

## FHA Update: FHA Lowers Owner Occupancy Threshold

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Practice Area: Community Associations

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In a recent announcement, the Federal Housing Administration (FHA) continued a trend of easing the requirements for condominiums to be eligible for FHA financing. For a condominium to be approved for FHA financing, it must meet certain criteria regarding reserve funding, insurance coverages, delinquencies, and the percentage of rentals, among other things.

FHA has always looked at the percentage of units occupied by owners as a litmus test of the financial health of a condominium association. FHA's view is that owner occupied units help to stabilize the financial viability of associations because owners are less likely to default on their obligations to the associations than investors or tenants. FHA further believes that owner occupants are incentivized, and, therefore, more likely to cooperate with other unit owners to ensure successful operation of the condominium. For example, owner occupants may care more about the maintenance of the property and have more respect for association rules.

Prior to 2008, the required threshold for owner occupancy was as high as 80%. While this number has changed over the years, the current minimum requirement for owner occupied units is 50%. On October 26, 2016, FHA lowered the minimum owner occupancy requirement to 35% for certain condominium associations that can provide additional assurances of financial stability.

If an existing condominium project—defined as greater than 12 months old—has an owner occupancy percentage of at least 35% but less than 50%, it must meet the following additional conditions in order to be eligible for certification:

1. At least 20% of all budgeted income must go toward a reserve account for capital expenditures and deferred maintenance (as opposed to 10%).
2. No more than 10% of the total units can be in arrears—defined as more than 60 days past due—on their condominium association dues (as opposed to 15%).
3. The Association must submit 3 years of financial documents as part of its application, which includes budgets, balance sheets and Income/Expense statements (as opposed to only the current year's financial documents).
4. Applications must be submitted for processing and review under the HUD Review and Approval Process (HRAP) option (as opposed to being reviewed directly by lenders).

As you can see, as a tradeoff for allowing associations to get approved with a lower owner occupancy percentage, the FHA has put a bigger burden on associations to prove they have been consistently financially stable for a longer period of time.

We have helped many associations obtain FHA approval and this recent change will make more Associations eligible. Obtaining FHA approval for your Association will help to make units more marketable for sale because the pool of potential buyers will be larger. Let us know if we can help your association get approved.

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