



## Learn Everything You Need to Know About FHA-Approved Condos

### Description

Condos certified by the Federal Housing Administration (FHA) allow condo owners to obtain FHA loans rather than conventional mortgages, which need a significantly smaller downpayment and a lower credit score.



To qualify for this loan, your condo must fulfill certain conditions established by the Department of Housing and Urban Development (HUD) and pass the FHA condo approval process.

If you're unsure if you want to keep renting but aren't quite ready to own, buying a condo is an excellent compromise.

While condos are excellent choices for people seeking more affordable homes while accumulating equity, condo mortgages can be costly.

FHA-approved condos come in helpful in this situation.

An FHA-approved condo is similar to a regular condo, except that the development meets HUD regulations and can be paid for with an FHA loan, allowing persons with lower incomes or credit scores to qualify.

Due of the regulations and certification process, determining which condominiums are FHA-approved might be difficult.

Fortunately, Jerry, the excellent house and auto insurance app, is here to assist.

We've put up a comprehensive guide that covers all you need to know about FHA-approved condos.

## **What exactly is an FHA-approved condo?**

An FHA-approved condo is comparable to a conventional unit.

FHA condominiums are still private units within a larger complex containing other teams that share amenities such as parking, gyms, pools, and other building assets.

So, what's the distinction?

FHA-certified condos, as opposed to conventional condos, must meet specific conditions established by the US Department of Housing and Urban Development (HUD) and are approved by the Federal Housing Association (FHA).

This approval permits buyers to purchase the unit using an FHA loan rather than a traditional mortgage.

Condominium projects must have the following features to be approved:

- Evidence of adequate insurance coverage
- Financial planning and documentation demonstrating how the project's budget is managed
- Status of outstanding lawsuits
- Documentation of the project's current state

## **Loan Requirements for FHA**

Considering an FHA-approved condo is the first step toward securing an FHA loan.

There are a few other requirements you must meet before being authorized for this type of loan:

- A credit score of at least 580 is required.
- A minimum down payment of 3.5 percent of the purchasing price
- A debt-to-income ratio of 50% or lower

Ability to pay closing charges and the upfront mortgage premium if your loan does not cover them.

## **What you should know about the FHA condominium approval**

## process

If you want to receive an FHA loan on a condo that isn't currently FHA approved, the unit must go through an approval process before applying for your loan.

To begin, condo buildings or individual units must go through either the HUD Review and Approval Process (HRAP) or a Direct Endorsement Lender Review and Approval Process (DELARAP) (DELRAP).

After the necessary paperwork is completed, the FHA must appraise the building or unit to ensure it meets the requirements for approval.

The entire process can take two to four weeks, depending on a few factors:

- The age of the building, as older buildings can take longer to approve.
- FHA's current caseload
- How quickly the FHA receives the documents
- How many regulations the building or condominium satisfies

## FHA condo approval criteria

Here are a few critical conditions for an FHA-approved condo building:

- In buildings with ten or more units, FHA can cover up to 10% of the units.
- If the building has fewer than ten units, FHA loans are only available for two of them.
- At least half of the units must be owned rather than rented.
- The condo must have the necessary insurance and hold at least 10% of the Homeowners Association (HOA) budget in cash.
- At least 85 percent of the units must be current on their condo fees.
- A maximum of 35% of the property may be used for commercial purposes.
- Every three years, the building must be recertified to ensure that it continues to meet these requirements.

## Approvals for FHA condo spots

FHA approval rules have recently been relaxed to allow individual units to obtain FHA clearance without the entire building being authorized, making it considerably easier to obtain an FHA loan when purchasing a condo. This is known as "spot approval."

To get spot approved, your condo must meet the following criteria:

- Your condo must be ready to move into.
- The total number of units in the building must be at least five.
- For spot-approved condos, manufactured housing (mobile houses) is not permitted.
- In buildings with 10 or more units, FHA can cover up to 10% of the units.
- If the building has fewer than ten units, FHA loans are only available for two of them.

- Your lender must submit a questionnaire to HUD for approval.
- HUD uses this questionnaire to determine whether your condo qualifies for FHA financing.
- If HUD is happy with the questionnaire responses, your unit will be designated as a new condominium project that is FHA insurable.

## The benefits and drawbacks of FHA-approved condos

There are some advantages and disadvantages to acquiring an FHA-approved condo. Here are the most prevalent advantages and disadvantages:

### Pros

- **Loan qualification conditions are less stringent:** With an FHA-approved condo, you may qualify for an FHA loan, which requires only a 3.5 percent down payment and a credit score of 580.
- **Your mortgage could be less expensive:** Condos are often less expensive than detached residences. Therefore your monthly payments will be lower than those of a house mortgage. An FHA loan also has lower upfront costs.

### Cons

- **Mortgage insurance is required:** While your upfront and monthly payments are often lower than if you purchased a home, FHA loans have additional fees. You must pay 1.75 percent of the loan amount up front and an annual charge ranging from 0.45 percent to 1.05 percent of the loan amount to cover mortgage insurance costs.
- **It's an adversarial process:** FHA-approved condos are in high demand, but even those with less strict requirements are in short supply. Other buyers are likely interested in the apartment you're considering, which can drive the price considerably above the asking price.

## How can I find out whether my condo is FHA approved?

On their condominiums search tool page, the HUD maintains an online database of all FHA-approved condos, which is the quickest and easiest way to determine whether your condo is FHA approved.

Whether you're looking for a condo you already own or one you want to buy, be sure the status is set to "approved."

This ensures that all of the condominiums in your search results are FHA-approved.

### Category

1. Lifestyle

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