

July 30, 2013

The Honorable Carol Galante
Assistant Secretary for Housing /Federal Housing Commissioner
U.S. Department of Housing and Urban Development
451 7th Street, S.W.
Washington, DC 20410

Title: Notice of Proposed Information Collection: Comment Request; Condominium Project Approval Document Collection

Docket No: FR-5687-N-25

Dear Commissioner Galante:

We are writing on behalf of the one million members of the National Association of REALTORS® (NAR), the more than 140,000 members of the National Association of Home Builders (NAHB), the more than 30,000 individual members and 60 local chapters of Community Associations Institute (CAI), and the 18,000 members of the Institute for Real Estate Management (IREM) to recommend enhancements to Federal Housing Administration's (FHA) condominium certification process. We hope to ease the burden on condominium projects interested in applying for FHA certification without causing additional risk to the Mutual Mortgage Insurance Fund (MMIF).

To understand the impact of condominiums on the U.S. housing market, we offer the following statistics:

- According to the Foundation for Community Association Research (FCAR), there are approximately 145,000 to 155,000 condominium projects in the U.S.¹ Approximately 10 percent, or 14,650, of these projects are FHA certified.²
- According to FHA data, in 2011 approximately 20 percent of the nearly 7,000 condominium projects seeking FHA approval were denied. So far in 2013, approximately 60 percent of the 3,500 condominium projects seeking FHA approval have been denied.³

¹ Foundation for Community Association Research, *Statistical Review 2012, For U.S. Homeowners Associations, Condominium Communities and Housing Cooperative*. <http://www.cairf.org/foundationstatsbrochure.pdf>

² FHA Approved Condominium Map, Retrieved July 21, 2013, from FHA Review by a|v|s. <http://www.fhaapprovedcondomap.com/>

³ Approved/Rejected Certification Comparison, Retrieved July, 21, 2013, from U.S. Department of Housing and Urban Development, Condominiums page. <https://entp.hud.gov/idapp/html/condo1.cfm>

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- Condominium unit mortgages are among the strongest performing in the FHA portfolio. According to FHA data, the combined serious delinquency and claims rate for new condominium projects is 0.85 percent and 0.80 percent for existing projects. This compares to the average of all outstanding FHA-insured mortgage loans which, at the end of May 2013, had an 8.27 percent combined seriously delinquent and claims rate.⁴

It is on this basis that we recommend establishing a new FHA condominium program structure that is less burdensome to American households who own condominium units or are interested in purchasing a condominium unit with an FHA-insured mortgage.

We recommend the Department of Housing and Urban Development (HUD) consider incorporating these recommendations in the document collection process of FHA condominium project certification: 1) extend the timeframe for recertification, 2) simplify the recertification process, and 3) coordinate with the Government Sponsored Enterprises (GSEs) and other agencies.

Extend the Timeframe for Recertification

- Condominium projects are currently required to undergo FHA recertification every two years. This is a drastic change from the previous process (prior to 2008) that did not require recertification. We agree that a periodic recertification is beneficial to ensure the condominium project is in compliance with FHA guidelines and that enforcement of these guidelines is an important risk mitigation and management tool. To maintain the benefits of recertification while reducing the regulatory burden on condominium associations, we propose FHA consider extending the timeframe for recertification to a minimum of five years.
- The two year recertification requirement is a significant cost burden as compliance with FHA project approval standards leads many condominium associations to engage FHA approval consultants or attorneys to assist in the certification process. The average cost of obtaining FHA approval where a condominium meets all FHA standards ranges between \$1,500 and \$3,000.
- In addition to costs, the recertification process requires the production and submission of full documentation, an often labor intensive process that provides FHA with the same documentation that was submitted to the agency two years earlier.

⁴ Serious Delinquent/Claim Comparison, Retrieved July 21, 2013, from Neighborhood Watch, Early Warning System. <https://entp.hud.gov/sfnw/public/>

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- In practice, the two year recertification is more often an 18 month recertification as many project consultants advise their association clients to begin the recertification process at least six months prior to approval expiration. This is often necessary for the condominium to avoid a lapse in certification due to unforeseen circumstances or new guideline interpretations that do little to protect the MMIF but require substantial action on the part of associations (i.e. amending governing documents).
- Extending the approval timeframe from two to five years will also provide relief for the FHA Homeownership Centers (HOCs). The extension will give the FHA HOCs an opportunity to take the time to fully review project applications and recertifications.

Simplify the Recertification Process

- The FHA condominium recertification process is in practice the same procedure as applying for the initial FHA approval. This is an unnecessarily burdensome process for both the condominium project and FHA.
- We propose FHA use an electronic filing system to maintain project documents so that condominium associations only submit documents that have undergone amendment or change since the project's initial certification.
- An electronic filing system, similar to that employed within FHA's multifamily housing mortgage insurance program, will increase efficiencies within FHA and improve data accuracy, while eliminating costs for all parties.
- Simplification of the certification and recertification processes will increase the number of condominium associations seeking FHA approval. While many condominium association boards believe it is important to have FHA approval, many fail to submit a certification application due to the onerous compliance burdens. Complicated paperwork collection requirements, consultant and attorney fees, the volume of program requirements, and seemingly arbitrary interpretations of program rules create an environment where boards simply do not believe FHA approval will provide a sufficient return on investment.
- A condominium association is governed by its residents, which means members of the board of directors are volunteer homeowners. While FHA approval is important, when the approval and recertification process is viewed as burdensome and complicated, these volunteer community leaders must make the choice of how resources are best spent. When association boards know that 60 percent of condominium associations that seek FHA approval are denied, the decision not to submit an approval package seems prudent.

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Coordinate with the GSEs and Other Agencies

- As Congress debates changes to our nation's housing finance system, we believe an opportunity exists to align and harmonize condominium approval standards across the housing finance system.
- We encourage HUD to take a leadership role in creating consistent condominium approval guidelines with Fannie Mae, Freddie Mac, the Department of Agriculture, and the Department of Veteran Affairs and other agencies involved in housing finance for Americans. Regulatory alignment will result in a greater compliance rates and will establish a less burdensome, but risk sensitive, approach for condominium project approval.

Improving the certification process for condominiums will benefit all parties in the real estate transaction. Lenders will have the opportunity to move more real-estate owned properties off their books because more units will be eligible for buyers with FHA mortgages. Individuals and families will have a wider choice of condominium developments, and will have access to more flexible and affordable financing opportunities to purchase within these developments. Existing owners in these developments benefit as vacant units are purchased and occupied and the owner-occupied ratio increases. Finally, improving the health of condominium developments will reduce risk to the MMIF.

Considering the strong performance of recent loans made under the revised underwriting criteria makes a compelling case that more relaxed rules are warranted - not more restrictive ones. Enhancements to FHA's condominium rules will ensure the still fragile housing recovery stays on track and will protect the long-term value of homeownership in the U.S.

Thank you for your consideration of our views in this matter.

Sincerely,

Community Associations Institute
Institute of Real Estate Management
National Association of Home Builders
National Association of REALTORS®