

Excerpts From CAI National's Guide to FHA Certification



WHAT IS FHA?

Established as an independent federal agency by the National Housing Act of 1934, the Federal Housing Administration (FHA) is the world's largest insurer of home loans. To protect tax payers and homeowners, FHA only insures mortgages that meet the agency's standards and are originated by FHA-approved lenders. FHA does not lend taxpayer money and does not originate mortgage loans.

WHAT IS AN FHA-INSURED LOAN?

An FHA-insured loan is a mortgage loan that meets all FHA credit and property standards, is originated by an FHA-approved lender and is insured by FHA. Borrowers are assessed a onetime mortgage insurance premium at closing and then pay mortgage insurance premiums as a component of their monthly mortgage payments. All FHA mortgage insurance premiums are deposited in the Mutual Mortgage Insurance Fund, which backstops most FHA programs and protects taxpayers from covering mortgage losses. In FHA's more than 80-year history, taxpayers have never been called upon to pay any FHA mortgage insurance claims.

WHAT IS FHA CERTIFICATION?

FHA condominium certification is the process of verifying that a condominium association meets all FHA legal, financial, operational and property requirements. A borrower may not use an FHA-insured mortgage to purchase a condominium unit unless the condominium association has been certified by FHA and the association is in full compliance with all FHA program requirements at the time of purchase.

IS THE FHA CERTIFICATION PROCESS NEW?

Condominium certification of some form is required by the different elements of the housing finance system. Fannie Mae, Freddie Mac, FHA, the Veterans Benefits Administration, and the U.S. Department of Agriculture have procedures to verify that condominium associations meet each agency's respective standards before a consumer uses a mortgage to purchase a condominium unit.

FHA instituted significant reforms to its condominium certification process in 2009, making additional refinements during the past few years. In many cases, FHA has acted to ease pressure points in the certification process that served to discourage condominium associations from seeking FHA certification or renewing an existing FHA certification.

DOES FHA CERTIFICATION EXPIRE?

FHA certification is valid for two years. Condominium associations may begin the recertification process up to six months prior to the certification's expiration date. To determine when a condominium's FHA certification expires or if a certification is still valid, visit <https://entp.hud.gov/idapp/html/condlook.cfm>. Currently, the FHA condominium recertification process requires applicants to submit all of the materials required for submission for the original certification applicant. To assist your community with recertification, you should keep a copy of the initial condominium certification application.

IS FHA CERTIFICATION IMPORTANT?

While FHA certification is not mandatory for condominium associations, there are clear benefits for homeowners and prospective buyers if the association secures and maintains FHA certification.

These benefits include:

- A larger pool of potential homebuyers, which increases the value and marketability of units
- A larger percentage of owner-occupied units, since FHA will only insure mortgages used to purchase a primary residence

For some condominiums, FHA certification is not necessary or practical. For example, if all units in a condominium association are priced above the maximum mortgage amount (\$650,000) that FHA may by law insure, there is little need for the association to seek FHA certification. Further, certain types of properties, even if organized under a state

condominium statute, are ineligible for FHA certification. Examples include time-share properties, hotel or condo-hotel properties, houseboat condominium communities and condominiums located in a designated coastal barrier zone.

COMMON MYTHS ABOUT FHA CERTIFICATION

Myth: FHA-insured loans have a higher default rate

Federal government data show that the default and claims rate for FHA mortgages is at a low level. The combined seriously delinquent (90-days delinquent) and FHA insurance claims rate (where FHA actually takes a loss) for new condominium projects (less than 2 years old) is .94% over the past two years.

The combined seriously delinquent (90 days delinquent) and FHA insurance claims rate (where FHA actually takes a loss) for existing condominium projects (more than 2 years old) is only .68% over the past two years. Over the past two years, FHA has had 241 condo loans hit the 90-day+ delinquency standard, but of that number, only 5 loans have gone to the claim point where FHA has actually taken a loss.

Myth: Owners with an FHA-insured mortgage have less equity and are more likely to abandon their homes

FHA-approved lenders and mortgage servicers are required to quickly identify and offer assistance to FHA borrowers having trouble making their monthly mortgage payments. This mandatory assistance includes loan forbearance in the case of long-term unemployment, payment restructuring, and other options to help owners remain in their homes. FHA will also work with financially troubled borrowers to lease their homes to avoid default. FHA foreclosure prevention and loan-loss mitigation procedures significantly reduce the likelihood of foreclosure while encouraging borrowers to remain in their homes.

Myth: FHA certification is cumbersome and costly

FHA does not charge a fee for condominium certification or recertification. As an additional encouragement for condominium associations to apply for certification, FHA does not require sponsorship by a lender or that associations use the services of a consultant or attorney when applying for certification. Associations may submit directly to FHA for certification.

Condominium associations that do not wish to manage the FHA certification process often seek out the services of FHA certification consultants or attorneys. These professionals have a wealth of knowledge concerning FHA requirements and can identify and help the association address any potential roadblocks to obtaining FHA certification. See pages 11-14 for a list of project consultants and attorneys who offer FHA condo certification services.

APPLYING FOR APPROVAL—DELRAP AND HRAP

There are two ways a condominium association may be approved for FHA certification. One method is applying through an FHA-approved lender; the other is condominium associations applying directly to the U.S. Department of Housing and Urban Development (HUD). An FHA-approved lender may submit a condominium association for approval through the Direct Endorsement Lender Review and Approval Process (DELRAP). Under this process, the association works with a qualified and FHA-approved lender to obtain certification. Lenders are more likely to submit a condominium association for certification under the DELRAP option if there is a sufficient volume of sales in that condominium community.

Condominium associations may also apply for FHA certification under the HUD Review and Approval Process (HRAP). Under the HRAP option, the association collects and assembles the necessary documentation and submits a certification application to FHA. Associations using the HRAP option often engage the services of an FHA certification consultant or attorney to assemble and submit a certification application to FHA. This is a matter of expertise and convenience for the association—the use of a consultant or attorney is not a requirement for certification under the HRAP option.

The complete guide to FHA Certification may be found at: www.caionline.org/search/pages/results.aspx?k=fha%20certification. ▲

Don't miss the Palm Springs Regional Association of Realtor's FREE Lunch & Learns on the last Tuesday of every month, from 11:00 a.m. to 2:00 p.m. Call (760) 320-6885 for reservations.

