How To Jump Through Condo Loan Hoops

The borrower has to qualify for a loan, and so does the condo association. The FHA has different condo-lending standards from Fannie and Freddie. When the condo is deemed "nonwarrantable," few options remain.

Borrowers run into two problems when getting a mortgage on a condominium: strict standards that make it hard to qualify for a condo loan, and high costs.
These issues beset condo buyers who want to get mortgages as well as people who already own condos and want to refinance.

Compare mortgage rates:

Condo loans have to jump through two hoops. First the borrower has to qualify. Then the condo association has to qualify. The borrower has little or no control over the latter.

"Condo financing is very situational because it depends not only on the borrower, but also on the project itself". "The guidelines have tightened because lenders want to see a financially healthy condo development. They want to see a higher concentration of owner-occupants and they want to see that delinquency rates on condo fees are low."

Standards differ:

Lenders follow guidelines from the Federal Housing Administration, Fannie Mae and Freddie Mac for condo mortgages.
Among Fannie Mae's requirements:

- More than half of the condo units must be owner-occupied.
- No owner may own more than 10 percent of the units.
- No more than 15 percent of owners can be delinquent on condo dues.
- All amenities must be completed if the development is more than 12 months old.
- Buyers who make a down payment of less than 25 percent will pay an additional 0.75 percent of the loan amount at the closing or a higher interest rate of about 0.25 percent.

The FHA has much friendlier down payment requirements, but strict guidelines for condo associations.

"It's a misconception on the part of the public that you can't buy a condo without a big down payment" "The rules are stricter now, but if you find a building that has already earned an FHA approval, you can get in with a down payment of 3.5 percent. FHA approval depends on the financial health of the condo, so the condo association needs to prove that they have adequate insurance, a budget with reserves, no pending lawsuits and no anticipated special assessments."

Where to begin:

Condo buyers should start by checking to see if a building is approved for FHA loans. If not, they can ask the lender to see if the building meets Fannie Mae and Freddie Mac guidelines. Buyers can ask condominium managers if they have recently completed a homeowners' association certification or questionnaire, which provides information on condo fee delinquencies, insurance and other factors that affect eligibility for loans.

"Even if the condo meets the Fannie Mae guidelines, buyers may find that they must make a down payment of 20 percent or more because mortgage insurance companies are less willing to provide mortgage insurance on condo loans, since they are considered riskier" "In fact, most mortgage insurance companies won't insure a Florida condo. It may be easier in other markets."

Options thin out:

Condos that are not approved for FHA or Fannie Mae financing are known as "nonwarrantable" and offer few options for buyers or refinancers.

"Buyers can either pay cash or they can look for a local bank that is willing to lend, but they should be prepared with a hefty down payment of 50 percent or more, have excellent credit and still be prepared to pay a higher interest rate," McClellan says. "They should expect to pay as much as 7.5 percent when rates are 4.5 percent for other loans."

Homeowners interested in refinancing will first need to face the potential problem of a lack of equity, since condo values have dropped in many areas.

"Condo owners can ask their management company if their complex is FHA- or Fannie Mae-approved, and if not, they may want to contact a local lender to see if they start the process for obtaining an approval." "It's in the best interest of all the owners to do what they can to meet FHA guidelines, since that approval can increase the value of all the homes in the development."