

FHA CERTIFICATION AND RE-CERTIFICATION

In recent weeks, we have received calls from our clients asking us about FHA Certification. To address the growing need for information on this subject, we have prepared the following Q and A to share with our clients and their managers.

What is FHA Certification?

FHA Certification is the process by which the Federal Housing Administration (“FHA”), a division of the United States Department of Housing and Urban Development (“HUD”), determines that a condominium association meets specific criteria that FHA believes will help minimize the risk of default on home loans on units within the project. When FHA certifies a condominium association, loans on units within the project are eligible to be insured by FHA. FHA Certification does not mean that buyers obtain their loans from the FHA. Eligible buyers of units in FHA certified associations obtain their loans from approved lenders and the FHA guarantees the loan.

Are Planned Unit Developments Also Subject to FHA Certification?

The FHA no longer requires PUDs to be FHA Certified and will grant FHA mortgage insurance on dwellings within PUDs.

What are the Benefits of FHA Certification?

Associations are not required to obtain FHA Certification. However, having FHA Certification may substantially affect the marketability of units in an association, especially those associations with many first time buyers. Boards of Directors should be concerned with protecting the marketability of units within the community to protect the interests of the association members.

Because FHA insured loans are backed by the Federal Government, the lender’s risk of loss associated with granting such loans is minimized. As a result of this reduced risk, lenders can offer borrowers of FHA insured loans lower interest rates and smaller down payments than with conventional loans. Moreover, FHA loans are the only loan product on the market that can be fully assumed by other lenders, making it a very desirable loan for lenders. These factors may make home buying in FHA Certified associations easier and accessible to more would-be buyers as evidenced by the fact that more than

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50% of home loans now being obtained nationwide are FHA insured.¹ The greater the marketability of units in a project, the more likely the property value of those units will be higher in comparison to similar units that are not in an FHA Certified project.²

There are other potential benefits to an association and its members collectively in having FHA Certification. The foreclosure rate on FHA backed loans has been shown to be less than non-FHA backed loans. Therefore, a FHA Certified association may have less of an issue with vacant, unmaintained units. Because the FHA requires full income documentation before qualifying a buyer for FHA backing, a FHA Certified association may have a lower percentage of owners delinquent in the payment of assessments than similar non-FHA Certified associations. Finally, the FHA requires the owners of FHA backed loans to occupy their units, reducing the number of tenant occupied units in the association.

Should My Condominium Association Pursue FHA Certification?

Notwithstanding the potential benefits of FHA Certification, FHA Certification may not be important for all condominium associations. Associations with few first-time homeowners,³ few foreclosures, high owner-occupancy rates and a healthy purchase market (i.e., associations where units tend to sell quickly when placed on the market) may not find the potential added benefits of FHA Certification worth the cost to pursue FHA Certification. Conversely, associations that have a substantial number of first-time homeowners, have sluggish unit sales, a higher number of rented units or have already been Certified may find FHA Certification well worth the cost.

To determine whether FHA Certification is important for your association, you will need to evaluate your association and weigh the potential benefits of pursuing FHA Certification with the costs. If you determine that you need help with this analysis, you may find it helpful to consult with an expert.

What are the Main Stumbling Blocks to Obtaining FHA Certification or Re-Certification?

While there are many requirements which, if not satisfied, could prevent an association from obtaining FHA Certification or Re-Certification, some of the most common stumbling blocks are:

- ✓ Failure to meet HUD's insurance requirements
- ✓ Failure to satisfy the requirement that no more than 15% of total units in the project be more than 30 days delinquent in the payment of assessments
- ✓ Failure to satisfy the 50% minimum owner occupancy rate on units
- ✓ Failure to have HUD required language in the CC&Rs

¹ This percentage is somewhat smaller in California.

² Please keep in mind that the FHA sets limits on FHA mortgage loan amounts that HUD will insure. FHA mortgage limits are set by county and are based upon Fannie Mae/Freddie Mac limits on conventional mortgage loan amounts. To obtain a current list of FHA/HUD mortgage limits for your county, go to <https://entp.hud.gov/idapp/html/hicostlook.cfm>. Unless the limits are raised for 2011, the limit is \$697,500 in San Diego County and \$500,000 for Riverside County.

³ Historically, first time homeowners accounted for a large percentage of FHA backed loans.

Is My Condominium Association FHA Certified?

To find out if your association is FHA Certified, please click on <https://entp.hud.gov/idapp/html/condlook.cfm>. A word of caution, while this link allows you to search for your association by name, you may find it easier to search by zip code. (Some FHA Certified associations are listed under the developer's name or a variation of the association's legal name.)

If you would like our assistance in determining whether your association is FHA Certified, please contact us.

Does FHA Certification Expire?

Yes, FHA Certification expires. To find out when your association's FHA Certification expires, please click on <https://entp.hud.gov/idapp/html/condlook.cfm>. Alternatively, if you know the date that your association was FHA Certified, the following chart will provide you with the expiration date:

<u>Year of Initial Certification</u>	<u>Anticipated Expiration Date</u>
1972 – 1980	December 31, 2010
1981 – 1985	December 31, 2010
1986 – 1990	May 31, 2011
1991 – 1995	July 31, 2011
1996 – 2000	August 31, 2011
2001 – 2005	September 30, 2011
2006 – September 2008	March 31, 2011

Certification for an association initially certified after September 2008 will expire two (2) years from the date the association was placed on the FHA list of approved condominium associations.

Can FHA Certification be Renewed?

If your association was initially FHA Certified on or after January 1, 2000, your association is eligible for re-certification provided the re-certification is obtained within six (6) months of the date the certification expires.

If your association was initially FHA Certified before January 1, 2000, your association is not eligible for re-certification. Likewise, if your association was certified after December 31, 1999 but re-certification is not obtained within six (6) months of the date of expiration, recertification is not available. This means that your association must go through a completely new certification process.

Is There a Difference Between FHA Certification and Re-Certification?

The re-certification process is a streamlined and less time consuming version of the certification process – especially if the association's governing documents have not been

amended since FHA Certification was originally granted. Thus, re-certification should be less expensive and time consuming than certification.

What Information and Documents are Required for FHA Re-Certification?

When applying for re-certification, the following information must be provided:

- ✓ Condominium ID number
- ✓ Legal name of the association
- ✓ Tax Payer ID (if available)
- ✓ Project address, including major cross streets; lot, block, plat, meters and bounds
- ✓ Legal description of project
- ✓ Date of project completion (phased projects require the date the first and last phases were completed)
- ✓ Whether the project contains manufactured housing
- ✓ A physical description of the project
- ✓ Name, address, phone number and e-mail address of application submitter
- ✓ Total number of planned legal phases in the project
- ✓ Number of completed units in the project
- ✓ Total number of units in the project
- ✓ Number of owner-occupied units
- ✓ Number of tenant-occupied units
- ✓ Number of units vacant and unsold
- ✓ Number of bank-owned units
- ✓ Number of investor owned units
- ✓ Number of units owned by each investor owner
- ✓ Number of units delinquent in paying assessments by more than thirty (30) days
- ✓ Number of defined affordable housing units
- ✓ Number of defined rent stabilized units
- ✓ Percentage of commercial space in project
- ✓ Date Declarant transferred control of association to the members
- ✓ Explanation of all pending litigation
- ✓ Information on any pending special assessments

Additionally, a number of documents must be provided, including the association's legal documents (e.g., CC&Rs, signed Bylaws, Plat Map), specified financial documents, management agreement (if applicable), FEMA Flood Map and evidence of all required insurance. Finally, a signed statement must be provided confirming either that the association's legal documents have not changed since FHA Certification was originally granted or that the changes made do not affect the eligibility of the project.

When Can My Association Submit an Application for Re-Certification?

Associations eligible for re-certification can submit their re-certification application, all required information and documentation, and signed statement that: 1) all condominium documents have remained unchanged since FHA approval was initially obtained or 2) the changes to the condominium documents do not affect the eligibility of the project, as early as six (6) months prior to the date FHA Certification is set to expire.

Are there Eligibility Requirements for Obtaining Certification or Re-Certification?

Yes. All legal documents must comply with state and local condominium laws, HUD regulations and the HUD policy statements, which are too numerous to list here.

Who Can Seek FHA Certification or Re-Certification?

A lender, mortgage company, builder/developer, attorney, association, management company or consultant can submit the application, required documents and information for FHA Certification or FHA Re-Certification.

Can EG&H Help My Association Pursue FHA Certification or Re-Certification?

Due to the growing importance of FHA Certification to our clients, we have decided to offer our clients assistance with reviewing and preparing the documents and information that must be submitted for FHA Certification or FHA Re-Certification; preparing the required attorney statement confirming that the legal documents comply with state and local law, as well as all HUD regulations and policy statements; and submitting the application.

If you would like a cost estimate on having us perform these services for your association, please contact us.