CHELSEA TOWER COMMUNITY GROUP MEETING
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# PRESENTATION ON FHA

Presenters
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The Federal Housing Administration (FHA) was created after WWII to help finance housing. It is part of the Department of Housing and Urban Development. FHA mortgages are originated by individual lenders and insured by HUD. During the real estate boom, FHA was not a big player in the mortgage lending arena. After the real estate bust, FHA became a major player in the mortgage loan iprocess. Approximately 15 – 20% of all buyers in the DC area. today use FHA to buy a home. FHA is the “go to” lender for mortgagew with small down payments.

Buyers may use FHA financing to obtain mortgage loans or they can use conventional mortgage loans. The benefit of obtaining an FHA mortgage is that is a minimum down payment requirement of only 3.5% where conventional mortgages require a larger down payment. All FHA loans required mortgage insurance. To avoid mortgage insurance, a buyer must put down 20% of the sales price and take out a conventional loan. FHA sales are attractive to first time home buyers who often don’t have large enough savings for a big down payment.

FHA and Chelsea Tower
In order for a condominium unit to be sold using FHA ifinancing, the entire condominium must be approved by FHA. Chelsea Tower lost its FHA approval on January 10, 2013. Therefore, new buyers will not be able to obtain an FHA loan and will need to put down a greater down payment. People coming to buy a condominium with an FHA approval will not be able to buy in Chelsea Tower at this time . Only conventional financing may be available at this time. FHA loans will not be able to be assumed. Condominium owners who wish to re-finance or take out a reverse mortgage or have an FHA insured loan, will not be able to use the FHA process to re-finance or take out a reverse mortgage. They must get a new conventional loan.

The single biggest reason a potential buyer does not close on a purchase is the inability to obtain financing. The following are the four criteria used by lending institutions to determine credit worthiness of buyers;

1. Income: What is the buyer's income and what is the debt to income ratio of the buyer.
2. Assets: Does the buyer have enough money for a down payment and do they have cash reserves to pay closing costs and 2 – 3 months mortgage payments in case of unforeseen crisis?
3. Credit: What is the history of the borrower's payment of bills?
4. Security: A loan will be made on the lower of the sales price or the appraisal of the property.

Some of the criteria Fannie May and Freddie Mac use to approve a condo association include:

1. Credit worthiness of the condominium
2. Investor owned apartments are less than 20% of the total condominium units
3. One buyer can't own more than 10% of total units
4. Less than 15% of unit owners are delinquent on their condo fees
5. Is the Association party to a law suit

There were several questions asked in the course of the presentations and after the completion of the program. Many of these asked how the FHA Certification was allowed to expire. While the details were not known, it was clear the responsibility for ensuring the continuation of the FHA Certification was the responsibility of Legum and Norman; somehow, they apparently dropped the ball. This will be discussed in detail with the Chelsea Tower Board.