

## **Getting a condo loan becomes even harder**

The latest Fannie Mae rules eliminate buildings involved in litigation and require additional scrutiny for condo conversions.

Posted by Teresa at MSN Real Estate on Friday, March 25, 2011 12:55 PM

These days, when you want to get a loan to buy a home, you can expect the lender to scrutinize your credit and your finances.

If you're buying a condo, the lender is going to scrutinize every aspect of the building and the association, as well. That's making condos harder to buy and sell.

## **Delinquent condo dues pressure fellow owners**

Fannie Mae, Freddie Mac and the Federal Housing Administration all have standards that condo developments must meet for the government to back loans on them. That has always been true. But those standards have been tightened considerably since the real-estate bust, and two new Fannie Mae requirements took effect March 1.

The strict rules mean it's nearly impossible to get a mortgage to buy in many buildings, Mary Ellen Podmolik says in the Chicago Tribune. She explains:

Among the deal-killers: too many renters in a building, pending litigation, inadequate association reserves and delinquent assessments. Those are some of the criteria lenders must look at in order to sell the loan to Fannie Mae or Freddie Mac, the troubled, government-sponsored entities, and the Federal Housing Administration, the first choice for many first-time homebuyers. Combined, the three agencies account for about 90% of the secondary-loan market.

Fannie Mae, for example, requires that no more than 15% of owners are delinquent on their maintenance fees. Many buildings have a much higher percentage, as owners slip into foreclosure.

Some lenders will hold loans for non-warrantable condos in their portfolio, but those loans are rare.

## **6 new hurdles for home financing**

Steve Bergsman at Inman News outlines the latest Fannie Mae requirements:

The association cannot be involved in any litigation that involves "safety, structural soundness, habitability or functional use of the project." That would include lawsuits against an insurance company, developer or remodeling contractor.

Buildings that were converted from rentals into condos required additional inspection via Fannie Mae's Project Eligibility Review Service. Some associations don't want to do that, because Fannie Mae charges lenders \$1,200 plus \$30 per unit.

The rules also affect current owners who want to refinance.

### **Condo shopping?**

Some of the worst abuses of the real-estate bubble came when developers bought up decrepit apartment buildings, slapped on a coat of paint and sold the units as condos. Many owners discovered after they moved in, and after the association took over maintenance of common areas from the developer, that the buildings needed a lot of expensive work.

Fannie Mae doesn't want to get involved with those types of buildings. You probably don't, either.

### **Find a new home or condo**

Russell Martin, a Chicago loan officer, refers to buildings that don't pass muster as "zombie buildings."

He told Podmolik: "Not only are the banks protecting themselves, but they're protecting the borrower. There's a reason the bank doesn't like that building."

If you want to buy a condo, start your search by asking whether the building has FHA, Fannie Mae or Freddie Mac approval. If it doesn't, keep looking unless you plan to pay cash.

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