

# QUORUM

WMCA'S MAGAZINE FOR COMMUNITY VOLUNTEERS, LEADERS, PROFESSIONAL MANAGERS, AND BUSINESS PARTNERS



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CONVENTION

# Popular Myths of FHA Financing

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In November 2009, the Federal Housing Administration ("FHA") adopted new requirements for purchasers to qualify for loans to purchase or refinance loans for condominium units. FHA lending is quickly becoming the dominant avenue for mortgage lending and these new restrictions on FHA loans for condominium units significantly impact condominium associations. The purpose of this article is to address some of the common misconceptions regarding FHA financing and to clarify the role of condominium associations in the loan approval process in light of these new regulations.

are attractive to people interested in purchasing additional properties.

**MYTH:** FHA financing is for low value markets

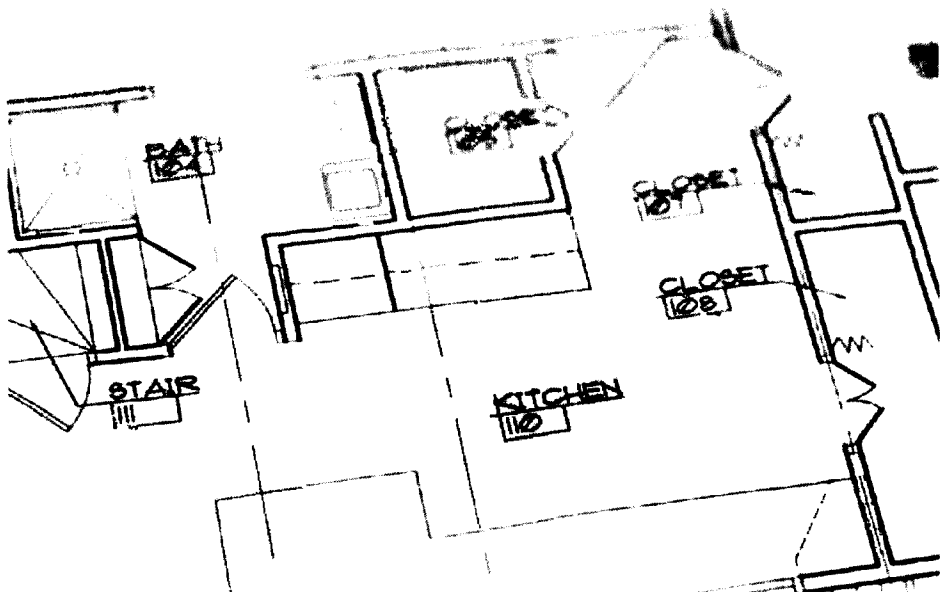
The current limit for FHA loans for counties in the Washington, DC metropolitan area in excess of \$700,000.00, yet the average cost of a condominium in this area for the first quarter of 2010 is \$234,500.00.<sup>1</sup> Accordingly, these loans would be available for purchases of higher end condominiums in the area.

**MYTH:** FHA financing is used by the buyer and mortgage broker and does not require condominium association involvement

Perpetuation of this myth will have an extremely negative effect on the ability prospective purchasers to buy condominium units. In the past, purchasers could obtain "spot loans," meaning that if the condominium association was not already approved for FHA, the purchaser could obtain approval of the association for that specific loan. **Spot loans are no longer permitted.** Accordingly, in order for a perspective purchaser

to use FHA financing is used by low income and first time buyers only.

Low income and first time buyers certainly find FHA financing attractive, especially since FHA allows purchasers to finance up to 97% of the price of the property's value. However, there are no household income limits to qualify for FHA loans, so they are attractive to purchasers at all income levels. Furthermore, FHA loans are available to fund or refinance all properties even rental properties. Accordingly, FHA loans



obtain an FHA loan, the condominium association itself must be approved by FHA through the formal application process before a loan will be authorized. (See FHA's Condominium Guidelines: What Condominium Associations Need to Know on page 25 for the requirements for a condominium association to be approved). While a prospective purchaser and their broker could undertake this process and obtain approval for the condominium association, it would require cooperation with the association to obtain the information required, may require fiscal action by the board which may not be feasible in a short time frame, if at all (see FHA's Condominium Guidelines: What Condominium Associations Need to Know on page 25), and would likely be an expensive process that the prospective purchaser would likely not be willing to undertake.

In 2007, FHA financed only 5% of condo mortgages, but in 2008 FHA financed 20% of condo mortgages, at least 25% of all condominium mortgages in 2009, and there is no indication that the desire for FHA lending in 2010 is slowing. Accordingly, if condominium associations are not approved for FHA loans, it is likely that it will eliminate 1/3 or more of prospective purchasers from purchasing a unit within that condominium

association. In light of the current housing market, condominium associations should be concerned about losing these prospective purchasers.

Unfortunately, all of the approvals of condominium associations done prior to these new restrictions expire on December 31, 2010. FHA has not yet released the procedures that condominium associations must follow in order to get approval renewed. It is anticipated that these procedures will be provided some time in late 2010. ☐

<sup>1</sup> Statistic obtained from Realtor.org



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