



## FHA Releases Condo Update—CAI Areas of Concern Addressed

The Federal Housing Administration released a long-awaited revision of its condominium project approval guidelines on September 13<sup>th</sup>. The revisions to FHA condominium guidelines are contained in Mortgagee Letter 2012-18 and expire on August 31, 2014. FHA states it is making temporary adjustments to its condominium standards in response to market conditions.

CAI has the new guidelines, Mortgagee Letter 2012-18, under review. FHA appears to have been responsive to several key CAI concerns including delinquency rates, fidelity insurance coverage, the condominium project certification statement, and limitations on commercial space.

Preliminary staff analysis show FHA policy changes in the following areas—

- » **Delinquencies**—No more than 15 percent of units may be more than 60 days delinquent. The 15 percent limitation includes all units in the project and FHA will not consider any exceptions to this standard. Previously, the guidelines used 30 day delinquency as a threshold. The change to 60 days is very beneficial to community associations.
- » **Employee Dishonesty Insurance**—All new and established condominium projects with more than 20 units shall obtain and maintain employee dishonesty insurance coverage. The association's policy must—
  - o cover all officers, directors and employees of the association
  - o all other persons handling or responsible for funds administered by the association
  - o the coverage amount must be no less than three months assessments on all units plus reserve funds unless State law mandates a maximum dollar amount of required coverage.
  - o If the condominium engages the services of a management company—
    - the company must have obtained its own fidelity coverage that meets FHA association coverage requirements; or
    - the association's policy names the management company as an insured; or
    - the association's policy includes an endorsement stating that management company employees subject to the direction and control of the association are covered by the policy

This is a substantial change to the previous requirements that required management companies to obtain separate fidelity insurance for each condominium.

- » **Project Certification (Appendix A)**—FHA will require that the individual submitting a condominium project for approval certify that—
  - To the best of their knowledge, the information in the approval request is accurate
  - They have reviewed the project application and upon the advice given by an attorney it meets all State and local laws
  - They have reviewed the application and it meets all current FHA condominium approval requirements, and
  - They have no knowledge of circumstances or conditions that may have an adverse impact on the condominium project (construction defects, substantial operational issues, or litigation, mediation, or arbitration issues)

Previous guidelines required much more onerous project certification attestation that had put the individual submitting the project approval for the condominium at risk for legal liability.

- » **Commercial Space Limitations**—FHA will consider condominium projects with commercial space of between 25 and 35 percent for projects through the HRAP process only. FHA will consider, on a case-by-case basis, exceptions for mixed-use condominiums with commercial space of up to 50 percent, but requires substantial documentation for consideration. All exception requests must be submitted for review through the Philadelphia Homeownership Center.

CAI will publish additional information and guidance following a complete analysis of the guidelines.