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Congress of the United States House of Representatives

April 25, 2012

The Honorable Carol Galante
Acting Federal Housing Administration Commissioner
and Assistant Secretary for Housing
U.S. Department of Housing and Urban Development
451 7th Street, S.W.
Washington, DC 20410

Dear Acting Commissioner Galante:

While I certainly understand the need for FHA to manage its risk and protect the solvency of its funds, I am concerned that FHA's condominium project approval standards are onerous, counter-productive and are hindering our economic recovery by making it harder for condominium unit buyers and sellers to access FHA-insured mortgage financing. I request FHA review and modify its condominium project approval requirements to strike an appropriate balance.

The complicated project approval requirements, which have not been developed through the customary notice and public comment process, are leading many condominium associations to forego FHA approval. This means that home buyers in the condominium will not have access to FHA-insured mortgage financing. I worry the rules are leading to unintended consequences by shutting out first-time home buyers who want to purchase a condominium unit as their first residence, but need access to FHA's lower downpayment mortgage options.

Additionally, when a condominium is not FHA approved, sellers face difficulty attracting buyers. This significantly restricts condominium sales, forcing prices lower and leading to reduced property values. Since many sellers cannot find buyers at the market price, they are forced to rent their condominium unit rather than sell, or worse may seek foreclosure.

In particular, strict legal liabilities are often a deterrent for condominium associations seeking FHA approval as condominium boards are comprised of individuals who volunteer their time. These volunteers are hesitant to sign FHA's mandatory legal certification that exposes them to up to a \$1 million fine and 30 years in federal prison. Additionally, other FHA approval requirements are so complicated that 38 percent of condominium associations submitting applications through the approval process have been rejected by FHA since October 1, 2011.

According to FHA's own data, of the approximately 25,000 condominiums nationwide with an FHA approval expiring on or before September 30, 2012, only 2,100 or 8.4 percent were approved or recertified by FHA. This is severely limiting the supply of condominiums on the market for willing buyers and making it harder for sellers to find adequate buyers and take advantage of the historically low interest rates.

Furthermore, according to other FHA data, the combined seriously delinquent and claims (SDQ) rate for FHA-insured condominium unit loans is very low. For existing condominium unit loans over the prior two years, data show FHA-insured condominium unit mortgages have a combined SDQ rate of 1.23 percent while FHA-insured mortgages for units in new condominiums have a combined SDQ rate of 1.27 percent. These SDQ rates are lower than those of most other FHA single-family program areas.

The data clearly show that FHA must revisit several of its condominium project approval criteria, including:

- No more than 15 percent of the units in a development may be 30 days or more delinquent on their association assessments, including REO
- Extending the certification approval beyond two years
- Clarifying the mandatory association legal certification and lowering the penalty below \$1 million and 30 years in prison
- Denial of FHA-insured loan for units in buildings with more than 25 percent commercial space
- Requiring an owner occupancy rate of 50 percent, including REO

I appreciate FHA's attention to the issue and look forward to working with you moving forward.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ed Perlmutter', written in a cursive style.

Ed Perlmutter
Member of Congress