What’s All the Buzz About FHA?

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You may be hearing rumors that the Federal Housing Administration has made changes to its requirements for insuring condominiums. The rumors are true and the new requirements will take effect on October 15, 2019.

Before addressing the substantive changes made by the FHA, however, it is important to mention that the certification period for FHA approved condominium projects has increased from two (2) years to three (3) years. This means that condominium associations who want to maintain their FHA certification will only have to re-apply every three (3) years going forward. While not as convenient as the “old days” when FHA certification did not expire, it does reduce the frequency with which associations must go through the re-certification process.

The first noteworthy change when it comes to FHA and condominium associations is the addition of spot or single-unit FHA approval. Under the current FHA guidelines, a project or phase of a project must be FHA certified in order for any unit within the project or that phase to be eligible for FHA. As of October 15th, it will be possible to obtain FHA on a condominium unit within a project that is not certified provided certain requirements are met, including the following:

1. The project is a completed project consisting of at least five (5) residential units.
2. The project is not comprised of manufactured housing.
3. The unit is not part of a project that is FHA certified or has one or more FHA certified phases.
4. For a project with at least twenty (20) units, the percentage of units within the project owned by the same party or related parties does not exceed 10%. For the purpose of this requirement, a related party is an individual related to another unit owner by blood, marriage or operation of law; a person serving as the unit owner’s officer, director or employ; or a direct parent, subsidiary or other related entity with which the unit owner shares a common officer or director. For a project with fewer than twenty (20) units, no owner may own more than one (1) unit and no related party may own a unit.
5. For a project with at least ten (10) units, no more than 10% of the units within the project are already FHA insured. For a project with fewer than ten (10) units, no more than two
(2) units within the project are already FHA insured. (This requirement differs from FHA certified projects where the FHA will insure up to fifty percent (50%) of the units.)

6. The project is at least 50% owner occupied.

7. The project meets other standard requirements for FHA (e.g., no more than 15% of the units are delinquent in the payment of regular or special assessments by more than 60 days, no more than 35% of the project is mixed use).

8. The borrower meets certain eligibility requirements.

The second noteworthy change is the expansion of the definition of site condominiums. Under the FHA guidelines, projects consisting solely of site condominiums do not require project-wide FHA certification or single unit approval. Currently, site condominiums are defined as single family totally detached dwellings encumbered by CC&Rs and a condominium form of ownership, where the units consist of the entire structure as well as the site and airspace, and the owners are solely responsible for the insurance and maintenance costs for their units. As of October 15th, site condominiums will include condominium projects (other than manufactured homes) consisting of horizontally attached dwellings (i.e., townhomes) where the units consist of the dwelling and land. The requirement that the owners be responsible for all insurance and maintenance costs pertaining to their units still exists, with the exception of landscaping.