

A Condominium Management Company

ASSOCIATION NEWS

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FHA Mortgage Approval for Condominiums

~ by Jason Carey & Makayla Eckardt, A Condominium Management

As a property management company, our main priority is protecting the value of the Association as a whole. Many of our condominium Association Board of Directors have asked us about FHA mortgage approval, what it really means, and whether or not their community should be FHA approved? Below, we have outlined the details necessary to help condominium Association's understand what exactly FHA mortgage approval is, how to get a condominium Association FHA approved, and what it means for an Association to be, or not be, FHA approved.

What Is the FHA?

The FHA, or the Federal Housing Administration, is a mortgage loan insurance provider. They provide insurance to protect the lender in the case of the borrower defaulting. An FHA loan has a very specific set of requirements, both of the borrower, as well as the home. Many people have heard of "Fannie Mae" and "Freddie Mac" loans; the difference between these and an FHA loan is that an FHA loan allows for smaller down payments, and has a more lenient credit requirement. Many people think of FHA loans being only for low-income borrowers; however, that is not the case. It is estimated that FHA loans constitute at least 30% of mortgage loans across the country, and loans up to \$271,050 for a single family home in our area.

Does allowing FHA Mortgages increase owner occupancy?

In a word, yes. Having an FHA mortgage approved community promotes more owner occupied homes, and less investor owned rental units. This may seem odd, but remember that an investor can't purchase a home with an FHA mortgage; they have to be cash buyers, or have a conventional loan with at least a 20% down payment. Communities that are not FHA approved tend to detract owner occupants, which lower prices, which in turn attract investors.

It is very important to note that once the ratio of investors vs. owner occupants of a given condominium community exceeds 50%, it becomes very difficult to obtain any type of mortgage. In addition to making a community ineligible for FHA approval, even standard mortgages with a 20% down payment can be difficult to obtain, because a community with more than 50% investor owned units exceeds the minimum occupancy standards of Freddie Mac and Fannie May, and most banks are unwilling to give loans that they cannot underwrite through these companies. This becomes a vicious circle once a community becomes more than 50% investor owned; it becomes increasingly likely to become even more depressed in price, as only people paying cash are the likely buyers for a unit.

What are the requirements for getting a condominium Association FHA mortgage approved?

While there are a set of general guidelines that go along with a condominium being FHA approved, meeting all of these qualifications is not a guarantee that the condominium will be approved. To be FHA mortgage approved, an Association must go through the application process through the U.S. Department of Housing and Urban Development (HUD). There are however, some general qualifications an Association must meet to even be considered. Some of those qualifications are:

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Festival of
the Hills
June 24th
6:00 pm
Borden Park

Schedule

This year's family friendly event will begin at 6:00 pm with family games and live entertainment. The star of the show is Michigan's 2nd largest fireworks show beginning at 10:06 pm.

Arrive early, avoid the rush, and bring an umbrella. This event goes off Rain-or-Shine.

Rules

Please remember the following rules and regulations:

- No alcoholic beverages
- No open fires
- No pets are allowed
- No sparklers or other fireworks
- Only gas-type barbecue grills are allowed

Parking

- Handicap parking is available at the Hamlin Road entrance
- Motor home parking space is limited and canopies / overhangs cannot take up a second parking spot
- No over-night parking



Summertime Energy Conservation Tips

~ by Makayla Eckardt, A Condominium Management

Summer can quickly become an expensive season, but being mindful of energy conservation can help reduce your electricity bills. Take a look at the following suggestions to increase your energy conservation efforts and beat the heat without breaking the bank.

- ◆ Cook dinner outside. Save electricity by using a charcoal or gas grill to cook your favorite summertime meals.
- ◆ Open the windows. Instead of cranking the air conditioning on summer evenings, opt for fresh air instead. Invest in an inexpensive electric fan to circulate the air.
- ◆ Light candles. Since longer summer days afford more daylight, reconsider turning on the lights and use candles instead or as a supplement. Be sure not to leave burning candles unattended, especially around pets and children.
- ◆ Modify the AC when you're not home. Adjusting the thermostat—even by a few degrees—when you're not home can conserve a significant amount of electricity.
- ◆ Turn off the electronics. Power down the television and computer to spend time with friends and family outdoors. Splash around in your community pool or have a potluck barbeque in your backyard.
- ◆ Take a walk. If possible, choose to walk to nearby stores and restaurants instead of driving. Early mornings and evenings are prime times for a stroll, especially in areas with hot climates.
- ◆ Take a cool shower or bath. For a refreshing alternative to a hot shower, reduce your hot water heater usage by bathing in cooler water a few times a week.
- ◆ Limit water consumption. Water the lawn every other day at off-peak times, use environmentally-friendly, disposable plate ware.

Rock the Proxy: Let Your Voice be Heard

~ by Makayla Eckardt, A Condominium Management

Many of our communities have annual meeting elections coming up, and even if you're unable to attend the membership meeting and election, we would like to remind you that you can still vote by proxy.

A proxy is the written authorization that allows one person to appoint another (the proxy holder) to vote on his or her behalf (the proxy giver). State law and the Association's governing documents specify that the Association can use proxy voting.

Why would you use a proxy? Maybe you're traveling during the election or have other obligations that prevent you from attending the meeting, but you still want your voice to be heard. Additionally, many communities have a quorum requirement, a requirement from the Association governing documents stating what percentage of the community must be present at an annual meeting to make it an official meeting, and to conduct official business, including elections. Without this, many Association's are unable to make important community decisions and hold official elections.

If you're interested in using a proxy, email our office, and we can easily send you one by mail or email; additionally, for most communities, a proxy is always included in your annual meeting notice which is normally sent out a month prior to the meeting. When filling out your proxy, write the name of the individual you're appointing to cast your vote. Then list your name, and address, and sign and date the form. For those communities that require a designated voter form to be filled out, be sure the person signing the proxy is the same person on the designated voter form.

The Association can only accept one proxy form per person, so be sure to fill out your form accurately. By only accepting one official form it eliminates any potential problems if the vote is close.

Just be aware that by assigning your proxy to another person, you've authorized the proxy holder to vote for you as he or she sees fit. The proxy holder is responsible for voting or abstaining from a vote. Therefore you should be sure the person you are appointing your proxy form to is someone trustworthy who will accurately and truthfully represent your voice and vote.

Essentially, a proxy is an act of trust—the proxy giver must trust the judgment of the proxy holder. The proxy giver may think the proxy holder will vote for a certain candidate or issue, but the proxy holder isn't legally bound by that assumption unless it's written on the proxy form.

FHA Mortgage Approval for Condominiums

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1. The Association must be already developed (at least partially) and be in accordance with all applicable state law requirements, be in good standing with the State, and be in accordance with any and all other applicable law requirements.
2. The Association must be primarily residential property (No rental-pools, condo hotels, timeshares, houseboat projects, or assisted living.)
3. If there are any commercial services or units on the property, they cannot compromise more than 25% of the entire project.
4. The Association cannot be located in a coastal barrier.
5. The community must contain a minimum of two units.
6. No more than 10% of the units may be owned by one investor or entity.
7. The community must be at least 50% owner occupied.
8. No more than 15% of all units can be more than thirty days delinquent in their Association dues (including bank owned and vacant units).
9. For Associations with more than 4 units, no more than 50% of all homes may have FHA loans.

Please note that these are just some of the general requirements and not a complete list of all of the requirements needed to become FHA approved.

Getting FHA approval was not a problem when I bought my condo ten years ago, why is it difficult for condo buyers to get an FHA loan now?

There have been some recent changes in the law that has made the FHA loan such a big source for home-buyers. These include:

1) "Spot Loans" Eliminated

On February 1, 2010 HUD eliminated their "spot loan". Prior to 2010, HUD would grant FHA loans to approved borrowers who were purchasing condo units in Associations that were not FHA approved. HUD decided that this was beyond their risk limit, and eliminated the process. Consequently, for a borrower to purchase a condo with an FHA mortgage the entire Association must now be approved, not just the individual home and borrower.

2) 2008-2009 Revamp of Requirements

In the wake of the housing price collapse, HUD looked at their approved condominiums list, and determined that the requirements for FHA approval for communities were not strong enough. HUD made the FHA mortgage approval process more stringent, and set an expiration deadline for every community that they had previously approved for FHA loans that effectively cancelled every community's FHA mortgage approval. Any community now wanting to gain or retain FHA mortgage approval is now required to go through an application process every two years. The current FHA mortgage application form is 84 pages long, and with attachments, over 200 pages of documentation is supplied to FHA for their approval.

Okay, so what does this even mean for my Association?

The majority of borrowers who are looking to purchase a new home get approved for their loan before ever even looking at homes; and for those wanting to purchase a home with an FHA loan, that automatically eliminates most condominium homes from their prospective list of purchases as most communities are no longer FHA approved. Many realtors only now show condos that are in FHA approved communities when their borrower is planning on getting an FHA loan, as they do not want to show a home that their buyer can't or won't mortgage. The economics of supply and demand dictate that reduced demand for a particular home or community will adversely affect the selling price, which adversely affects the overall market value of the community. Since 30% of all new mortgages are FHA loans, that means 30% of potential buyers are gone; and more buyers mean higher prices. No FHA approval means fewer buyers, lower home prices, and a lower overall value of the Association.

If you think your Association may be interested in become FHA approved, please contact this office. We can discuss the Association's position with FHA regulations, odds of getting approved, pricing options, and how to move forward.

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Upcoming Community Events

Date	Event	Venue Information
June 21	Father's Day	
July 4	Fourth of July Fireworks Celebration	
July 17-19	Faster Horses Country Music Festival	12626 US Hwy 12 Brooklyn, MI 49230 <i>For more information contact info@fasterhorsesfestival.com</i>
July 28-August 2	Traverse City Film Festival 2015 in Traverse City	101 West Grand View Parkway Traverse City, MI 49684
August 15	Woodward Dream Cruise	
August 16	Pure Michigan 400 NASCAR Sprint Cup Series	Michigan International Speedway 12626 US Hwy 12 Brooklyn, MI 49230
August 22	Indina Menzel Concert at 8:00 PM	Fox Theatre 2211 Woodward Avenue Detroit, MI 48201