U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000



January 5, 2011

MORTGAGEE LETTER 2011-03

TO: ALL APPROVED MORTGAGEES

SUBJECT: Extension of Temporary Guidance for Condominium Policy

This Mortgagee Letter (ML) announces an extension of the temporary condominium policy guidance issued in ML 2009-46 A. The temporary guidance defined in ML 2009-46 A was effective for all Federal Housing Administration (FHA) case numbers assigned on or after December 7, 2009 through December 31, 2010. ML 2009-46 A is now extended for all FHA case numbers assigned through June 30, 2011, except that the "Spot Loan" approval process expired on February 1, 2010 and is not being extended.

ML 2009-46 B defines the permanent baseline guidance for condominium project approval eligibility and remains unchanged by issuance of this guidance except as described in ML 2009-46 A, as reiterated and clarified below. FHA reserves the right to modify, suspend or terminate the guidance contained in this document if analysis of condominium mortgage performance indicates that the insurance fund is at risk.

I. FHA Concentration Requirements

As explained in ML 2009-46 A, the FHA concentration requirement defined in ML 2009-46 B is increased temporarily from 30 percent to 50 percent.

Exceptions to the 50 percent Concentration Level: The FHA concentration may be increased up to 100 percent if the project meets all of the basic condominium standards described in ML 2009-46 B, plus the additional items stated below:

- The project is 100 percent complete and construction has been completed for at least one year, as evidenced by issuance of the final or temporary/conditional certificate of occupancy for last unit conveyed;
- 100 percent of the units have been sold and no entity owns more than 10 percent of the units in the project (for projects with fewer than 10 units, single entity may own no more than 1 unit);
- The project's budget provides for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10 percent of the budget;
- Control of the Homeowners Association has transferred to the owners; and
- The owner-occupancy ratio is at least 50 percent.

Note: New construction, condominium conversions not meeting all of the stated requirements and projects with less than four units are not eligible for this exception.

II. Owner-Occupancy Requirements

At least 50 percent of the units in a project must be owner-occupied or sold to owners who intend to occupy the units. For proposed, under construction, or projects still in their initial marketing period, FHA will allow a minimum owner occupancy amount equal to 50 percent of the number of presold units.

Vacant or tenant-occupied real estate owned (REOs) units, including properties that are bank owned, may be excluded from the calculation of the required owner-occupancy percentage (should be removed from both the numerator and denominator).

III. Pre-Sale Requirements

In the case of new construction, the pre-sale requirement defined in ML 2009-46 B will be reduced temporarily from 50 percent to 30 percent. However, per ML 2009-46 B, the pre-sale percentage must still be documented as follows:

- Copies of sales agreements and evidence that a mortgagee is willing to make the loan;
- Evidence that units have closed and are occupied; **OR**
- Information from a developer/builder that lists all of the units already sold, under contract, or closed (e.g. a spreadsheet, chart, or listing used for the company's own tracking purposes) that is accompanied by a signed certification from the developer (Attachment F of ML 2009-46 B).

IV. Florida Condominium Project Approval

All requests for approval of condominium projects located in Florida will require submission to the Atlanta Homeownership Center for review, under the HUD Review and Approval Process (HRAP). These projects are not eligible for approval using the Direct Endorsement Lender Review and Approval Process (DELRAP), defined in ML 2009-46 B.

V. "Spot Loan" Approval Process

The "Spot Loan" approval process was eliminated for all FHA case number assignments on or after February 1, 2010 and is not extended.

If you should have any questions concerning this Mortgagee Letter, please call the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech

impairments may access this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Sincerely,

David H. Stevens Assistant Secretary for Housing-Federal Housing Commissioner