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Condos Vie for the Good House-Lending Seal of Approval

As Sales Slump, Developers Tout Backing From FHA, Which Helps Buyers Qualify for Lower Down Payments

By NICK TIMIRAOS

A nationwide glut of new condominiums has prompted developers to use new marketing ploys to sell their units. One increasingly popular move: get a government stamp of approval for the entire building.

The approval, from the Federal Housing Administration, means potential buyers can more easily qualify for a low-down-payment mortgage backed by the FHA -- a highly coveted amenity in this era of tight credit.

Typically, it can take months for the FHA to approve a mortgage on a condo, partly because the building must meet numerous specifications and follow stringent guidelines. Beginning in October, the agency will further restrict which lenders can submit those loans.

Fannie Mae and Freddie Mac, the government-controlled mortgage companies, have put in place even tighter guidelines for making condo mortgages. And without government backing, private lenders that offer mortgages for condos require large down payments of 30% or more. But if a building has FHA approval, the borrower can get a mortgage in as little as two weeks. In addition, the buyer can get a down payment as low as 3.5%. (The FHA doesn't make loans but insures lenders against losses on those loans.)

"People come to us asking which buildings are FHA-approved. Believe it or not that helps guide what they look at," says Ross Weinstein, managing partner of Union Square Mortgage Group in Brooklyn, N.Y., who has about 25 buildings that have received or are applying for FHA approval. In the buildings that have obtained approval, sales have increased "without a doubt," he says.

Developers who snag FHA approval are advertising it heavily. "It used to all about the swimming pool and living like a god," says David Maundrell, president of Apts and Lofts, a real-estate brokerage in Brooklyn. "Now it's about \$1,500 and you own this place." Advertisements for 38 Wilson, a 22-unit Brooklyn condo, tout \$1,255 monthly payments with less than \$1,500 down on units priced from \$269,000. (That down payment subtracts \$8,000 available to first-time home buyers as a tax credit.)

In the first quarter, some 1,048 developments have applied for and received FHA approval, up from 881 projects in the fourth quarter of 2008 and 409 projects in the prior-year quarter.

The FHA's growing appeal among developers represents a drastic turnaround from just a few years ago, when condos sold so quickly that few developers bothered with the FHA's time-consuming application process. These days, however, condos are the weakest segment of the housing market. Condo sales in April fell 12.5% from a year ago, compared with a 3.6% decline in sales for single-family homes, according to the National Association of Realtors.

As bad as conditions are, they are expected to get worse as additional supply becomes available. According to Reis Inc., a real-estate research firm, 93,000 new units are scheduled for completion this year, a 28% increase from last year.

At the end of April, the U.S. had enough condos to absorb 15 months of demand, according to the National Association of Realtors

In order for mortgage to be eligible for backing, the FHA requires 51% of units to be sold. While Fannie and Freddie have boosted their requirement to 70%, an FHA official said the agency is open to lowering its threshold out of concern that tighter financing could push the sector into a downward spiral.

To obtain FHA approval, developers must meet guidelines that are more stringent than what most local governments require, including a 10-year structural warranty and a reserve fund.

Condo boards in FHA-approved buildings must waive the right to refuse potential buyers. In buildings with more than 30 units, no more than 10% of units can have FHA financing, while no more than 20% of units can have FHA financing in buildings of 30 or fewer units.

More buildings also are eligible for FHA approval after Congress last year boosted loan limits to \$417,000 across the country and as high as \$729,750 in the most expensive markets. About one-third of all first mortgages are now being originated through the FHA, up from about 2% in 2006. Much of that share has come in markets that were previously shut out by lower loan limits. Delinquencies on FHA-backed loans rose to 7.5% in February from 6.2% a year earlier.

Condo buyers also are finding FHA loans may be more affordable, particularly for borrowers with lower credit scores or smaller down payments. In April, Fannie and Freddie began requiring condo buyers without a 25% down payment to pay closing-cost fees equal to 0.75% of their loans, regardless of the borrower's credit score. The FHA, by contrast, doesn't charge higher rates on borrowers who make smaller down payments.

Condo developers are able to sell units at better prices to FHA-approved buyers than they would in all-cash sales to investors, sometimes with premiums as high as 20% to first-time buyers with FHA financing, says Grant Stern, president of Morningside Mortgage Corp. in Bay Harbor Islands, Fla.

"First-time buyers are more focused on the down payment and the monthly payment than the total cost," he says.

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