



July 23, 2025

Mr. Frank Cassidy
Principal Deputy Assistant Secretary
U.S. Department of Housing and Urban Development
Federal Housing Administration
450 7th Street SW
Washington, DC 20410

Dear Mr. Cassidy:

The Community Home Lenders of America (CHLA)¹ writes to request that the Federal Housing Administration (FHA) take action to enhance the availability of FHA loans for condominiums, by creating more regulatory flexibility in the rules and procedures for FHA eligibility for condominiums.

FHA could accomplish this enhanced regulatory flexibility by restoring FHAs pre-2009 “spot loan” approval program for condominium units. Alternatively, FHA could elect to insure loans for condominium projects that have already received approval by Fannie Mae or Freddie Mac.

Finally, we identify specific barriers to FHA approval of condo units and projects, with a request that FHA begin by taking interim actions to reduce undue restrictions on such approval.

Condominiums historically have served as a critical source of affordable housing for first-time buyers, due to their longstanding cost advantage relative to site-built homes. Over the last two decades, however, the number of FHA-insured loans has dropped significantly, from an average of around 100,000 annual loans to around 10,000. Further, despite the fact the condos have comprised an average of 10% of all existing home sales over the last four years [per NAR data], only 2% of FHA loans are for condos.

In 2016, Congress sought to support condo lending by including Sec. 301 (Modification of FHA requirements for mortgage insurance for condominiums) as part of the bi-partisan Housing Opportunities Through Modernization Act (HOTMA). Section 301 of HOTMA directed the HUD Secretary to streamline project recertification requirements.²

HUD finalized rules to implement Section 301 in October 2019. The final rule introduced the Single Unit Approval (SUA) to allow approval of individual condominium units within a condominium that does not have an existing approval for the condo association as a whole. The intent of the SUA was to provide a much quicker review process to approve an individual condo unit, rather than pursuing a whole condo approval.

While well-intentioned, the SUA has not led to increased condo lending, in large part due to arduous unit approval requirements which are nearly as cumbersome as receiving approval for an entire project.

¹ CHLA is the only national trade association focused exclusively on small and mid-sized independent mortgage banks (IMBs).

² Public Law 114-201; see <https://www.congress.gov/114/statute/STATUTE-130/STATUTE-130-Pg782.pdf>

Therefore, FHA should revisit and update the condo rule by reinstating "spot loan" approval.

We would also note that Fannie Mae and Freddie Mac both purchase a substantially higher percentage of condo loans than FHA does. Both Fannie and Freddie have rigorous rules and procedures for approval of condo projects and units. Therefore, as an interim step, FHA should consider permitting the financing of condo units in projects that have been approved by either Fannie Mae or Freddie Mac.

Finally, as a preliminary step, we would ask FHA to lower barriers and create more flexibility (consistent with sound underwriting) with respect to the following types of condo approval guidelines:

- A condominium approval process by FHA that lacks transparency and prompt feedback regarding actions necessary to gain FHA approval for a particular condominium unit.
- A requirement that a borrower must either receive an "Accept" from FHA's TOTAL Scorecard or have a maximum 90% LTV if manually underwritten.
- A requirement that the project must (a) have a Certificate of Occupancy for the full project, (b) consist of at least five units, and (c) cannot have ineligible features such as being manufactured housing or being a part of unapproved phases.
- Restrictions on FHA loan concentration minimum owner occupancy levels.
- Other features, such as restrictions that can preclude location in a flood hazard area.

In closing, CHLA appreciates your consideration of our recommendations, and we would be happy to discuss these issues with you and your staff.

Sincerely

COMMUNITY HOME LENDERS OF AMERICA