

# Open Access to Condominiums — Often the Most Affordable Homeownership Option; and Make Other Needed Housing Reforms

## Congressional Action Needed

Send H.R. 3700, the “Housing Opportunity Through Modernization Act” to the President’s desk. H.R. 3700 makes much needed reforms to the Federal Housing Administration (FHA) condominium loan program, federal assisted housing programs and Rural Housing Service loan programs.

## Congressional Actions To Date

- H.R. 3700, introduced by Reps. Luetkemeyer (R-MO) and Cleaver (D-MO) passed the House by a vote of 427-0.
- There is no companion bill in the Senate, and no time for a bill to move through the regular process in this short election year.

## What To Tell Your Representatives And Senators

- Thank your Representative for supporting H.R. 3700. The bill passed unanimously by a vote of 427-0.
- Urge your Senator to bring H.R. 3700 to the Floor of the Senate.

## Issue Background

Many first-time homebuyers turn to condominiums as a more affordable option for homeownership. Condominiums make up about 9 percent of the housing stock, but their share of the FHA portfolio is only 4.1 percent. Current FHA condo lending rules restrict the number of condos available to FHA homebuyers, thus limiting the often most affordable, appropriate choice for many families. Changes to the processing of rural housing loans will improve access for deserving families, and reforms to federally assisted housing programs will ease burdens for landlords and improve access for residents.

## H.R. 3700, “Housing Opportunity Through Modernization Act”

- Solves a number of concerns regarding FHA’s condo rules:
  - Reduces the FHA condo owner occupancy ratio to 35 percent, unless FHA takes alternative action to reduce the ratio below its current level.
  - Directs FHA to streamline the condo recertification process.
  - Provides more flexibility for mixed use buildings.
  - Mirrors the Federal Housing Finance Agency’s (FHFA) rules regarding private transfer fees for FHA condo lending.
- Provides permanent authority for direct endorsement for approved lenders to approve Rural Housing Service (RHS) loans.
- Makes reforms to federally assisted housing programs to streamline the programs.

## FHA’s Restrictions are Limiting Access to One of the More Affordable Homeownership Options

- Condominiums are often the first step on the housing ladder for first-time homebuyers.

- They also can be the most affordable and desirable option for single people, young families, urban dwellers, and older people looking to downsize.
- Currently less than 10 percent of all condos have FHA approval (according to the Community Associations Institute).

## FHA’s Condo Rules are Too Restrictive

- Current FHA rules require that no less than 50 percent of condo units are owner occupied. Freddie Mac and Fannie Mae have no such restriction when the home is being purchased as a principal residence, which all FHA borrowers are required to be. Since FHA reviews the financial health and reserves of the property to ensure they meet FHA requirements, owner occupancy ratios should be irrelevant.
- FHA limits commercial space to 25 percent of the property. The popularity of “town center” developments and multiuse properties make many newer buildings ineligible for FHA. Under the current rules, parking garages count as commercial space and can greatly skew the ratio. FHA does allow waivers, but they are rarely granted.
- FHA prohibits any kind of transfer fee — even those that benefit the homeowner. Freddie Mac’s and Fannie Mae’s regulator, the Federal Housing Finance Agency, conducted a rule making on this very issue several years ago and determined that transfer fees that benefit the homeowner are acceptable.

## Rural Housing Loans Should be Streamlined

- Many rural Americans rely on the 502 Rural Housing Guaranteed Loan Program to provide them with access to affordable mortgage credit.
- These loans are self-funded and budget neutral, meaning the fees paid by borrowers fully pay for the program.
- Today, every guaranteed loan must be individually reviewed by a staffer at the Rural Housing Service. FHA and VA’s mortgage insurance programs utilize approved private lenders for direct endorsement.

## Federally Assisted Housing Needs Reform

- Easing burdens on federally assisted property owners, managers and housing authorities will improve access to affordable rental housing.
- Nearly all the provisions in the bill have been supported in Congress but haven’t become law.

## Opposing Viewpoints

- H.R. 3700 passed the House 427-0 with NO OBJECTIONS. No individuals, think tanks, or groups have expressed concern with the legislation.