



Office of Single Family Program Development

Navigating the FHA Condominium Project Approval Process

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Presented by:

Joanne Kuczma, Housing Program Officer
Office of Single Family Program Development

Bobbi Borland, Acting Deputy Director
Home Valuation Policy Division

The information in this document is current as of the Last Update date noted above. This document does not establish or modify the policy contained in FHA's Handbooks and Mortgagee Letters in any way.





WELCOME AND GENERAL REMARKS



General Remarks

- Welcome
- Introduction of Presenters
- Department of Housing and Urban Development's (HUD's) Mission Statement:

“HUD's mission is to create strong, sustainable, inclusive communities and quality affordable homes for all. HUD is working to strengthen the housing market to bolster the economy and protect consumers; meet the need for quality affordable rental homes; utilize housing as a platform for improving quality of life; build inclusive and sustainable communities free from discrimination, and transform the way HUD does business.”





WEBINAR OBJECTIVES





Objectives

- Understanding what a Condominium Is
- Enhance Knowledge of FHA Condominium Project Approval Requirements
- Understand Project Types and Eligibility Requirements
- Understand the Project Approval Application Requirements for Initial Application Review, Recertification Review, and Annexation/Phasing Review
- Required Certifications
- Understand the Two Approval Processing Options—DELRAP and HRAP



Objectives (cont.)

- FHA or DELRAP Review – What is reviewed and why is it reviewed?
- Understand Unique Projects
- Red Flags
- Current Condominium Guidance and Resources
 - Jurisdictional map – Homeownership Centers
 - Mortgagee Letters 2011-22, 2012-18, 2014-17, 2015-27 and 2016-13
 - *Condominium Project Approval and Processing Guide*



CONDOMINIUM DEFINITION



Condominium Definition

- The fee simple ownership of one unit in a multiple-unit project, combined with an ownership of an un-divided interest in the land and all other parts of the project held in common with the owners of the other individual units in the project.



GENERAL ELIGIBILITY REQUIREMENTS



General Eligibility Requirements

- Projects that have been declared and exist in full compliance with applicable state law requirements of the jurisdiction in which the condominium project is located;
- Must be primarily for residential use;
- Must contain at least two dwelling units; and
- Can be attached, detached, semi-detached, row house, multi-unit, mixed product types, mixed-use, live/work or manufactured housing.





INELIGIBLE CONDOMINIUM PROJECTS



Ineligible Condominium Projects

- Projects where more than 25% of the total space is used for non-residential purposes (unless an exception is granted)
- Projects located within Coastal Barriers
- Live/work units where $> 25\%$ of the unit's square footage or total project's square footage is used for non-residential purposes
- Houseboat projects
- Condominium Hotel or "Condotels"
- Assisted Living Facilities or projects offering such services
- Timeshares or segmented ownership projects



PROJECT TYPES



Project Types

- New Construction – Proposed, Under Construction, or Existing for < 1 year (12 months)
 - Proposed Construction: Raw land, ground not broken
 - Under Construction: Ground broken and construction is underway
 - New Construction: Entire project is completely built out and approved by the local building jurisdiction – in the form of an Occupancy Certificate or equivalent
- Existing – complete for > 1 year (12 months)
- Conversions
 - Non-Gut Rehabilitation
 - Gut Rehabilitation
- Conversion of Cooperatives to Condominiums



Additional Documents for New Construction Projects

- Builder's Certification (HUD-92541)
- Construction Completion Schedule
- Building Permits
- Phase I Environmental Assessment Report (ESA)
- Current Site Photographs
- Other Environmental Issues (if applicable)



UNIQUE PROJECTS SITE CONDOMINIUMS





Site Condominiums

- **NOTE: All defined requirements must be met and apply to all units in the project to be considered a site condominium.**

Site condominiums are defined as:

- Single family totally detached dwellings (no shared garages or any other attached buildings or e.g. archways, breezeways); **and**
- Insurance and maintenance costs are totally the responsibility of the unit owner; **and**
- Any common assessments collected will be for amenities outside of the footprint of the individual site; **and**
- The condominium unit consists of the entire structure as well as the site and air space, and are not considered to be common areas or limited common areas; **and**
- Are encumbered by a declaration of condominium covenants or condominium form of ownership.





UNIQUE PROJECTS 2- TO 4-UNIT PROJECTS



2- to 4-Unit Requirements

- FHA will defer to state and/or local law requirements regarding documentation, but generally requires copies of the following:
 - Properly executed and recorded documents;
 - A plan or evidence of homeowner's agreement (if required by the state);
 - A recorded Memorandum of Understanding between the homeowners defining each unit owner's responsibilities (if applicable); and
 - Evidence of hazard insurance and other insurance coverage as defined in the guidance may also be required.



UNIQUE PROJECTS MANUFACTURED HOUSING



Manufactured Housing

- Must be processed under the HRAP option;
- Units are not attached, but are not considered Site Condominiums;
- Units are manufactured homes within a condominium regime (on title);
- Maintenance and insurance is usually the responsibility of the unit owner; and
- Land underneath unit may be leased, where the Homeowner's Association (HOA) is the lessee.



INITIAL APPLICATION DOCUMENTATION GENERAL REQUIREMENTS





Initial Application Documentation Requirements

- Cover letter: Provides an overview of the contents of the application package;
- Condominium Project Approval Checklist; and
- Project Certification (Appendix A): Package submitter must sign/date this certification that accompanies the application package.

****Project approval is not required for FHA-to-FHA streamline refinances (without an appraisal). Project approval is not required for FHA/HUD Real Estate Owned (REO) loan transactions that will be encumbered by FHA insurance.**





INITIAL APPLICATION DOCUMENTATION LEGAL DOCUMENTS





Legal Documents

- Recorded Covenants, Conditions and Restrictions (CC&Rs)/Declaration/Master Deed and all amendments;
- Signed and adopted bylaws: Must be signed unless state law does not require signature;
- Articles of Incorporation, Articles of Association or Condominium Trust: Association must be in good standing with all local, state and Federal requirements;
- Recorded Plat Map(s): Must include project legal description;
- Recorded Condominium Site Plans;



Legal Documents (cont.)

- FEMA Flood Map with project location clearly marked: must be provided with each application; and
- Letter of Map Amendment (LOMA), Letter of Map Revision (LOMR), or Elevation Certificate.



Legal Documents – Items of Focus

- Document Title – What is Declared or Amended;
- Project Legal Description and Definitions;
- Project and HOA Legal Names;
- Use Restrictions:
 - Leasing Restrictions
 - Age Restrictions
- Declarant Controls;
- Project Condemnation;
- Lien Priorities; and
- Mortgagee Protections.



INITIAL APPLICATION DOCUMENTATION FINANCIAL DOCUMENTS



Financial Documents

- Budget: No more than 12 months old;
- Balance Sheet: No more than 90 days old;
- Income and Expense Statement: Current, no more than 90 days old;
- Prior Year-End Income and Expense Statement; and
- Additional financial documents: Bank statements or a reserve study may be required to support financial stability, including sufficient reserves.



INITIAL APPLICATION DOCUMENTATION INSURANCE REQUIREMENTS



Insurance Requirements

- Hazard Insurance: must cover 100 percent replacement cost;
- Liability Insurance;
- Fidelity Insurance: Required for projects with more than 20 units; coverage is calculated using three months aggregate association dues + current reserve balance; required for Association and Management Company; and
- Flood Insurance.



Waiver of Requirements of ML 2011-22 Insurance Requirements Waiver

- Manufactured Housing – Insurance in the names of the individual unit owner;
- Detached Condominium Projects – Ground beneath the residential improvements is owned by the HOA; and
- Common Interest Housing Development – Multiple housing types, structured with different ownership interests, managed by a common HOA.



INITIAL APPLICATION DOCUMENTATION MISCELLANEOUS REQUIREMENTS





Miscellaneous Requirements

- Management Agreement: If Association has engaged the services of a company to assist in management of the project;
- Leasehold Agreement: If subject to a ground lease (must be in the name of the HOA);
- Affordable Housing Agreement: Recorded agreement between developer and affordable housing provider identifying affordable housing units required;
- Special Assessments: Pending, current or paid within 12 months of submission date requires an explanation letter; and
- Litigation (against Association, its officers or directors): pending, current or settled within 12 months of submission date requires an explanation letter.



CERTIFICATIONS





Project Certification Forms

- Appendix A – Project Certification
 - Project Level
- Appendix B – Certification of Individual Unit Financing
 - Loan Level
- Pre-Sale Certification
 - Loan Level



Project Certification Forms

PowerPoint Slide Show - [04-2016 FHA Condo Project Approval Training] - PowerPoint

Appendix A – Project Certification

ATTACHMENT PROJECT CERTIFICATION (APPENDIX "A")*

PROJECT ID NUMBER (IF ASSIGNED): _____

PROJECT NAME: _____

PROJECT ADDRESS (include city/state/zip): _____

The undersigned hereby certifies that:

1. To the best of my knowledge and belief, the information and statements contained in the condominium project application are true and correct; **and**
2. I have reviewed the condominium project application and it meets all current Federal Housing Administration (FHA) condominium approval requirements; **and**
3. I have no knowledge of circumstances or conditions that might have an adverse effect on the project (including but not limited to defects in construction; substantial operational issues; or litigation, mediation or arbitration issues).

Submitter Name and Title (Print and Sign) Date

Company/Organization Name

***Certification must be submitted on letterhead, signed and dated.**

Title 18 U.S.C. 1014, provides in part that whoever knowingly and willfully makes or uses a document containing any false, fictitious, or fraudulent statement or entry, in any matter in the jurisdiction of any department or agency of the United States, shall be fined not more than \$1,000,000 or imprisoned for not more than 30 years or both. In addition, violation of this or others may result in debarment and civil liability for damages suffered by the Department.

04-2016

48

Slide 48 of 60





Project Certification Forms

PowerPoint Slide Show - [04-2016 FHA Condo Project Approval Training] - PowerPoint

Appendix B – Certification of Individual Unit Financing

Appendix B CERTIFICATION FOR INDIVIDUAL UNIT FINANCING	
PROJECT NAME: _____	<input type="checkbox"/>
PROJECT LOCATION: _____	
The undersigned hereby certifies that:	
<ol style="list-style-type: none">1. The Mortgagee has verified that the condominium unit in connection with this loan file has been verified to be in a project that appears on FHA's list of approved condominium projects as of the date that the FHA case number is assigned;2. To the best of his or her knowledge and belief, the information and statements contained in this application are true and correct;3. The Mortgagee has no knowledge of circumstances or conditions that might have an adverse effect on the project or cause a mortgage secured by a unit in the project to become delinquent (including but not limited to defects in construction; substantial disputes or dissatisfaction among unit owners about the operation of the project or the owners association; and disputes concerning unit owners, rights privileges, and obligations); and4. The Mortgagee has reviewed and verified that the investor ownership, percentage of owners in arrears for condominium association fees and owner-occupancy percentage meets FHA requirements.	
_____ Authorized Mortgagee Representative (Print and Sign) and Title	_____ Date

04-2016

49

Slide 49 of 60





Project Certification Forms

PowerPoint Slide Show - [04-2016 FHA Condo Project Approval Training] - PowerPoint

Pre-Sale Certification

PRE-SALE CERTIFICATION

The undersigned hereby certifies that in lieu of providing:

1. Copies of sales agreements and evidence that a mortgagee is willing to make the loan; or
2. Evidence that units have closed and are occupied;

That the Builder / Developer has attached to the signed and dated certification, a list documenting all units sold, under contract or closed (i.e. an excel spreadsheet). This information will be used to document the required minimum presale requirement of 30 percent.

Builder / Developer (Print and Sign) and Title

Date

Authorized Builder's / Developer's Representative (Print and Sign) and Title

Date

Title 18 U.S.C. 1014, provides in part that whoever knowingly and willfully makes or uses a document containing any false, fictitious, or fraudulent statement or entry, in any matter in the jurisdiction of any department or agency of the United States, shall be fined not more than \$1,000,000 or imprisoned for not more than 30 years or both. In addition, violation of this or others may result in debarment and civil liability for damages suffered by the Department.



04-2016

50

Slide 50 of 60





RECERTIFICATION DOCUMENT REQUIREMENTS





Recertification Document Requirements

- **Reference Mortgagee Letter 2015-27 for the most recent guidance and Recertification Checklist.**
- Recertification Checklist (Attachment to ML 2015-27);
- Project Certification (Appendix A);
- Recorded Amendments to the Declaration not previously submitted;
- Financial Documents;
- Management Agreement (as applicable);
- Leasehold Agreement (as applicable);
- Affordable Housing Agreement (as applicable);





Recertification Document Requirements (cont.)

- Special Assessments (explanation if applicable);
- List of legal actions against the Association, its officers or directors that are pending, current or settled within 12 months prior to recertification (explanation if applicable);
- Evidence of adequate project insurance coverage for hazard, liability, flood insurance coverage, and other required insurance as specified by HUD/FHA;
- Completion of data requested on Recertification Checklist; and
- Other documents specified by HUD/FHA.



PHASE/ANNEXATION DOCUMENT REQUIREMENTS





Phase/Annexation Document Requirements

- Cover letter to request annex or add units to project under construction;
- Composition of Legal Phases (Product type, Building and Unit numbers);
- Recorded Amendment(s) to CC&Rs (Declaration) annexing additional phases/units to project;
- Recorded Plat Map and Condo Plan;
- Actual Budget (Current Budget and Financials); and
- Current Insurance Declaration.



INITIAL APPLICATION DOCUMENTATION RED FLAGS





Red Flags

- Ground Leases (Leaseholds)
- Change in Sponsor Ownership Interest
- Special Considerations
- Affordable Housing
- Deed Restrictions
- Restrictions on Unit Leasing
- Recreational Leases
- Private Transfer Fees
- New Conversions to Condominiums (< 2 years from recording date)





Red Flags (cont.)

- Right of First Refusal
- Non-Residential/Commercial Space
- Investor Ownership
- Delinquent HOA Dues
- Budget/Financial Issues
- Special Assessments
- Litigation
- Insurance Requirements:
 - Hazard
 - Liability
 - Fidelity Bond/Insurance (Crime or Employee Dishonesty) Coverage
 - Flood Insurance (if applicable)





APPROVAL PROCESSING OPTIONS





Approval Processing Options

DELRAP:

Direct Endorsement Lender Review and Approval Process

Project initial approval, recertification and phase annexation condo application packages are reviewed by authorized, qualified Direct Endorsement (DE) Lender staff.

HRAP:

HUD Review and Approval Process

Project initial approval, recertification and phase annexation condo application submissions are reviewed and approved by the jurisdictional FHA Homeownership Center (HOC) Condo Staff Reviewers.





HRAP PROCESSING OPTIONS



HRAP Processing Requirements

- Condo application package is submitted to the jurisdictional HOC for review;
- Upon receipt, the application package is logged into the FHA Connection database and an email is sent to the submitter;
- Processing time: Up to 30 calendar days from the receipt of a complete package;
- Eligible submission sources: Lender, Builder, Developer, Homeowners Association (HOA), Management Company, Project Consultant or Attorney.



DELRAP ELIGIBILITY AND PROCESSING REQUIREMENTS



DELRAP Eligibility and Processing Requirements

- Lender must have unconditional Direct Endorsement authority;
- Staff must be knowledgeable and have expertise in reviewing condominium project packages;
- Staff condominium project reviewers must be registered and authorized to use the FHA Connection (FHAC) system;
- Staff condominium project reviewers' authorization must be renewed every two years;
- Lender must have a Quality Control Plan in place in accordance with HUD requirements;





DELRAP Eligibility and Processing Requirements (cont.)

- Project documents must be uploaded into the FHAC system using a single portable document file (PDF);
- Jurisdictional HOC will review the first five DELRAP project reviews as part of the QC plan;
- Lender must retain all supporting documents for three years;
- Processing times are established by the lender;
- Lenders cannot process an application that has been rejected or withdrawn – reconsideration actions must be submitted to the jurisdictional HOC.

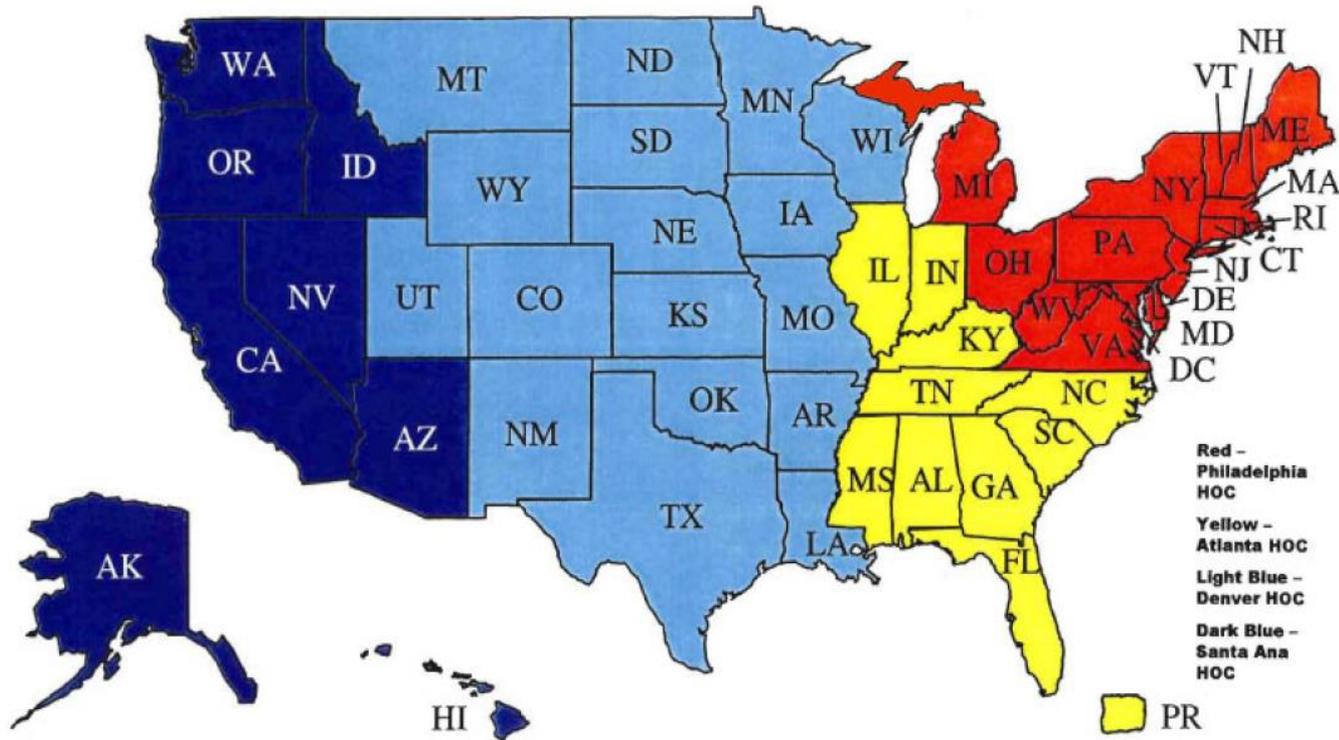


RESOURCES



Jurisdictional Homeownership Centers (HOCs)

*FHA – Single Family Housing
Homeownership Centers*





Condominium Project Approval Guidance

- Link in HUDCLIPS to Mortgage Letters web page:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee
- Mortgage Letter 2011-22 – Condominium Project Approval and Processing Guide
- Mortgage Letter 2012-18 – Temporary Approval Provisions for FHA Condominium Project Approval Process
- Mortgage Letter 2014-17 – Extension of Temporary Approval Provisions for FHA Condominium Project Approval Process





Condominium Project Approval Guidance (cont.)

- Mortgagee Letter 2015-27 – Additional Temporary Approval Provisions for FHA Condominium Project Approval
- Mortgagee Letter 2016-13 – Extension of Temporary Approval Provisions for FHA Condominium Project Approval Process
- Condominium Mortgage Insurance/Federal Housing Administration web page:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/ins/sfh_ins_condominiums
- Insurance Waiver:
<http://portal.hud.gov/hudportal/documents/huddoc?id=DOC035.pdf>





The FHA Resource Center

- Preview *new* Origination through Endorsement FAQs on our SF Handbook Information page:
 - Commonly asked questions/detailed answers.
 - Was uploaded to the online Knowledge Base on September 14, 2015.
- www.hud.gov/answers: **1600+ Qs and As** addressing 90 percent of our phone calls *and* announcements of policy changes and training opportunities.
- Email: answers@hud.gov
- Phone: **(800) CALL-FHA** or (800) 225-5342
Monday through Friday, 8:00 am – 8:00 pm ET
- **Single Family Housing News (FHA INFO) emails**: Frequent email notifications of new policies and training opportunities for anyone who signs up. To sign up go to:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe





THANK YOU!

