

Update - FHA Certification Process

Fort Collins – March 21, 2011 – The FHA Certification process and its requirements have been a bit of a moving target as HUD has geared up into large volumes of approvals. What was allowed one month may no longer be “approvable” now. The approval changes seen over the last 60 days include the following:

Leases

Many condominiums’ governing documents provide limitations around the homeowners’ ability to lease the home to another party. Most of the time, the language is intended to eliminate daily rentals and other rental activities that are contrary to the look and feel of permanent housing in the neighborhood. HUD has been denying FHA Certification to all condominium homeowners associations who have any leasing provisions in their by-laws or covenants, regardless of its content. They state that these terms violate Section 203.41(a)(3) in regard to “legal restrictions on conveyances.” As of March 18, HUD is waiving this provision, as it relates to leases, for one year. The following, if found in the governing documents, will NOT result in denial of certification for at least the next year:

1. Provisions requiring leases to be in writing, and subject to the declarations and bylaws of the HOA;
2. Provisions requiring the homeowner to provide the HOA copies of sublease agreements or rental agreements;
3. Provisions requiring the homeowner to provide the HOA with tenants’ names;
4. Provisions requiring the HOA approve prospective tenants;
5. Provisions prohibiting rentals for initial terms less than 30 days;
6. Provisions prohibiting lease terms from exceeding a maximum number of days or months.

Loan-Level Criteria

Previously, for an association to become FHA Certified, it was not required to meet the loan-level criteria of: owner-occupancy ratios, investor ownership ratios, % HOA dues in arrears, or FHA loan concentration. These items were evaluated only on a per-loan basis – each time a loan was being written, these ratios were reviewed to ensure they met the requirements.

This practice was helpful to associations who were near the cut-offs for any of these ratios. They would complete the approval process, and would be ready at the time any homeowner desired an FHA loan. These criteria were then reviewed on an as-needed basis. If the HOA was in compliance with these criteria at that time a loan was being written, the loan could be FHA insured, and if the HOA was temporarily out of compliance, only then the loan was denied for FHA insurance.

In February 2011, HUD began requiring that the HOA meet these loan-level criteria as well as the typical standards for FHA Certification, at the time of Certification. This adds a level of complexity to HOAs who are seeking approval and operate near the maximums on ratios. They must watch and wait to submit the Certification package at the time when they are fully within the criteria.

This added administration is often-times hard for the manager to monitor. At Association Online™, we are here to help! Contact us, and we will monitor your HOAs FHA Certification status, and notify you when the HOA is approvable!

Insurance

Some condominiums associations insure condos from the exterior to the interior finishes and improvements. Others only insure the exterior building to the studs, and leave the “walls-in” coverage to the individual homeowners. This “walls-in” insurance is known as HO-6 coverage. HUD previously waived its requirement for homeowners to carry HO-6 insurance when the HOA did not cover this part of the structure. This waiver will expire on April 28, 2011; homeowners will be required to obtain HO-6 coverage in order to achieve FHA financing, if their homeowners association does not carry coverage from the walls, in.

A Mortgagee Letter that further explains 2009-46b, and the changes that have taken place in 2011, is expected out in the next few months. Its highlights and a link to the full version will be available on Association Online™ when it is released.

Association Online™

Jerie Schwab

info@associationonline.com

970-226-1324