Evaluating a Home Owners Association

When you buy a property in a common interest development — an HOA — you are not just buying your particular unit. You also are buying into a larger entity that typically owns the building structure, the roof, the parking garage, the clubhouse, the pools, etc.

As with any real estate purchase, there are many issues and risks, but when you are buying into an HOA-governed community, you add on a whole new layer of things that you need to consider before purchasing.

These are some of the HOA documents you should review when purchasing, and why.

HOA bylaws, board meeting minutes, newsletters
These documents will alert you to special unit or building issues, such as restrictions on short-term rentals or pets, insurance issues, building construction quality and all the rules you'll need to live by.

Reserve study
This will tell you how much money is saved for paying for long-term repairs. Your HOA fees cover operating expenses and savings for roofs, streets, painting, etc. The reserve study tells you how much the community should have saved for those capital repairs and replacements and how much is actually saved. Usually, less is saved than what the reserve expert says should be, so when the bill comes due, all the HOA unit owners may split the costs in a special assessment.

Financial statements and budgets
This will show you whether the HOA is collecting enough money to pay its bills and whether it is putting away money for reserves.

Demand statement (This may not be a separate document, you may just need to ask)
This will tell you whether there are any unpaid HOA fees, unit violations that may need to be resolved, etc.

Insurance master policy binder
This will tell you what the HOA insurance covers. You should take this to your insurance agent to see what is not covered, so you can get the proper coverage for yourself. By the way, always have an HO-6 interior unit policy in place, whether a personal residence or rental property. Discuss this with your agent.

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Warrantable vs. Non-Warrantable Condos

Mortgages For Condo Owners

When you're buying a condo, lenders impose a different set of rules on you, and may sometimes change your interest rate. With condos, you have to remember, it's not just your creditworthiness the lender has to worry about. It also has to worry about the fiscal and physical health of the entire development into which you're buying.

Conventional Mortgage Rules For Condos

The majority of home buyers use what's known as "conventional" mortgage financing.
This means that their loan is backed by one of two government entities -- Fannie Mae or Freddie Mac -- and that the loan meets the two group's minimum standards.

With respect to condominiums, Fannie Mae and Freddie Mac use the term "warrantable" to describe projects and properties against which they'll allow a mortgage.

Condo projects and properties which *don't* meet Fannie Mae and Freddie Mac warrantability standards are known as *non-warrantable*.

Non-warrantable condos are more challenging to borrow against.
Typically, a condo is considered warrantable if:

- No single entity owns more than 10% of the units in a project, including the developer
- At least 51% of the units are owner-occupied
- Fewer than 15% of the units are in arrears with their association dues
- There is no litigation in which the homeowners association (HOA) is named
- Commercial space accounts for 25 percent or less of the total building square footage

Because of these rules, some of the common property types which fall into the non-warrantable category include condotels, time shares, fractional ownership properties, and other projects which require owners to join an organization, such as a golf club.

A warrantable condo will get you access to lower mortgage rates than a non-warrantable condo because warrantable condos are lower risk to the bank.

FHA And VA Mortgage Rules For Condos

While conventional mortgages account for approximately half of all loans made, the next 35% of loans are attributed to FHA and VA lending. Both loan types are known for their more flexible lending guidelines as compared to conventional mortgage financing; and loans are available in all 50 states.

Mortgages For Non-Warrantable Condos

For buyers of non-warrantable condos, mortgage financing is a more of a challenge. There are fewer lenders available from which to get a loan. To get a non-warrantable condo mortgage, you'll need to talk with a specialty lender. Ask me about local lenders who understand the resort market and can finance non-warrantable condos.