

New guidelines in place for FHA-backed condo loans

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Many homes today are purchased using FHA-backed mortgage loans. One recent estimate is that at least 30 percent of condo purchases are made with such loans.

To qualify for FHA-backed loans, condominium projects must be approved by the FHA based upon specific guidelines. Those guidelines have been in flux for many months, and the FHA just issued comprehensive new guidelines June 30.

Some of the notable provisions:

All units must be 100 percent complete and the project must be at least one year old, although there are certain exceptions for condos with additional phases planned.

No more than 10 percent of the units may be owned by a single investor or entity.

No more than 15 percent of the owners may be delinquent in payment of condo association assessments.

No more than 25 percent of the condominium project's or a unit's floor area may be used for nonresidential (i.e., commercial) purposes.

The association must have a reserve account of at least 10 percent of the annual budget.

There may be no restrictions on an owner's right to convey the unit (there are exceptions for affordable housing).

At least 50 percent of the units must be owner-occupied.

Prior to 2008, FHA guidelines allowed leasing restrictions on condominiums.

Placing restrictions on the number of units that can be leased, and giving the condo association the authority to screen potential tenants, is very important to many communities, and many condos adopted new leasing restrictions over the past several years.

But in 2008, the FHA reversed course and determined that leasing restrictions would bar condominiums from qualifying for FHA-backed mortgages. After many months of uncertainty and changing regulations, and uproar from condominium communities, the FHA has revised its regulations to allow certain leasing restrictions. Those allowed restrictions include:

All leases must be in writing and the terms of the lease subject to the condo's governing documents.

The condo association may require the owner to provide a copy of the lease.

The condo association may require the owner to provide the names of all occupants (including family members) who will be residing in the unit.

Unit owners may be prohibited from leasing for terms of less than 30 days.

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The association may restrict the maximum length of leases (e.g., 6 or 12 months).

The association may restrict the total number of leased units in the project to no more than 50 percent.

The association may NOT require screening and approval of proposed tenants by the association.

If your condo declaration contains leasing restrictions, you may need to review them for compliance with these new regulations if FHA mortgage qualification is important to your community. If your existing leasing restrictions go beyond what is allowed by these new regulations, you may want to consider amending those restrictions to bring them into compliance.

A complete copy of the FHA guidelines can be found at:

www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/11-22mlguide.pdf.

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