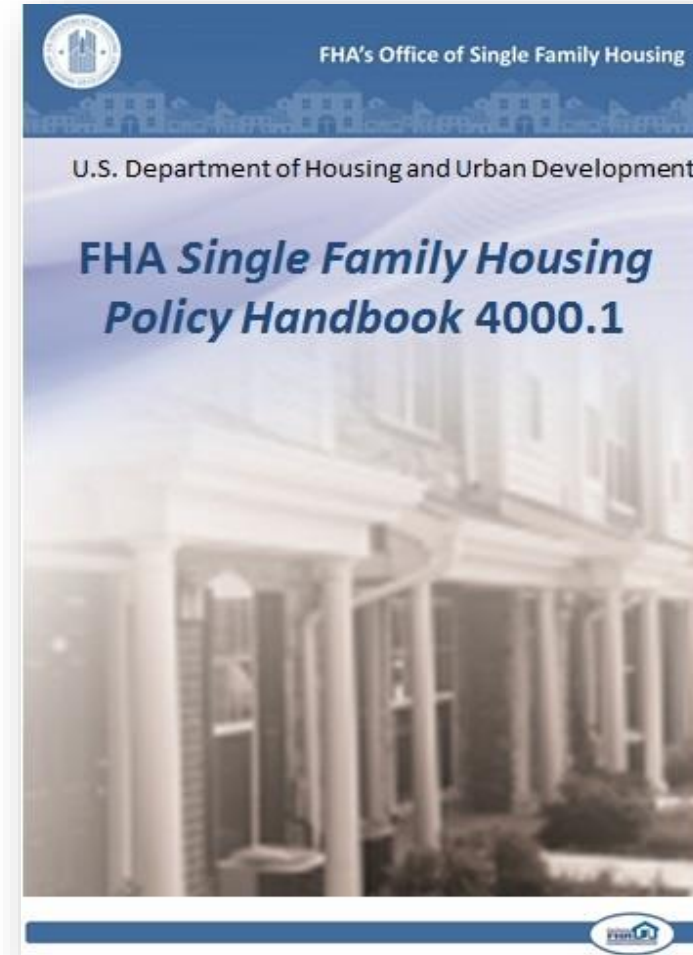


- Verify that the Condominium Project or Condominium Association is not subject to Litigation that relates to the safety, structural soundness, habitability, or functional use of the Condominium Project.
- Verify that the Condominium Project or Condominium Association is not subject to any other Litigation risk not covered by insurance or that exceeds the amount of insurance coverage relating to the potential losses for that matter.

Summary

During this module, we reviewed the requirements necessary to approve a Unit:

- That does not require FHA approval;
- Located in an Approved Condominium Project; and
- For Single-Unit Approval.



Helpful Links

- SF Handbook Information:

https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1

- FHA Webinar Archive:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/events/sfh_webinars

- Subscribe to FHA INFO:

https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe



FHA Resource Center

Option	Point of Contact	Hours Available	Comments
<p>1</p> <p>FHA Knowledge Base – FAQs</p>	<p>www.hud.gov/answers</p>	<p>24/7/365</p>	<p>Knowledge Base web page includes option to email questions.</p>
<p>2</p> <p>Email</p>	<p>answers@hud.gov</p>	<p>24/7/365</p>	
<p>3</p> <p>Telephone</p>	<p>1-800-CALL-FHA (1-800-225-5342) Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.</p>	<p>8:00 AM to 8:00 PM Eastern M-F</p>	<p>Voicemail is available after hours or during extended wait periods.</p>

FHA INFO emails: Frequent email notifications of new policies and training opportunities for anyone who signs up. Subscribe at: https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe



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