NAR Issue Summaries

Housing / FHA Condo Financing

NAR Committee:

Federal Financing and Housing Policy Committee

What is the fundamental issue?

Condominiums are a popular and often more affordable purchasing option, especially for for seniors and first-time homebuyers. Because condos are typically more affordable than single-family homes, they provide an opportunity for homebuyers struggling to enter a low-inventory market. While FHA implemented rule changes in 2019 that made it easier for buyers to use FHA loans for condominiums, current approval requirements continue to limit these affordable homeownership opportunities.

I am a real estate professional. What does this mean for my business?

The current FHA condominium rules create both opportunities and challenges for your condo-buying clients. While the 2019 rule changes expanded access through single-unit approval (also called "spot approval"), key restrictions remain: at least 50% owner-occupancy, adequate reserve funding (at least 10% of assessments), maximum 35% commercial space, and no more than 15% of units being delinquent on assessments. These requirements can limit financing options for your clients.

NAR Policy:

Condominiums continue to be one of the most affordable homeownership option for many first-time buyers, small families, single people, and older Americans. NAR supports improving FHA's condominium rules to expand market opportunities for both buyers seeking affordable properties and homeowners looking to sell their units.

Opposition Arguments:

Some argue that condominiums carry inherently higher risks than single-family homes due to shared ownership structures and potential for concentrated foreclosures affecting building values. They contend that rental units and investor ownership pose additional risks since renters and investors may not maintain properties as well as owner-occupants, supporting current occupancy and ownership restrictions to reduce federal risk exposure.

Legislative/Regulatory Status/Outlook

FHA implemented new condominium rules in 2019 that reduced owner-occupancy requirements for some properties, raised commercial space limits, and expanded single-unit approval processes. NAR continues advocating for FHA to revisit these policies to further expand inventory available to buyers with government-insured mortgages. Specifically, NAR advocates for: increasing allowable commercial space

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from the current 35% limit to enable buyers to take advantage of properties in higher opportunity and densely populated areas; decreasing the 50% owner-occupancy requirement and instead using financial solvency as the primary approval criterion; and increasing single investor ownership limits (currently one unit for buildings under 20 units, and 10% for larger buildings) as investors have entered the residential marketplace at faster rates.

Current Legislation/Regulation (bill number or regulation)

None at this time.

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