

Survey: Federal Housing Administration (FHA) Condominium Project Approval

Introduction

Condominiums, or condos, play a central role in meeting housing needs for first-time homebuyers. Homeownership in a condominium project is often one of the more affordable housing options for Americans. The best condominium loans for low-income borrowers are those backed by the Federal Housing Administration (FHA), part of the U.S. Department of Housing and Urban Development (HUD).

There are approximately 145,000 to 155,000 condominium projects in the U.S., according to the Foundation for Community Association Research (FCAR).¹ As of October 12, 2016, 9,866 condominiums—less than 7 percent of condominium projects nationwide—were FHA certified.²

According to FHA data, current condominium project approval rates continue to be depressed compared to prior approval rates. In 2010, 6,832 condominium projects received FHA approval. In 2015, the number of condominiums receiving FHA approval decreased to 4,531.³ Current FHA data show that 3,882 condominium projects have been approved during the period January 1 – November 10, 2016.⁴ If this trend continues, fewer projects will have received FHA approval in 2016 than in 2015.

Condominium unit mortgages are among the strongest performing in the FHA portfolio. According to FHA data, from October 2014 through September 2016 the combined serious delinquency and claims rate for new condominium projects was 0.76 percent and 0.73 percent for existing projects. By comparison, the combined serious delinquency and claims rate for all outstanding FHA-insured mortgage loans was 1.02 percent over this same period.⁵

It is on this basis that CAI continues to encourage an FHA condominium program that is less burdensome to American households who own condominium units and that provide increased access to FHA loans for condominium purchasers.

¹ Foundation for Community Association Research, *Statistical Review 2015, For U.S. Homeowners Associations, Condominium Communities and Housing Cooperative*.

² FHA Condominium Approval Database at <https://entp.hud.gov/idapp/html/condo1.cfm> (accessed October 2016); calculations by CAI.

³ HUD Proposed Rule (RIN 2502-AJ30) Project Approval for Single-Family Condominiums, *Regulatory Impact Analysis* (Washington, D.C., September 2016): p. 3.

⁴ FHA Condominium Approval Database (accessed November 10, 2016)

⁵ Serious Delinquent/Claim Comparison, Retrieved November 10, 2016, from Neighborhood Watch, Early Warning System. <https://entp.hud.gov/sfnw/public/>

Survey Objectives

- » Capture percentage of CAI member condominium projects with a current FHA approval
- » Establish baseline of FHA approval metrics to identify existing barriers to approval and observable trends in the context of future research
- » Capture perceived value of FHA approval by CAI member condominium projects

Survey Respondents

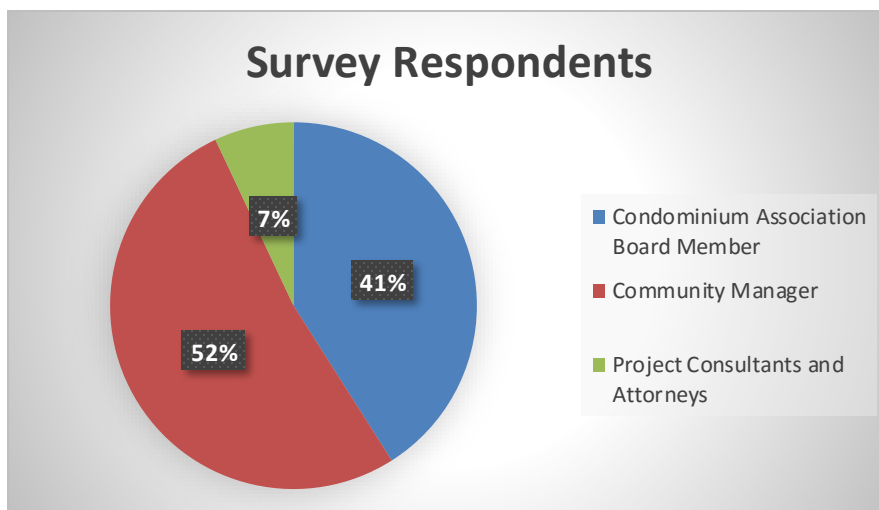
314 respondents from **35 states** representing more than **100,000 housing units**

Respondents' role in the community association housing model:

Condominium Association Board Member – 41%

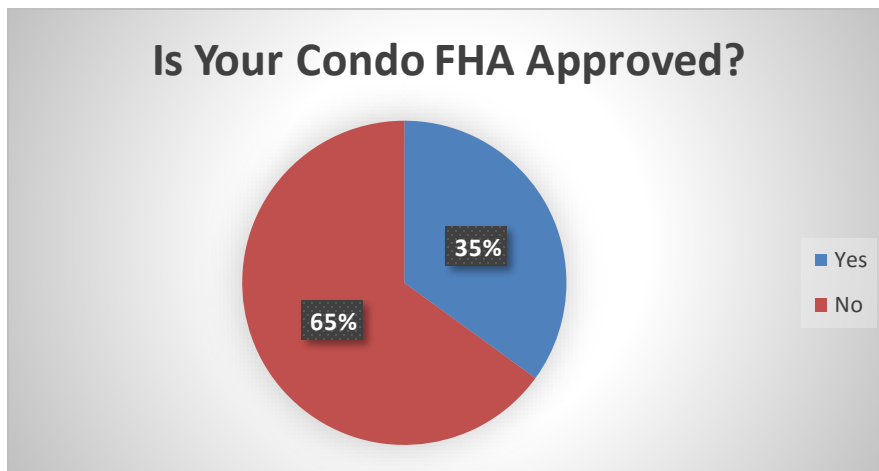
Community Manager – 52%

Project Consultants and Attorneys – 7%



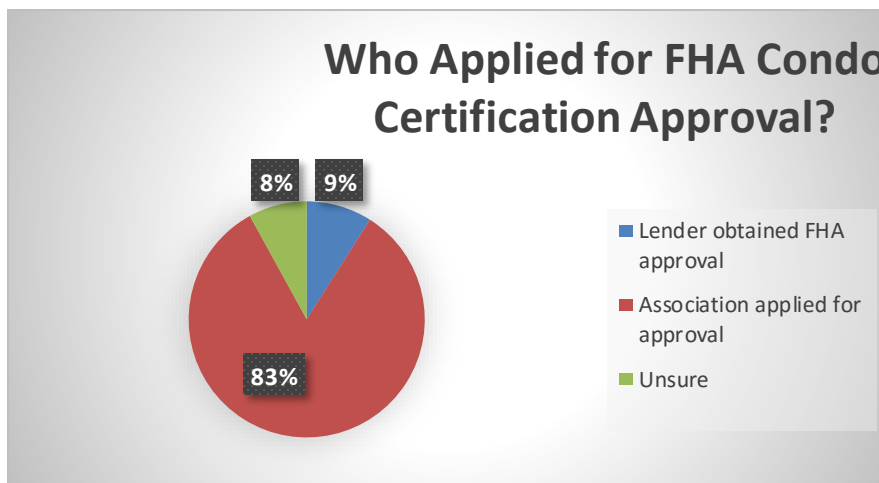
Survey Results

1. Is your condominium currently on FHA's Approved Condominium Project List? If you are uncertain you may verify you're condominium's status [here](#).
 - a. Yes 35%
 - b. No 65%

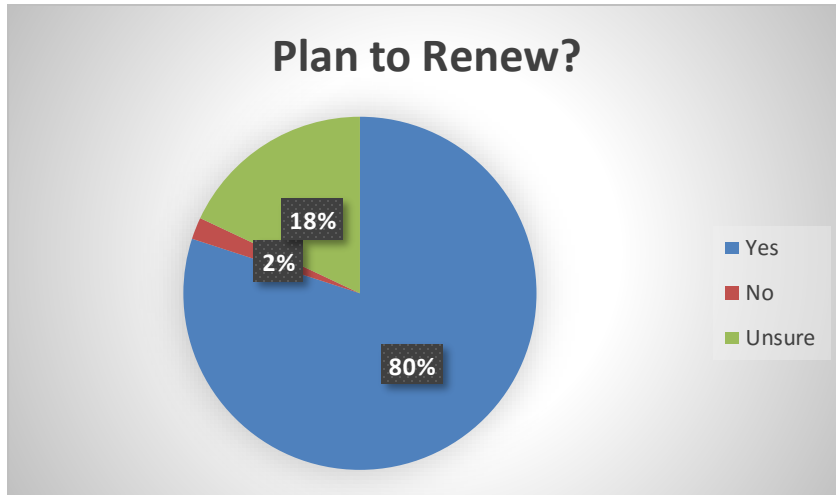


Condominiums with FHA Approval

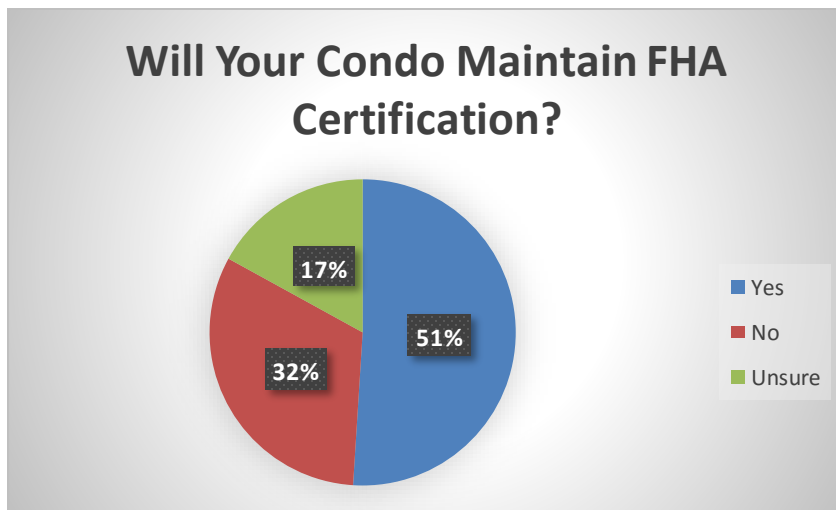
1. There are two options for a condominium to be submitted to FHA for approval. Lenders (bank or credit union) may approve a condominium through FHA or a condominium association may apply to FHA for approval. Which option was used to approve your condominium?
 - a. Lender obtained FHA approval – 9%
 - b. Association applied for approval – 83%
 - c. Don't know – 8%



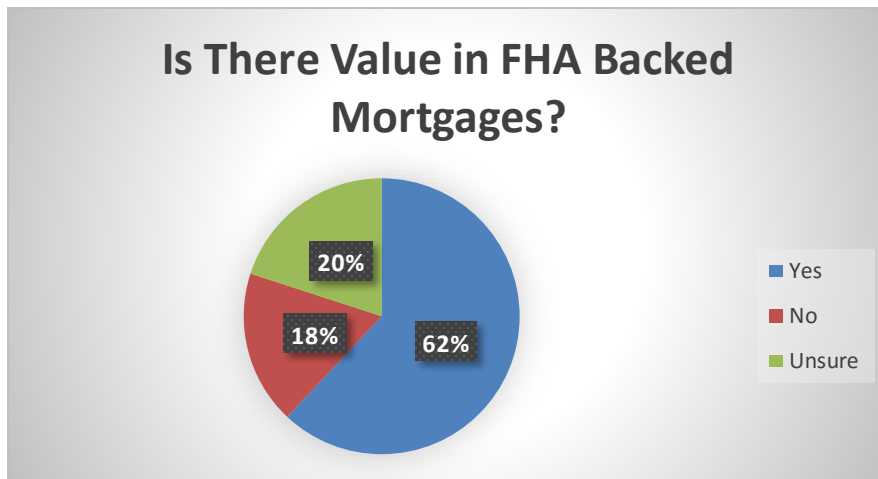
2. Does your association plan to renew FHA approval before the recertification period expires?
- a. Yes – 80%
 - b. No – 2%
 - c. Unsure – 18%



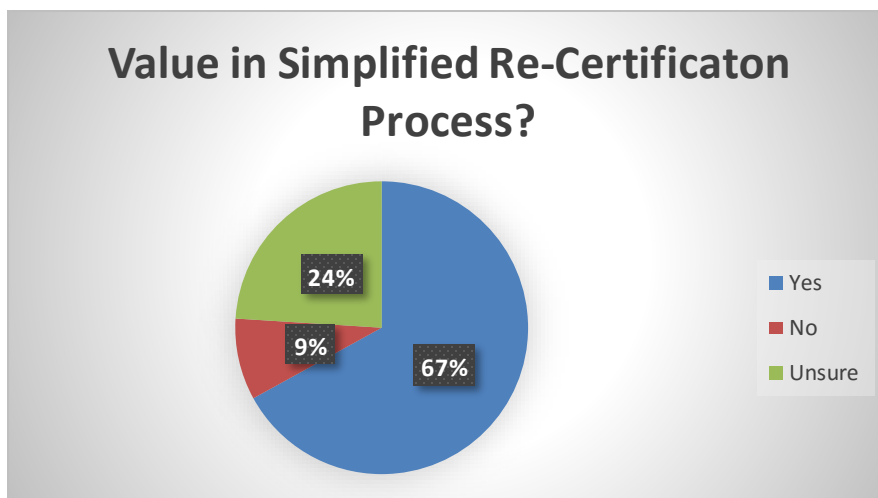
3. Does your association have a policy or understanding that FHA approval will be maintained?
- a. Yes – 51%
 - b. No – 32%
 - c. Unsure – 17%



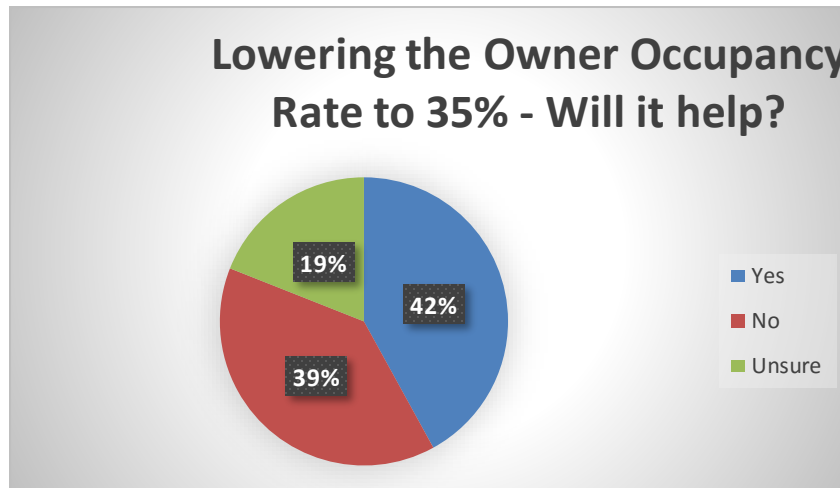
4. Does your/your client's condominium association see value in owners and consumers having access to FHA backed mortgages?
- Yes – 62%
 - No – 18%
 - Unsure – 20%



5. A new federal law requires FHA to streamline and substantially reduce the burden of condominium approval recertification. Will a simplified, less burdensome FHA recertification process make it more likely your/your client's condominium will seek recertification?
- Yes – 67%
 - No – 9%
 - Unsure – 24%

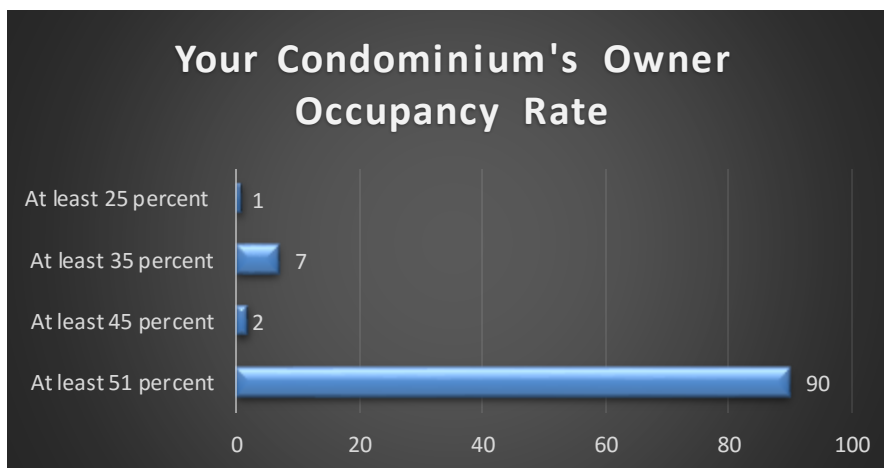


6. A new federal law may cause FHA to reduce the minimum owner occupancy rate from the current 51 percent to as low as 35 percent. If the minimum owner occupancy ratio standard is lowered to 35 percent, will this make it easier or more likely your/a client condominium will meet FHA recertification standards?
- Yes – 42%
 - No – 39%
 - Unsure – 19% *(Note: The majority of those unsure stated it was due to the condominium project's inability to meet other requirements of FHA condominium certification).*

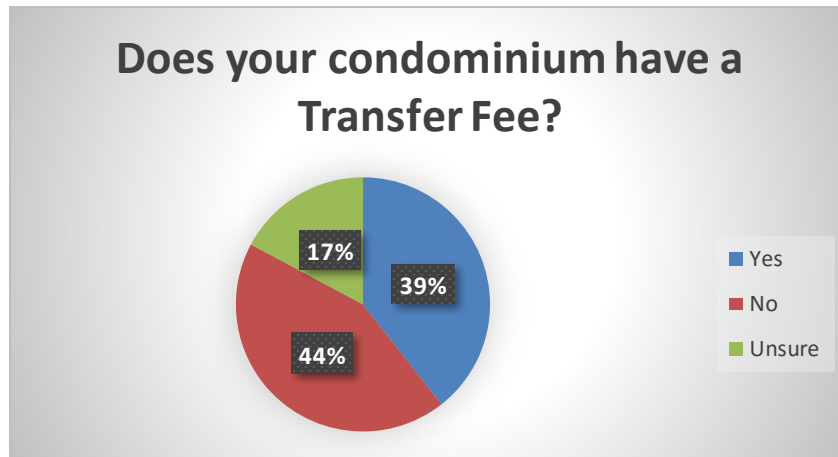


7. What percentage of units in your condominium qualify as the owner's primary residence (unit owner lives in the unit; includes second homes that are not investor properties)?
- At least 51 percent – 90%
 - At least 45 percent – 2%
 - At least 35 percent – 7%
 - At least 25 percent – 1%

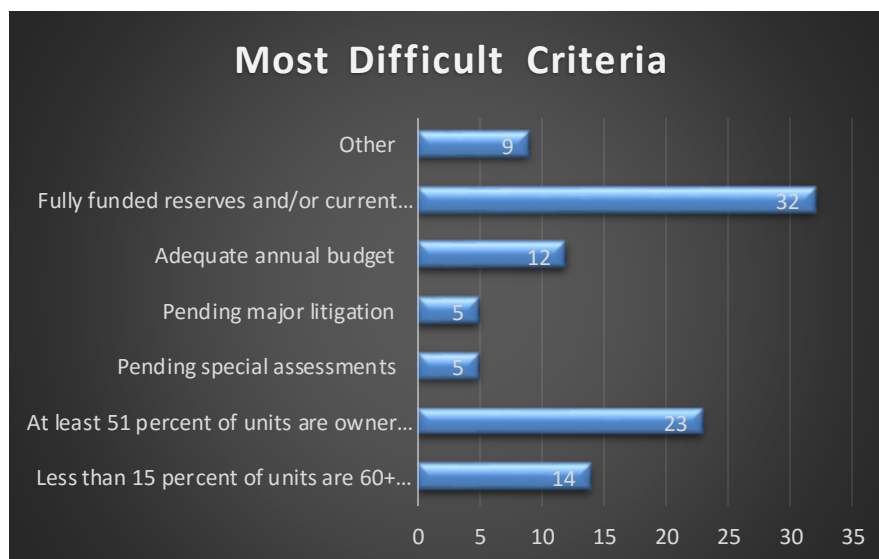
Note: 1/3 (approximately 100) of the total respondents answered this question.



8. Does your condominium association have a transfer fee?
- a. Yes – 39%
 - b. No – 43%
 - c. Unsure – 17%

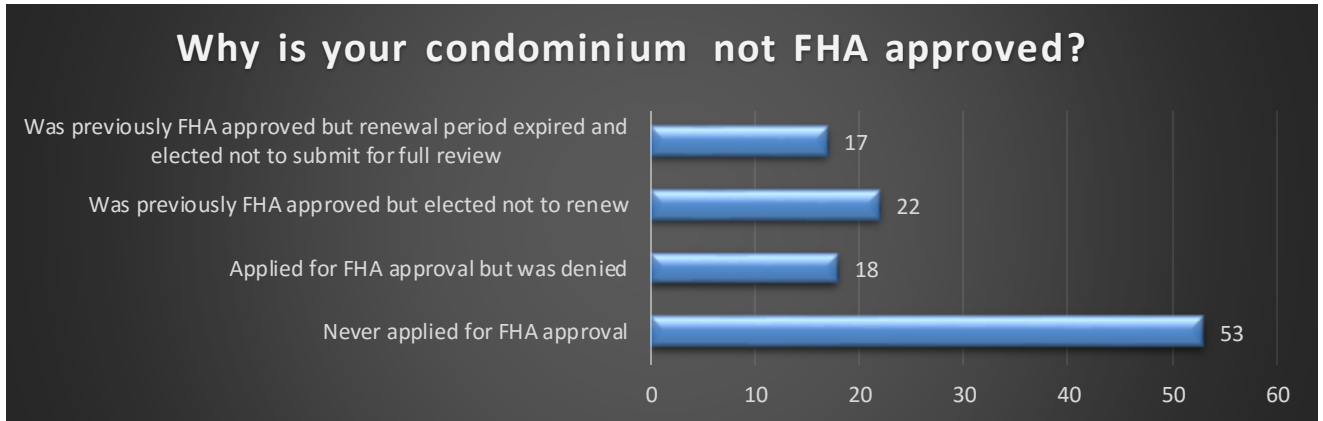


9. In the FHA condominium certification approval standards, which criteria are more difficult to maintain than others? Please select all that apply.
- a. Less than 15 percent of units are 60+ days delinquent on assessments – 14%
 - b. At least 51 percent of units are owner occupied – 23%
 - c. Pending special assessments -5%
 - d. Pending major litigation -5%
 - e. Adequate annual budget -12%
 - f. Fully funded reserves and/or current reserve study- 32%
 - g. Other—9%

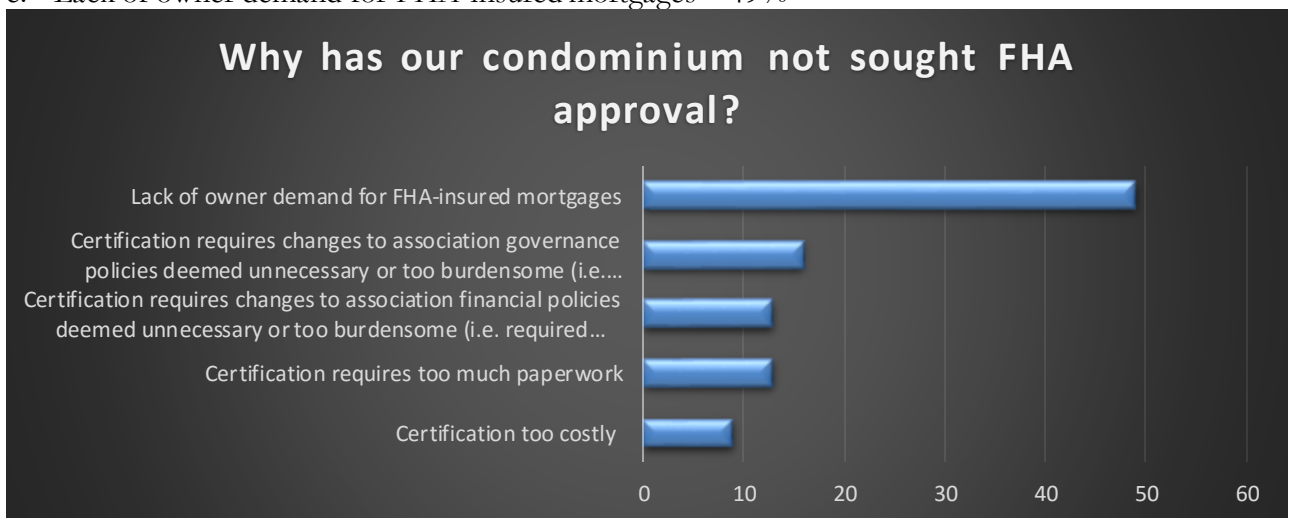


Condominiums Not FHA Approved

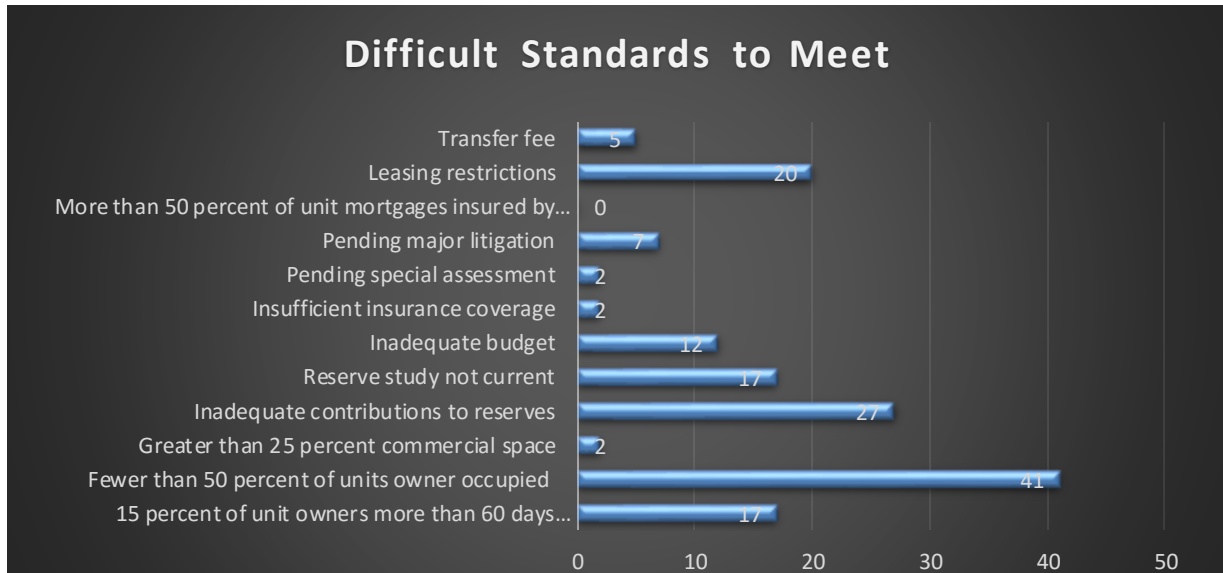
1. Please select the option(s) that most closely represents why your condominium is **not** currently FHA approved
 - a. Never applied for FHA approval – 53%
 - b. Applied for FHA approval but was denied – 18%
 - c. Was previously FHA approved but elected not to renew – 22%
 - d. Was previously FHA approved but renewal period expired and elected not to submit for full review – 17%



2. If your condominium has never applied for FHA approval, please select the option(s) that most closely represents why FHA approval has not been sought
 - a. Certification too costly – 9%
 - b. Certification requires too much paperwork – 13%
 - c. Certification requires changes to association financial policies deemed unnecessary or too burdensome (i.e. required additional insurance, new reserve study) - 13%
 - d. Certification requires changes to association governance policies deemed unnecessary or too burdensome (i.e. required changes to by-laws or amendments to recorded documents) – 16%
 - e. Lack of owner demand for FHA-insured mortgages – 49%



3. If your condominium applied for FHA approval or re-approval and was denied, please indicate the FHA standard(s) the condominium was unable to meet
- 15 percent of unit owners are more than 60 days delinquent on assessments – 17%
 - Fewer than 50 percent of units are owner occupied – 41%
 - Greater than 25 percent is commercial space – 2%
 - Inadequate contributions to reserves – 27%
 - Reserve study not current – 17%
 - Inadequate budget – 12%
 - Insufficient insurance coverage – 2%
 - Pending special assessment – 2%
 - Pending major litigation – 7%
 - More than 50 percent of unit mortgages insured by FHA – 0%
 - Leasing restrictions- 20%
 - Transfer fee – 5%



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