

## **FHA Certification – A New Ball of Wax** - February 1, 2011

In light of the Fannie Mae and Freddie Mac difficulties, at the end of 2009, the Federal Housing Administration (FHA) substantially changed the requirements by which condominium homeowners can receive FHA insured financing. Condominiums must be certified by the FHA before an FHA loan can be obtained by a homeowner in the development. Previously, lenders were able to provide a “spot approval” on loans in condominiums that were not certified. The new rules eliminated this option, and instilled a process by which all previously-approved condominiums must be reviewed again between 2009 and 2011.

Almost all condominiums that previously had FHA Certification status are due to be certified under the new process in 2011, with dates staggering throughout the year. The certification process is extensive and can take up to 60 days or more to complete. Properties that are not certified by their due-date will be expired, with no extensions. No FHA-insured loans may be obtained until approval is achieved.

### **Why Should our Condo Obtain FHA Certification?**

We get this question a lot and the answer is simple - not being FHA Certified has the potential to decrease the value of the condominiums. WHY? Currently, the FHA is involved in a majority of home loans. Properties that do not qualify for FHA loans, therefore, eliminate a large pool of potential buyers. Without the FHA option, a property is often limited to cash buyers, or those with a substantial down-payment and very strong credit. HOAs and their Boards believe part of their duty is to help maintain the property values of the HOA. They are quite anxious to maintain the FHA Certification designation.

### **What is HRAP / DELRAP?**

There are two methods by which HOAs can obtain FHA Certification. HRAP (HUD Review and Approval Process) is the most common approval method, as the risk and therefore price are the lowest of the two options. Under HRAP, HUD performs the review for no fee; the HOA submits the required information directly to the relevant HUD office for approval. HOAs typically pay a consultant to help them gather the data, as the requirements are complicated to decipher. Fees for this assistance approximate \$1000 - \$3500 and vary in the amount of work that the HOA is required to complete.

The other option, DELRAP (Direct Endorsement Lender Review and Approval Process), requires that an approved lender perform the review. The lender's liability for erroneous results is very high, potentially resulting in large fines and jail time. Therefore, there are a limited number of lenders providing the service, and their price is quite high in comparison to HRAP.

## **Can Our HOA File for HRAP Approval Ourselves?**

Yes! The instructions for filing are found in the following mortgagee letters:

Mortgagee Letter 2009-46A

<http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/09-46aml.pdf>

Mortgagee Letter 2009-46B

[http://fha-reserve-study.com/docs/FHA\\_Mortgagee\\_Letter\\_2009-46b.pdf](http://fha-reserve-study.com/docs/FHA_Mortgagee_Letter_2009-46b.pdf)

Although the above guidance is provided, the process for approval is not precisely defined. The approval requirements and procedures are actually changing over time, as the HUD offices gain momentum and understanding from the task at hand. Most HOAs Boards don't have the time or expertise to climb this learning curve, and don't have the money to pay their manager to figure it out. Consultants who are immersed in this process on a daily basis end up saving the HOA time, money, and grief, by navigating the process for them. Contact Association Online™ for help – our prices are industry-best, and we do all the leg-work for you!

## **How Do We Know If Our Condo Is / Can Be Approved?**

Association Online™ can prepare an assessment for your condominium. At no charge, we can review the HOA and provide to you its current FHA Certification status and any pending due dates, and determine if it is likely to receive FHA Certification. Given no extenuating circumstances, if the association fits within benchmarks for owner-occupancy, investor ownership, delinquency, FHA Loan concentration, and reserves allocations, it will obtain FHA approval. Contact us if you are interested in this service.

## **Association Online™ is Here to Help**

From start-to-finish, AO can prepare the HRAP package for you. Our expertise and systems take the burden off your shoulders. We gather all the required documents for you, including plats and flood plain maps, recorded legal documents, and the like. We complete the disclosure forms based on the data we gather. Managers (or designees) simply add to and review integral disclosures through our convenient online interface. Our prices are industry best (with volume discounts available), and our customers rest assured that the certification will be done correctly and efficiently. Contact Us with questions, or to get started today!