

## **Investor Report: Condo Loan Rules**

*by Kenneth R. Harney*

FHA has come out with its long-awaited rules on condominium loans, and they're a mixed bag for investors, second home and other buyers and sellers.

On the one hand, the rules allow lenders a lot of more flexibility in reviewing condo project eligibility and documentation. That's good -- it should allow more lenders to increase their condo activity in the red-hot FHA segment of the market.

On the other hand, the agency is imposing a number of important restrictions. Here's a quick overview of the rules:

Units in condo hotels are prohibited. Ditto for units in time share or "segmented ownership" projects, houseboat condo developments, and projects where there are multiple dwellings inside single condominium units.

FHA said it won't insure units in condominiums where more than 25 percent of the total space is allotted to commercial uses, such as retail stores or offices. In fact, the agency made a point of emphasizing that it will reject loan applications from any property that it deems not "to be primarily residential" in character.

FHA also won't insure condo loans if more than 10 percent of the units are owned by investors. That's a much stricter standard than Fannie Mae's, which permits up to 49 percent of units to be investor owned. The 10 percent rule applies as well to situations where a builder or developer is left with unsold units and rents them out.

The agency won't endorse loans from projects where less than 50 percent of the total units already have been sold, or where less than 50 percent of the units are owner-occupied or sold to buyers "who intend to occupy them."

FHA doesn't even want to insure loans on units located in buildings with heavy concentrations of units that are FHA-financed. If more than 30 percent of the unit owners in a project took out FHA-backed loans, the agency doesn't want to do any more business in that condominium.

In a concession to rental apartment project investors who convert their buildings to condo, FHA is abandoning its current one-year mandatory waiting period before considering loan applications on condo units.

Finally, FHA said it doesn't want to have anything to do with condo projects that might be affected by negative environmental factors. For example, it won't insure units in buildings located within a thousand feet of a major highway - it wants to avoid adverse noise pollution impacts on property values - or within three thousand feet of a dump, landfill or EPA Superfund site.

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