

March 11, 2021

Hon. Marcia Fudge
Secretary
Department of Housing and Urban Development
451 7th Street SW
Washington DC 20410

Dear Secretary Fudge:

Congratulations on your confirmation as Secretary of HUD.

We are writing to offer a series of recommendations to improve the Federal Housing Administration (FHA) approval process for FHA condominium loans.

In August 2019, the previous Administration adopted a final rule making a number of constructive changes to FHA condo rules, including extending the certification time frame from two to three years, providing more flexibility with respect to owner occupancy ratios, and increasing the allowable number of FHA loans in a single project.

However, we believe that additional action is needed to streamline and improve the FHA condo approval process in order to meet the program's full potential. We believe this does not require further rulemaking – but could be accomplished through operational and technology changes to make this process more efficient and effective. Specifically, we recommend that FHA use the Fannie Mae project approval process, as exercised through its “Fannie Mae Condo Project Manager.”

Therefore, we are enclosing a detailed set of recommendations to accomplish this objective, which can be generally summarized as:

- Publishing more transparent and detailed guidelines for FHA condo project approval.
- Giving lenders more autonomy in determining a project's eligibility for FHA approval.
- Relieving administrative burdens of condominium association boards and managers
- Focusing FHA's approval on projects a lender certifies as meeting key criteria for approval.
- Still requiring a full FHA review for certain types of projects or characteristics.

We would be happy to discuss these recommendations with you at length.

Community Home Lenders Association
National Association of REALTORS®
Community Associations Institute
Independent Community Bankers of America
Institute of Real Estate Management
Community Mortgage Lenders of America
National Association of Home Builders

Recommendations For Improved FHA Condo Approval Process

Reform of Process

Lenders would be given authority to self-certify (as is permitted by Fannie Mae and Freddie Mac) compliance with condominium approval requirements, which should be harmonized among housing-related federal agencies:

- HUD/FHA would publish guidelines or a chart with the requirements for a Condo Project to be approved.
- The lender would review documents to determine and self-certify compliance with the Condo Project Eligibility.
- After closing, lender would send the following documents to HUD/FHA, so that can carry out appropriate Quality Control and oversight:
 - HUD Form 9991
 - Certificate of HOA Insurance
 - Current Year Budget
 - Project By-Laws and Covenants and Restrictions

HUD's review under the self-certification process above shall be considered a "Limited Review" - that the project meets the following criteria:

- Owner-occupied or HUD approved Second Home transactions only.
- Total number of units in the project 5-20.
- Less than 25% commercial/non-residential space.
- HOA turned over to the Association for at least one year, and the developer is no longer in control.
- Project is not subject to additional phasing.
- HOA retains a minimum of 10% of HOA dues as reserves.

Projects not meeting the above criteria would be considered a "Full Review" by HUD/FHA and all necessary documents would have to be submitted to HUD/FHA for review and approval.

Construction Projects

Review and consider lifting the prohibition of proposed and under construction condominium projects.

Benefits to HUD/FHA by adopting this policy:

- Fewer resources required to review Condo Projects for HUD/FHA.
- Expanded access to FHA-insured mortgages for condominium unit owners/purchasers.
- Foundation to build a more robust list of FHA Approved Condo Projects.
- Reallocation of HUD resources to review the "Full Review" Projects in a more timely manner.
- In the future, the ability to utilize funding to build out an automated Condo Project review system similar to the Fannie Mae Condo Project Manager.