

RESIDENTIAL MORTGAGE OF COLORADO

A DIVISION OF UNIVERSAL LENDING CORPORATION

TOP TEN THINGS TO KNOW WHEN BUYING A CONDO

Condo financing can be challenging these days. Before selecting your new home, save yourself some time and frustration by checking with the HOA against this list of criteria to make sure the loan you want is available:

1. **Is the condo complex FHA approved?** This means the project is listed on the FHA approved list and has recently been recertified to meet current FHA guidelines. The project still needs to meet items 2 – 10 on this list in order to qualify for FHA.
2. **What is the owner occupancy ratio in the project?** This is determined by finding out how many total units there are, how many are owner occupied, and how many are rented. FHA requires 50% owner occupancy. Fannie Mae and Freddie Mac require 51%. Some conventional financing allows for owner occupied buyers only with at least 10% down when these ratios cannot be met.
3. **How many owners are more than 30 days late on HOA dues?** FHA and conventional financing requires no more than 15% of the owners be late or the project is considered non warrantable.
4. **Does any one person or entity own more than 10% of the project?** This can be an issue in small complexes when someone owns more than one unit or has combined two units into one.
5. **How much of the building is mixed use?** Many newer projects in Boulder and metro Denver have a mixed-use component. While it's great for urban planning, it can be challenging for financing. If more than 25% of the total square footage is used for commercial or business, the project is ineligible for conventional or FHA financing. Some smart developers have phased their projects in such a way that they avoid this issue so always be sure to check.
6. **Is the HOA in a lawsuit?** While this isn't a prevalent problem, it does come up. If the HOA is in any kind of lawsuit with owners or contractors or anyone else, FHA and conventional financing will not be available until the lawsuit is settled.
7. **Does the HOA annual budget include 10% in reserves?** Most well-run HOAs have a reserve built into their annual operating budget but it is important to make sure.
8. **Does the HOA have \$1 million liability coverage?** This is a minimum industry standard.
9. **If the project is over 20 units, does it have fidelity bond coverage?** Another new industry standard for larger complexes to protect against mismanagement of HOA funds.
10. **If the project is FHA approved, have they allocated funds for FHA re-approval every 2 years?** FHA now requires every project be recertified every 2 years. It's a good idea to make sure the HOA has the resources allocated in the budget for this new additional cost. Especially if the condo price point is in lower end of the spectrum, you will be better prepared for resale by making sure the condo you buy will be easy to finance for a new buyer when you're ready to sell and move up.



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