

Condo crunch

New FHA lending regulations could affect communities

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The Hemingway condos in Oklahoma City. The Federal Housing Administration is tightening its standards for FHA-backed mortgages on condominiums. (Maik Sabolich)

OKLAHOMA CITY – Quail Springs Condominiums homeowner Barbara Barrowman likes her quiet community near Quail Springs Mall, just off Pennsylvania Avenue.

She’s lived in the gated, tree-lined complex near the John Kilpatrick Turnpike for eight years and has worked as the community manager there for the past four years. Quail Springs was built in 1982 and attracts retirees and college students from the nearby University of Central Oklahoma.

“The people here are nice,” Barrowman said. “The fact that there’s homeowners here makes it different than an apartment complex. It’s just a great place to live.”

The Federal Housing Administration is tightening its standards for FHA-backed mortgages on condominiums, which could affect home sales in Quail Springs and thousands of similar condominium developments across the country.

Along with about 80 other condominium developments scattered across Oklahoma, Quail Springs Condominiums’ certification for FHA lending is set to expire on Dec. 31, meaning Quail Springs homebuyers will not qualify for FHA-backed mortgages to buy units there unless the complex goes through a rigorous recertification process.

The FHA certification for about another 90 condominium developments across Oklahoma will expire over the next two years, according to the U.S. Department of Housing and Urban Development.

The certification process involves a paperwork check to ensure the development is up to FHA standards. The check includes things like ensuring at least half of units in the complex are owner-occupied, and that most homeowners are paid up on their homeowners association dues.

Barrowman said she was unaware that Quail Spring's FHA certification was about to expire. The U.S. Department of Housing of Urban Development has been working to notify FHA lenders, but some local condominium homeowners and homeowners associations say nobody has told them about the changes.

"You would think that somebody would care to tell us, but we've had no notification," Barrowman said.

Certification for all condominium developments approved for FHA loans before 1985, like Quail Springs, will expire by the end of the year. Before, condominiums were not required to get reapproved for homeowners to receive FHA-backed financing. The new required reviews will ensure that condominium developments continue to meet Department of Housing and Urban Development standards, said Lemar Wooley, a spokesman for HUD.

"Project recertification or reapproval has been an option, but no reviews were routinely conducted to ensure that the condominium project continued to meet all requirements," Wooley said.

HUD is also doing away with so-called spot approvals for condominium loans, meaning buyers can't finance a condo with the help of FHA unless the entire condominium project goes through a detailed approval process with a lender.

The new requirements were put into place to protect FHA from higher-risk mortgages, Wooley said.

"New requirements were issued to ensure that individuals have affordable, sustainable homeownership opportunities while managing and mitigating the risk to the insurance fund," he said.

Edmond attorney Matthew Winton, who specializes in legal issues involving community associations, believes the new regulations could hold homeowners associations to higher standards if a community wants FHA approval.

"Having an association look at its governing documents, their budgets and how they operate every two years is not necessarily a bad thing, especially in Oklahoma, where we have such hands-off regulations for homeowners associations," Winton said.

Condominium owner Geneva Hudson, who has owned a 1,200-square-foot unit in Norman's The Meadows development since 1993, believes the new requirements will hit homebuyers and homeowners in lower-income brackets the hardest.

"Condo owners are some of the first ones that feel the crunch," Hudson said. "They're usually lower-income people, because condos don't cost as much as a house."

Hudson fears the new regulations will make it harder for potential buyers to finance a condo, and said they might also make it harder to sell a condo.

"None of this has anything to do with Oklahoma, it's all because of the real estate market in places like Florida," Hudson said.

The FHA financing is attractive to many condominium buyers because of the affordable 3.5-percent down payment.

The FHA was created as part of banking reforms during the Great Depression. Today, the agency is the largest government mortgage insurer in the world. The FHA insured more than 38 million home mortgages since its inception in 1934.

The U.S. residential real estate market has become increasingly dependent on FHA-backed mortgages after the subprime lending crisis.

About 20 percent of mortgages written so far in 2010 have been FHA-backed loans, according to the trade publication Inside Mortgage Finance.