

What I’ve Learned About Why Condominiums Are Getting Harder to Finance

Four years ago on June 24, 2021, part of a 12-story condominium building in Surfside, Florida, collapsed at 1:14 a.m. killing 98 residents and injuring 11 others.

But that’s only one event that has contributed to the increasing difficulty of selling and financing the purchase of condos across America.

Primarily because of severe weather, especially hail storms in Colorado, master insurance policies have gotten more expensive and their deductibles increased dramatically. When the deductible in a master insurance policy exceeds 5% of the insured value, units within a condo association become “non-warrantable” according to Fannie Mae and Freddie Mac guidelines — and over 90% of all loans are sold to those federal agencies after closing and must therefore meet those guidelines.

Buyers can pay cash, of course, but condos have long been considered the entry-level home for first-time homebuyers who are less likely to have that much cash. They could also go to a “portfolio” or “non-QM” lender, but those lenders don’t typically offer the low down payments of conventional or FHA lenders.

Every lender has their own condo questionnaire that must be completed by the association property manager. The questionnaire addresses the numerous concern areas of the lender. The loan could be rejected if:

- ◆ Master insurance deductible is over 5%
- ◆ Commercial space exceeds 35%
- ◆ More than 15% the unit owners are 60 or more days delinquent on HOA dues

- ◆ A construction defect lawsuit is pending
- ◆ Less than 10% of the HOA budget is allocated to reserves
- ◆ More than 20-25% of the units are owned by a single entity
- ◆ Fewer than 35% of the units are the primary or second home of the unit owner (FHA only)
- ◆ The HOA has inadequate reserves
- ◆ There’s a lot of deferred maintenance

FHA does a lot of this analysis for lenders and will provide a 3-year certification which lenders can rely on, but the application process is tedious and many condo associations fail to apply for or renew their certification.

That FHA lookup website is <https://entp.hud.gov/idapp/html/condlook.cfm>. Here’s what the screen looked like when I searched for the Centennial condo featured below:

Sorted By:

Condo Name

State:

Colorado

County:

Condo ID:

Condo Name:

Summerhill

City:

Centennial

Zip Code:

Status:

All

Search Type:

Both

Begin Date:

End Date:

Welcome to my “Read Estate Today” column, which has appeared for 2 decades in the now-discontinued YourHub section of The Denver Post. This is where it will appear from now on. You can also read and subscribe to it free online at <http://RealEstateToday.substack.com>.

Sometimes it’s hard to know whether a unit is a condo or a townhome. The simple distinction is that a townhome owns the land under it, but even a standalone home could legally be a condo.

The legal description can sometimes mislead a lender, broker or buyer as to whether they’re dealing with a condo or a townhome. Typically, the legal description should refer to a “condo declaration” and not have a “block and lot” description that is more appropriate to a parcel that includes land. Some legal descriptions which include the word “condo” are in fact townhomes, and vice versa. The title company can quickly research the full legal description and answer that question, which becomes critical to obtaining loan approval. Another clue would be if the association is on that FHA condo lookup database.

Back to the subject of insurance coverage and deductibles, a buyer who purchases a condo as a primary resident or second home should get an HO-6 “walls-in” condo insurance policy which includes a “loss assessment” endorsement, which would pay for the deductible which is assessed to each unit owner as the result of a hail or other claim. The annual cost of such a policy is far less than the insurance policy for a single-family home and can save you up to a 5-figure special assessment from the condo association.

If the master policy does not include roof, exterior, etc., the unit owner should purchase a more expensive HO-3 policy instead of the HO-6 policy.

FHA is favored because of its low down-payment requirement — as little as 3.5% — but with a higher down payment it’s possible the lender will only require a “streamline” review, which is quicker and less expensive. That requires a minimum 10% down payment for a primary residence and 25% for a second home.

It’s important for a buyer to hire an agent experienced in condo purchases and who can refer you to the best lender.

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Room dimensions and descriptions are not

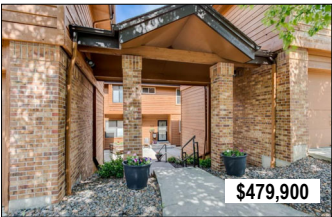


required, and you’d be amazed how few agents bother to enter that information on MLS listings.

Of course, narrated video tours are not required either, and most “video tours” you see on other brokerages’ listings are really just slide shows with a music track. We have sold many of our own listings, including one that closes next week, to buyers who haven’t seen the home in person until they fly in for the inspection. The video tour gives them enough of a sense of what the listing is like to ask me or their agent write an offer and go under contract.

Price Reduced on Townhome-Style Condominium

This updated 2-story condo at **5555 E. Briarwood Ave.** has a finished basement, offering the perfect blend of comfort, style, and convenience. Located in the heart of the Summerhill neighborhood, this home has thoughtful upgrades and a bright, open floorplan. The main level is ideal for entertaining with its inviting family room, complete with wood-burning fireplace. It flows into the formal dining area and opens to a private patio. The updated dine-in kitchen boasts stylish countertops and laminate wood flooring. All appliances are included. A stylish half bath with tile flooring rounds out the main floor. Upstairs, the vaulted primary suite has dual closets and a beautifully updated ensuite bath. The finished basement has a large recreation room, laundry area, and ample storage. See more pix and a video tour online at GRElistings.com. Then call listing agent **Chris Sholts** at 320-491-6494 to see it.



5-BR Home in Golden’s Village at Mountain Ridge



Homes in this late ’90s subdivision backing to the foothills come on the market rarely and sell quickly. This one at **165 Washington Street** is especially sweet, with the most awesome chef’s kitchen you’ve likely ever seen. Beautiful maple hardwood floors grace the main level, with newer berber carpeting upstairs and in the walk-out basement. The Table Mountain views from every level, but especially from the primary suite, will take your breath away. If you’re a soccer fan, the posters and awards in the main-floor study will leave you wishing for autographs! Sorry, the seller won’t be at the open house on **Saturday and Sunday from 11am to 1pm**. A narrated video walk-through can be viewed at GRElistings.com. Or call **Jim Smith** at 303-525-1851 to request a showing.

