Insider Perspective

Information, advice and expert opinion from those in the real estate industry.

Be informed before securing condo financing

Paul Martin
Paul Martin is a vice president of Private Mortgage Services, a division of Private Bank of Buckhead.
PaulMartin@PrivateBankOfBuckhead.com.

For buyers, sellers and owners of condominiums, the rules for securing financing have changed in the wake of evolving mortgage regulation. There are new questions and different concerns to address. The good news is that financing is still available at a time when many condominiums are extremely affordable.

Even so, before purchasing a condominium, it may help to gain a little perspective on how mortgages for this 10 percent of the residential housing market have changed.

The Housing and Economic Recovery Act of 2008 and the American Recovery and Investment Act of 2009 were enacted primarily to address the subprime mortgage crises and restore confidence by strengthening regulations and recapitalizing Fannie Mae and Freddie Mac.

While the overall goals of fixing our lending and real estate markets were needed, the upshot of these new laws was to alter the lending standards for the four main housing agencies: Fannie Mae, Freddie Mac, FHA/HUD and VA. That's an important change because only condominium projects that adhere to the new tougher standards are eligible for financing. And without financing, most consumers cannot buy homes.

Before securing financing, a prospective buyer needs to determine what form of ownership he or she is pursuing.

Under condominium ownership, the unit is owned as well as a portion of the common areas. In a fee-simple type of development, the unit, the land it's on and the outside of the building, as well as a portion of the common areas, are owned. In a co-op building, which is rare in Atlanta, the entire building is jointly owned with the other tenants. Financing can vary based on the different types of ownership.

A real estate agent can help buyers understand the various types of ownership and the obligations they may incur such as HOA fees and additional utility costs. An agent also can address buyers' questions about their responsibility for maintenance and improvements of common areas.

It is the role of the mortgage lender to explain how to qualify for financing, what financing programs are available and what the resulting financial obligations will be. It's crucial that the real estate agent and mortgage lender work closely together during the process.

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Keep in mind that some aspects of financing vary depending on the property. FHA is a government guarantee program that gives banks and other lenders greater assurance, which makes it easier to qualify for certain loans.

If you pursue FHA-approved financing, the condo will need to be on the FHA-approved condo list. Before the economic downturn, in an environment of more liberal lending practices, some condo homeowners associations did not bother getting FHA approval. Now although many are interested in being FHA-approved, the process is a bit more onerous. For instance, whereas FHA approval was once a one-time certification process, now certification must be renewed.

But if a condo is not FHA approved, there are other financing programs available. That's just an example of a common lending path and the surprises that might derail a purchase.

The thing to remember is that there are two sets of qualifying issues at stake: Your credit is being underwritten and the property is being underwritten. So if things change on either front, the game changes.

Although it is impossible to forecast every possible challenge in the financing and purchase processes, a great way to be prepared is to get preapproved for financing.

That way, you are better armed to find the condo and financing that's right for you.