

**The Only Thing Certain About The New FHA, Fannie Mae
and Freddie Mac Guidelines is That They Will Likely be Changed Again!**

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We've all experienced the effects of the ongoing "credit crunch" and the unavailability of mortgage loans. As such, the question of whether FHA, Fannie Mae and Freddie Mac loan programs will be available to condominium projects, and if so, under what circumstances, is very important to unit owners. After all, if these programs are available to one's condo development, this fact adds to the chances a unit owner can obtain a mortgage loan, and/or a prospective buyer of one's condo unit can get a purchase money mortgage loan to close the deal.

FHA neither builds homes, nor lends money directly -- what it does do is provides mortgage insurance that protects lenders against losses as the result of unit owners defaulting on their mortgage loans. FHA has again revised its guidelines for condo mortgages. The new guidelines went into effect on February 1, 2010, and are extensive (and complicated). The new approval process eliminates the old "spot approval" process that was used by lenders to qualify an individual buyer's condo purchase (where the condo project was not previously approved by HUD/FHA). In its place, is a new process which will certainly affect buyers, sellers, developers and community associations.

FHA projects must be certified, and then re-certified every 2 years. Reserve studies will need to be conducted, to assure adequate funds, which must not be more than 12 months old. The project must be covered by hazard and liability insurance, and, where applicable, flood insurance. No more than 15% of the total units may be in arrears of their Association dues (30 days past due). There are many more requirements -- including the requirement that 50% of the units must be owner-occupied, and not more than 25% of the property's total floor area can be devoted to commercial purposes. Condo-hotel projects, timeshares, houseboat projects and certain other types of projects are now ineligible.

There have been similar changes to the Fannie Mae and "Freddie Mac" regulations which need to be reviewed by your Association. FNMA ("Fannie Mae") was established in 1938 as a federal agency for the purpose of purchasing FHA loans. Freddie Mac was established in 1970 as a federally chartered corporation for the purpose of purchasing mortgages in the secondary market. Hence both Fannie Mae and Freddie Mac are important to mortgage companies, since these lenders must be able to sell their loans quickly to replenish their cash reserves (and Fannie Mae and Freddie Mac provide that outlet).

Under the new FNMA regulations, not more than 20% of the property can be commercial, there are budget requirements, and 51% owner-occupancy requirements. The

new Freddie Mac guidelines went into effect last summer, and set rules for eligible condo projects -- such as the requirement that the project be fully complete, with at least 90% of the units having been conveyed, with the unit owners controlling the Association. Like, the other programs, the new Freddie Mac regulations look at delinquency rates, owner-occupancy, replacement reserve budgeting, and proper insurance coverage.

Since it is critically important in today's mortgage market to try and qualify your condominium development and your Association for each of these mortgage loan programs, we can help assist you in understanding the ever-changing web of legal requirements that you must succeed in complying with. If you don't "do it right" the result is that your development will not be approved for these Federal programs, and your unit owners will not be happy. Call with your questions, and we can help guide you through the certification process.