

DOCUMENT RESUME

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Condominium Homeownership Opportunities Could Be Increased.
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Report to the Congress; by Elmer B. Staats, Comptroller General.

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The growth in condominium ownership and its advantages have led to the enactment of legislation authorizing condominium financing programs for the Department of Housing and Urban Development (HUD), the Veterans Administration (VA), and the Farmers Home Administration (FmHA). **Findings/Conclusions:** Because of statutory limitations, opportunities for financing are still not readily available to condominium buyers. HUD can only insure mortgages on individual condominium units if it had insured the mortgage on the entire project. This requirement eliminates 97% of existing condominiums from HUD's mortgage insurance program. The VA cannot guarantee condominium mortgages if the unit was not originally built and sold as a condominium. Before HUD insures or the VA guarantees a mortgage for a condominium unit, the developer or unit owner must submit separate legal documents to each agency for review. Standardizing legal requirements and agreeing to accept each other's review and approval would increase the number of condominiums approved and eliminate duplication. HUD and VA should do more to inform condominium homeowners of the advantages of obtaining Federal project approval and how to qualify for Federal condominium programs. **Recommendations:** The Congress should authorize: HUD insurance of mortgages on individual condominium homes without requiring that the project be built under a HUD program; and VA guarantee of loans on individual condominiums not originally built or sold as such. The Congress should require the Secretary of HUD and the Administrator of Veterans' Affairs to: standardize legal document requirements so that sellers can readily offer their condominiums under more than one Federal program; and accept,

without review, condominium legal documents approved by the other agency. The Secretary of HUD and the Administrator of Veterans' Affairs should conduct a joint outreach program to advise condominium associations of opportunities for potential buyers to obtain federally backed loans and criteria and procedures to qualify condominium projects for Federal programs. (Author/HTW)

5760

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Condominium Homeownership Opportunities Could Be Increased

Federal mortgage insurance and loan guarantee programs, widely available to buyers of detached homes, are limited in coverage for condominium home buyers. The Department of Housing and Urban Development's and the Veterans Administration's condominium loan programs can be broadened through legislative and administrative changes.



GED-78-71
MARCH 21, 1978



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114860

To the President of the Senate and the
Speaker of the House of Representatives

This report examines the Federal Government's condominium loan guarantee and mortgage insurance programs administered by the Veterans Administration and Department of Housing and Urban Development. The report points out some limitations of the present programs and suggests certain legislative and administrative changes that should remove some of these limitations.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Acting Director, Office of Management and Budget; the Secretary of Housing and Urban Development; and the Administrator of Veterans' Affairs, Veterans Administration.

A handwritten signature in black ink, reading "James A. Stacks".

Comptroller General
of the United States

D I G E S T

Federal mortgage insurance and loan guarantee programs have not been widely available to condominium buyers. The programs' availability can be increased through legislative and administrative steps. GAO recommends that the Congress authorize:

--Department of Housing and Urban Development insurance of mortgages on individual condominium homes without requiring that the project be built under a Department mortgage insurance program. Project mortgage insurance can still be offered at the builder's option. (See p. 8.)

--Veterans Administration (VA) guarantee of loans on individual condominiums not originally built or sold as condominiums. (See p. 8.)

GAO also recommends that the Congress require the Secretary, Department of Housing and Urban Development, and the Administrator of Veterans Affairs to

--standardize legal document requirements so that sellers can readily offer their condominiums under more than one Federal program (see p. 14) and

--accept, without review, condominium legal documents approved by the other agency. (See p. 14.)

GAO recommends that the Secretary, Department of Housing and Urban Development, and the Administrator of Veterans' Affairs conduct a joint outreach program to advise condominium associations of

--opportunities for potential buyers to obtain federally backed loans and

--criteria and procedures to qualify condominium projects for Federal programs. (See p. 14.)

THE SCOPE OF THE DEPARTMENT'S
CONDOMINIUM PROGRAM
SHOULD BE WIDENED

Federal laws state that the Department of Housing and Urban Development can only insure mortgages on individual condominium units if the Department insured the mortgage on the entire project. This requirement eliminates 97 percent of existing condominiums--about 1.25 million units--from the Department's mortgage insurance program. Department officials and condominium developers believe this requirement has unnecessarily discouraged many individuals from purchasing condominiums as a home. GAO agrees. (See p. 4.)

VA'S LOAN GUARANTEE PROGRAM
SHOULD INCLUDE
CONVERTED CONDOMINIUMS

Federal laws provide that VA cannot guarantee condominium mortgages if the unit was not originally built and sold as a condominium. A legislative amendment to the Housing and Urban Development Act of 1977 proposed that VA be authorized to guarantee mortgages for the purchase of buildings converted to condominiums. The House Veterans' Affairs Committee, wanting to be involved in legislation affecting the veteran, requested that the amendment be withdrawn and referred to the committee itself.

The amendment's objective was to provide more veterans an opportunity to own their own home since financing terms and sales prices on converted condominiums were lower than conventional detached houses. GAO believes this is a desirable change which the Congress should consider. A recent Department of Housing and Urban Development report concluded that continued inflation, limited availability of land, a tight rental market, and a need for one-bedroom units for retired and newly married couples encourages a trend toward converting to condominium ownership. (See p. 5.)

LEGAL DOCUMENT REQUIREMENTS
SHOULD BE STANDARDIZED

Before the Department insures or VA guarantees a mortgage for a condominium unit, the developer or unit owner must submit separate condominium legal documents to the Department and VA for their review. Both agencies independently review and approve the documents. GAO believes this is unnecessary. Standardizing legal requirements and agreeing to accept each other's review and approval would serve two purposes. First, the number of condominiums approved for each agency's program would be increased because each agency could also insure or guarantee loans in projects that the other had already approved. And second, the program would be enhanced by eliminating unnecessary duplication, therefore lessening administrative burdens placed on agency officials, condominium developers, and prospective owners. (See p. 9.)

PROGRAM OUTREACH NEEDED

The Department of Housing and Urban Development and VA should do more to inform condominium homeowners of the advantages of obtaining Federal project approval and how to qualify for Federal condominium programs. Such efforts would help alleviate the difficulties some people have experienced reselling existing condominiums. It would also make more condominiums available to buyers wanting insured or guaranteed mortgages. (See p. 10.)

AGENCY COMMENTS

The Department of Housing and Urban Development agreed with GAO's conclusions and recommendations and is taking actions to deal with the issues discussed in this report. (See pp. 7 and 13.)

Comments from VA were not received in time for GAO to include them in the report.

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ABBREVIATIONS

FHA Federal Housing Administration
FmHA Farmers Home Administration
GAO General Accounting Office
HUD Department of Housing and Urban Development
VA Veterans Administration

CHAPTER 1

INTRODUCTION

A condominium is an individually owned housing unit in a multihouse complex. The complex may be a high- or low-rise structure or a townhouse development. Property is generally divided vertically into individual spaces with people owning cubes of space rather than parcels of land. The buyer acquires full title to the unit plus an undivided interest in common areas and facilities, which can range from the lobby, grounds, and electrical and mechanical systems to extensive recreational facilities, such as swimming pools and tennis courts. The owners are jointly responsible for the maintenance and operation of commonly held areas and facilities.

FEDERAL CONDOMINIUM FINANCING PROGRAMS

Federal programs for condominiums were first considered in 1960 when representatives from Puerto Rico urged the Congress to enact a program to broaden the condominium financing market. Officials, bankers, and developers argued during congressional hearings that high land costs limited single-family homeownership, thereby making condominiums a desirable alternative. Puerto Rican financing institutions, however, required a 40-percent downpayment for condominium purchases and provided only 10- to 20-year mortgages. Thus, many potential condominium buyers were unable to obtain financing. The Department of Housing and Urban Development's (HUD's) mortgage insurance program, according to testimony, was expected to stimulate additional financing, particularly from U.S. lending institutions.

In response to these arguments, the Congress extended HUD's mortgage insurance program in 1961 to include individual new, existing, or converted condominiums. Section 234 of the National Housing Act (12 U.S.C. 1715y) was added by section 104 of the Housing Act of 1961. The program provided 30-year mortgages with less than 10-percent downpayments. Buyers had to be good credit risks and pay the costs of mortgage insurance through monthly premiums. HUD's authorization was extended in 1964 by section 119 of the Housing Act of 1964 (12 U.S.C. 1715Y) to include mortgage insurance of an entire condominium project construction, rehabilitation, or conversion.

The Veterans Administration (VA) became involved in condominium financing in 1970 when the Congress authorized VA to guarantee condominium mortgages in HUD-sponsored projects. Thus, VA could guarantee individual home mortgages in those condominium projects whose project mortgage was

insured by HUD. Limiting VA's financing to HUD-sponsored projects, however, severely restricted the veterans' selection of condominiums eligible for Federal financing. Therefore, the Congress expanded VA's authority in 1974 to include guarantee of individual condominium loans in any new or existing project as long as the project was originally built as a condominium--section 3(2) of the Veterans Housing Act of 1974 (38 U.S.C. 1810(a)(6)). The objective, according to the Senate report accompanying the legislation, was to give veterans an opportunity to acquire quality residences at comparatively modest costs, usually below the costs of individual houses of similar size on a regular size lot. Participating veterans had to be good credit risks. Program costs were to be paid with appropriated funds.

The Farmers Home Administration (FmHA), Department of Agriculture, received legislative authority to finance condominium mortgages in 1974. Section 526 of the Housing Act of 1949 was added by section 516 of the Housing and Community Development Act of 1974 (42 U.S.C. 1490f). FmHA was authorized to insure individual mortgages as well as make direct loans for the purchase of new, existing, or converted condominiums in rural areas. FmHA was also authorized to insure construction or rehabilitation mortgages on condominium projects. The purpose was to bring condominium ownership, considered to be so successful in urban areas, to rural residents.

As of June 1977 HUD had insured 27,475 individual condominium mortgages totaling approximately \$520 million. VA had guaranteed 8,253 individual condominium loans totaling approximately \$238 million. HUD had also insured project mortgage financing for 617 condominium projects totaling approximately \$331 million. FmHA had not implemented its condominium programs because, according to agency officials, this is a discretionary program for FmHA and other programs authorized in 1974 had a higher implementation priority. We were also told that FmHA had received no indication of a significant interest or demand for condominiums in rural areas.

CONDOMINIUM OWNERSHIP HAS INCREASED

Condominiums, virtually unknown in the early 1960's are now sold all over the country. According to best available estimates, there are over 1.25 million condominium homes in the United States. Condominiums are predicted to occupy an increasingly large proportion of the housing market in all parts of the country in coming years.

Economic factors are the main force behind the condominium boom. Inflation in real estate prices has pushed the

price of standard, single-family homes beyond the reach of many potential buyers. Soaring land and construction costs, often combined with sewer moratoriums and other anti-growth policies, have placed further pressures on the supply and price of housing. Additionally, rapidly rising costs of maintenance, utilities, and real estate taxes have made rental housing a less attractive investment. Thus, the investment incentive is to build homes for sale rather than for rent.

Changes in the makeup of the population also add to the condominium trend. Family size is declining and the number of one- and two-person households is growing rapidly due to increases in the elderly, single, and divorced populations. Condominiums can be an attractive housing choice. They are usually priced below single-family homes in the same area and often include recreational and other facilities beyond the reach of most owners. Additionally, they are free of many maintenance chores and provide tax deductions and an opportunity to build up equity in the property.

Furthermore, cluster and high-density housing, such as condominiums, have certain environmental advantages which may stimulate future condominium construction. An April 1974 study entitled "The Cost of Sprawl," prepared by Real Estate Research Corporation, concluded that high-density, planned communities have several advantages, including lower natural resource consumption because of more efficient use of heating, air conditioning, and transportation systems.

Federal involvement has also contributed to condominium popularity by helping to gain recognition of condominiums as a legitimate form of homeownership. According to a 1975 HUD report, State enabling legislation was expected to be spurred by Federal recognition of the condominium approach. The report found that all States now have legislation enabling condominium ownership, largely as a result of HUD's efforts in preparing a model structure.

SCOPE OF REVIEW

Our analysis of HUD and VA condominium mortgage insurance and loan guarantee programs was directed to identifying and recommending solutions to problems unique to condominium programs. We conducted our review in Los Angeles, San Francisco, and Santa Anna, California; Tampa, Florida; San Juan, Puerto Rico; and Washington, D.C. We reviewed files and interviewed HUD, VA, home building, and mortgage-finance industry officials. We also inspected HUD, VA, and conventional condominiums located in all of these locations.

CHAPTER 2

CONDOMINIUM HOMEOWNERSHIP OPPORTUNITIES

COULD BE INCREASED

Federal condominium homeownership opportunities can be increased by eliminating certain statutory limitations which would allow more people a wider selection of units. Some of the limitations are:

- HUD cannot, by law, insure mortgages for individual condominium units unless it also insured the mortgage for the entire condominium project. This provision eliminates 97 percent of all existing condominium units from eligibility under HUD's mortgage insurance program.
- VA cannot, by law, guarantee individual condominium mortgages unless the entire project was originally built and sold as a condominium. Therefore, all apartments which have been converted to condominium ownership are ineligible for VA-loan guarantee.

HUD officials, as well as condominium developers, believe that present requirements are too restrictive and unnecessarily prevent many individuals from purchasing condominiums. We agree.

A legislative amendment to the Housing and Urban Development Act of 1977 proposed that the VA-loan guarantee law regarding converted condominiums be changed. The amendment was subsequently withdrawn and referred to the House Veterans' Affairs Committee--the committee with jurisdiction over Veteran housing--for consideration. The amendment's thrust was to provide more veterans an opportunity to own their own home since prices and financing were lower on converted condominiums than conventional detached houses.

HUD'S CONDOMINIUM PROGRAM IS LIMITED

When the Congress held hearings in 1960 considering a Federal condominium loan program, the concept was new in this country. None of the States had enacted a condominium enabling law at that time. Thus the law establishing HUD's condominium program in 1961 reflected the Congress desire that, by imposing the project mortgage insurance requirement, condominium structures--a new form of housing--would meet HUD's minimum property standards. The result, however, has been that HUD has insured only 617 condominium project

mortgages containing about 36,000 units. This represents only about 3 percent of the 1.25 million condominium units in the United States. Only persons buying one of these 36,000 units can obtain HUD mortgage insurance. Therefore, anyone wanting to buy a condominium usually must seek financing without the assistance of HUD's program.

In contrast to HUD legislation, VA is permitted to guarantee individual condominium units without requiring that the entire project be insured under a Federal program. FmHA legislation also does not require that the entire project be insured. Both programs were enacted long after HUD's legislation and after condominiums became an acceptable form of housing.

HUD officials and developers told us that, in their opinion, the project mortgage insurance requirement should be deleted from the law. They said the requirement stops many individuals from buying condominiums. An Interagency Condominium Task Force was formed in 1975 in response to industry complaints about the varying Federal condominium requirements. The Task Force agreed that the project insurance requirements should be eliminated to improve uniformity between Federal condominium programs. Task Force members include HUD, VA, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation.

Both developers and HUD officials felt that most developers could have obtained construction financing without the assistance of HUD project mortgage insurance for the 617 HUD-insured projects, but needed the insurance in order to sell the units to buyers obtaining a HUD-insured mortgage. Project mortgage insurance requirements, according to HUD officials and developers, are frustrating and full of red tape. Two developers said that obtaining project mortgage insurance added about \$200 to the individual unit price.

Under existing laws, HUD can exempt projects with 11 or less units from the project mortgage requirement. The Congress passed this provision in 1968 with the objective of upgrading deteriorated housing in older neighborhoods through homeownership of condominium units. However, because the average condominium project has at least 100 units, most condominium units are still not available to buyers seeking HUD mortgage insurance.

VA'S CONDOMINIUM PROGRAM IS LIMITED

VA cannot, by law, guarantee loans for veterans buying a condominium unit in a building which was not originally built and sold as a condominium. Other types of individual condominiums are eligible for VA-loan guarantees, including new

and existing units, as long as they were originally built and sold as a condominium.

Senate amendment number 36 to the Housing and Community Development Act of 1977 (S. 1523) proposed that VA be authorized to guarantee loans for the purchase of homes converted to condominiums. The amendment's objective was to make many soundly constructed homes and apartments that had been converted to condominiums available to veterans under the VA-loan guarantee program. Discussion of the amendment pointed out that converted condominiums offered veterans a chance at homeownership because financing terms and sales prices for converted condominiums are frequently less expensive than terms for conventional houses.

The amendment was subsequently withdrawn at the request of the House Veterans' Affairs Committee, which has jurisdiction over veteran housing. A representative from the committee explained that the request was made because the Veterans' Affairs Committee felt they should be involved in any changes to the law affecting veterans housing--not because there was any specific opposition to the amendment by the committee. We believe this is a desirable change which should be considered by the Congress.

Excluding converted condominiums from VA-loan guarantee limits the housing options available to veterans. In a 1975 report to the Congress, HUD said that most economic, social, legal, and environmental factors stimulating new condominium development also encourage the trend toward converting existing apartments to condominiums. The report pointed out certain unique factors fostering the trend toward conversion, including:

- Economic: Conversions are attractive to the developer and the buyer. The developer expects a greater return from converting rental properties to sales property, the buyer expects an "ownership" premium or unit appreciation.
- Social: In central areas of many U.S. cities, high land and construction costs generally preclude new residential development. Converting rental properties to condominiums offers homeownership in these urban areas. Some cities are encouraging this trend, hoping to attract more affluent persons to the core area of their city.
- Legal: Rent controls, zoning ordinances, and tax laws are important considerations in the growth of condominium conversions. Rent control is particularly important in the decision of building owners to

convert. If costs are escalating rapidly and owners are unable to recover these costs, converting rental property may become an economic necessity. Zoning ordinances prohibiting new multifamily construction have also led to condominium conversions. The deductibility of mortgage interest and real estate taxes is also an important selling tool for converted condominiums.

--Environmental: The desire to restore buildings in urban areas has been the principal environmental factor impacting on converting apartment houses to condominiums.

The HUD report concluded that pressure to convert to condominiums will probably continue.

CONCLUSIONS

Predictions are that condominiums will occupy an increasingly large proportion of the housing market in all parts of the country in coming years. Some of the reasons for this increase are that:

- Prices for single family detached homes have escalated.
- Maintenance costs, utilities, and real estate taxes have risen rapidly, making rental housing a less attractive investment.
- The number of one- and two-person households has increased.
- Cluster and high-density housing, such as condominiums, offer certain environmental advantages.

Accordingly, if present legislation was changed, permitting (1) HUD to insure individual condominium mortgage in projects which HUD did not originally insure and (2) VA to guarantee loans on individual condominiums in converted buildings, condominium homeownership opportunities could be increased.

AGENCY COMMENTS AND OUR EVALUATION

Agency comments were not received from VA in time for us to include them in the report.

HUD officials agreed with our recommendation, stating that HUD is proposing legislation which would permit them to insure individual condominium units--in buildings which have

been completed for 1 year or more--without requiring that the project be built under a HUD mortgage insurance program.

Although we feel that this is a step in the right direction, requiring a 1-year waiting period will still prohibit HUD from insuring loans during the first project year when HUD participation could be very beneficial.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress enact amending legislation to authorize:

- HUD insurance of mortgages on individual condominium units, without requiring that the project be built under a HUD mortgage insurance program. Project mortgage insurance could still be offered at the builder's option. (See app. II for suggested legislative language.)
- VA guarantee of loans on individual condominiums not originally built or sold as condominiums. (See app. III for suggested legislative language.)

CHAPTER 3

ADMINISTRATIVE ACTIONS NEEDED TO ENCOURAGE GREATER PARTICIPATION IN FEDERAL CONDOMINIUM PROGRAMS

HUD and VA could lessen the administrative burden placed on condominium developers and owners and increase program participation by standardizing legal requirements and accepting each other's review and approval of individual projects. Also, HUD and VA need to do more to inform condominium owners in conventionally financed projects of the advantages of having their projects approved under either the HUD or VA condominium program. If review and approval procedures were uniform for both agencies, all units would be available to buyers wanting either HUD-insured or VA-guaranteed mortgages.

LEGAL DOCUMENT REQUIREMENTS SHOULD BE STANDARDIZED

HUD and VA each separately review and approve condominium project legal documents for developers and owners who want to sell their units under their mortgage insurance or loan guarantee programs. The documents include the establishing plan for condominium ownership, articles of incorporation, homeowners association bylaws, tract maps, and management agreements. Standardizing legal requirements and accepting each other's review and approval could (1) increase the number of condominiums approved for each agency's program because each agency could insure or guarantee loans in projects that the other had already approved and (2) decrease the administrative burdens placed on agency officials, condominium developers, and owners by eliminating unnecessary duplicative effort.

Between 1971 and 1974 VA accepted HUD's review and approval of condominium documents when guaranteeing loans in HUD-approved condominium projects. However, when VA's condominium program was expanded in 1974, VA developed its own set of legal requirements and required that VA officials review and approve the documents even for HUD-approved projects. This increased the administrative burden on condominium developers and owners and discouraged obtaining dual agency approval.

Developers and owners must obtain both HUD and VA approval if they want to sell their condominiums under both the HUD mortgage insurance and VA-loan guarantee programs. Representatives of the National Home Builders Association said developers tend to avoid obtaining both HUD and VA approval because of these separate requirements. For

example, a developer who had built 476 condominium units under both the HUD and VA programs decided to offer an additional 196 units only under the HUD program because of the burden of obtaining two approvals.

The Interagency Condominium Task Force, mentioned earlier in the report, tried to solve the problem of varied and often conflicting requirements imposed by the HUD and VA condominium programs. Little progress has been made, however, in achieving this goal. As of October 1977 the task force's only product, prepared in January 1977, was a statement setting forth proposed policies on legal document requirements. The task force member agencies have neither finalized nor agreed on the proposed changes.

In our opinion the proposed changes are too general and fall short of achieving standard legal document requirements. For example, the policies contain such vague words as "adequate," "reasonable," "timely," "equitable," and "generally." Consequently, with such vague terms, mutual acceptance of document approval will be difficult because each agency may individually determine compliance and not accept each other's review and approval.

HUD and VA officials support the concept of standard legal document requirements and mutual acceptance of each other's document review and approval. They cited a number of advantages, but said that the legislation proposed in chapter 2 of this report is needed before the concept can be implemented. HUD officials also said that, without legislation permitting HUD to insure individual mortgages in conventionally financed condominium projects, mutual acceptance of legal documents approved would be limited to condominium projects originally financed by HUD.

VA officials said that with standardized requirements, condominium developers would not be faced with the cost and burden of submitting documents to two separate agencies and that condominium owners, at the time of resale, would have additional financing sources available to potential buyers. HUD officials said that processing time, salaries, and paperwork could be reduced for both agencies and that mutual acceptance of documents would result in a greater volume of business without proportionally increasing staff.

PROGRAM OUTREACH NEEDED

HUD and VA should do more to inform condominium homeowners of the advantages of obtaining Federal project approval and how to qualify for Federal condominium programs. Such efforts would help alleviate the difficulties some

people have experienced in reselling existing condominium units and would make more condominiums available to buyers wanting HUD-insured or VA-guaranteed mortgages.

Some condominium owners in conventionally financed projects are having a hard time selling their units because lenders are unwilling to make loans to potential buyers unless the loan is federally insured or guaranteed. Also, lenders not originally involved in developing the project are reluctant to spend the time and money required to review the legal documents necessary to make only one condominium unit loan.

To compound the problem, secondary mortgage market institution officials said they also review the condominium legal documents before buying loans from the primary lender. They will not, however, review the legal documents for just one unit because the review is too time consuming and costly. This creates a problem for the primary lender who normally sells loans to the secondary mortgage market. If unable to sell loans to the secondary mortgage market, the primary lender is reluctant to make loans on condominium units.

The first step toward resolving the resale problem is to authorize HUD to insure mortgages on all individual existing condominiums as recommended in chapter 2. According to HUD and secondary mortgage market officials, review of project legal documentation can be substantially reduced or eliminated if the loan is insured or guaranteed under a Federal program.

The second step toward resolving the resale problem involves obtaining project legal document approval. For example, as of June 1977 HUD had approved only 617 projects--about 5 percent of all existing projects. Such a low approval rate is due, in part, to delays and costs encountered in the approval process which inhibit individual condominium owners from applying for Federal approval.

According to HUD and VA officials, project document approval should take place before the sale of an existing individual condominium. We found it can take up to 6 months to approve the documents. The delays occur because voluminous documents must be prepared, forwarded to the Federal agencies, and reviewed and questions must be answered. If changes are required, the approval process is delayed until the condominium owners concur with the changes.

According to VA and HUD officials, this delay would be unacceptable for individual condominium owners; and, therefore, the owners probably would not offer their individual condominium unit for sale under a Federal program knowing

there will be a long approval process. Also, the owner would have no assurance that the Federal agency would approve the request.

Further, the costs to obtain HUD or VA documentation approval would also inhibit owners from offering their individual condominium for sale under a Federal program. According to HUD and VA officials, gathering and submitting necessary project documents can be costly. Legal services may also be required to answer Federal agency questions.

Costs and delays to individual condominium owners could be reduced, according to HUD officials, if the condominium homeowners association initiated the approval action. In this way all the individual condominium owners would share the costs. Also, the time needed to obtain Federal approval would be encountered before individual condominium owners tried to resell their home under the HUD or VA programs.

HUD and VA recognized the advantages of advance project approval but did not have active outreach programs to advise existing conventionally financed condominium owners of these advantages. HUD could not be expected to have such a program at this time because current legislation does not include mortgage insurance of most existing condominiums. However, the VA program does cover such condominiums. VA officials said that they occasionally meet with the housing industry to promote VA programs, including guaranteeing loans on existing condominiums. However, they have not informed condominium owners in conventionally financed projects about either the advantages of obtaining VA project approval or the procedures to obtain the approval. VA officials said that one problem would be obtaining the names and addresses of condominium owners or their homeowners association.

Officials of the Community Association Institute, representing more than 10,000 condominium homeowners associations, said they would cooperate with Federal agencies in conducting an outreach program. The Institute would help distribute the information to the associations.

HUD and VA officials said their workloads would increase if an outreach program was effective in urging existing condominium owners to apply for document approval. HUD officials suggested that a fee could be charged to offset agency costs in return for approving project documents. The HUD officials believed that owners associations would be willing to pay this fee since, once the documents were approved, owners could sell their condominiums under a Federal mortgage insurance program without having the legal document review repeated each time a sale is made.

CONCLUSIONS

Federal agencies should standardize condominium legal document requirements, review, and approval procedures to broaden program availability. Legal document approval by one Federal agency should be accepted by the other. HUD and VA play very similar roles; both provide Federal backing of home loans based on prudent underwriting standards and concern for consumer protection. There is no justification for duplicate review and approval procedures by two Federal agencies whose objectives are the same--to help home buyers obtain financing.

The net results of mutual document approval would be more individual condominiums eligible for financing under both HUD and VA programs. Mutual acceptance of document approval, however, is not a reality without legislative direction. HUD and VA agree with the concept and recognize its advantages, but have not been able to implement a system to avoid duplicate approval. Progress in that direction seems to be inhibited because both agencies prefer to maintain complete internal program control. Even the Interagency Condominium Task Force, convened for over 2 year, had not achieved this goal. Legislation, therefore, is one way to oblige agencies to agree on legal requirements and to eliminate duplicate review and approval.

There is also a need for effective outreach efforts to qualify condominiums for Federal programs before the time sellers and buyers need the programs. Federal agencies should inform condominium homeowner associations of advantages in obtaining advance project approval for Federal programs and the steps needed to obtain such approval. To cover the costs incurred by HUD or VA, a fee could be charged for Federal review and approval of project documents.

AGENCY COMMENTS AND OUR EVALUATION

Agency comments from VA were not received in time for us to include them in the report.

HUD officials generally agreed with our recommendations. They said that they are working with VA, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation to establish criteria necessary to approve conventionally financed condominiums. Once the criteria has been established and new policies adopted, HUD will make them known to condominium unit owners across the Nation. HUD stated further that legislation allowing it to insure mortgages in conventionally financed condominiums must first be passed.

We agree with the overall concept which the interagency task force is working toward. However, the task force has been convened for over 2 years without agreeing on a way to implement the changes we proposed. We believe that congressional action is necessary to achieve the desired changes in a reasonable time frame.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress require the Secretary of HUD and the Administrator of Veterans' Affairs to

- standardize legal document requirements so that sellers can readily offer their condominiums under more than one Federal program and
- accept, without review, condominium legal documents approved by the other agency.

RECOMMENDATIONS TO THE SECRETARY OF HUD AND THE ADMINISTRATOR OF VETERANS' AFFAIRS

We recommend that the Secretary of HUD and the Administrator of Veterans' Affairs conduct a joint outreach program to advise condominium associations of

- opportunities for potential buyers to obtain federally backed loans and
- criteria and procedures to qualify condominium projects for Federal programs.



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

February 6, 1978

OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING—FEDERAL HOUSING COMMISSIONER

IN REPLY REFER TO:

Mr. Henry Eschwege
Director, Community and Economic
Development Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

Your letter of December 5, 1977 addressed to the Secretary of Housing and Urban Development transmitting a proposed report to the Congress entitled: "Condominium Home Ownership Opportunities Could Be Increased" has been referred to me for reply.

On pages 22 and 23 of the report, you recommend that the Secretary of HUD and the Administrator of the VA conduct a joint outreach program to advise condominium associations of:

- opportunities for potential buyers to obtain federally backed loans, and
- criteria and procedures to qualify condominium projects for Federal programs.

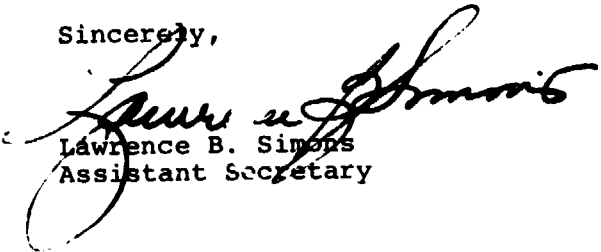
HUD and VA, as a part of the "Interagency Task Force for Standardizing Condominium Documents," have been working with the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) to establish the criteria necessary to approve conventionally financed condominiums. This requires the promulgation of provisions to be written into the organizational documents to protect the consumer's and government's interest. It also requires the preparation of forms and procedures which would provide sufficient information to determine the soundness of construction and the magnitude of the risk to be encountered. The Task Force Legal Committee and Risk Determination Committee hope to resolve outstanding issues and prepare a final draft for clearance with each organization by January 31, 1978.

When the participating organizations have completed their review and adopted the new policies, we will be able to make them known to the condominium unit owners of the Nation. The Community Association Institute (CAI) has volunteered to use its channels of communication to notify its national membership. At present, as you know, under Section 234(c) of the National Housing Act, this Department is only permitted to insure mortgages on individual condominium units when the development has eleven or less units or was financed by an FHA-insured project mortgage.

The Administration, however, is proposing legislation which would permit HUD/FHA to insure individual unit mortgages in condominiums of 12 or more units, which had been completed for one year or more, and which did not have FHA project insurance. We believe this proposed legislation would be of great assistance in meeting the needs of a group that neither Federal or private programs now serve.

If we can be of any further assistance, please let me know.

Sincerely,



Lawrence B. Simons
Assistant Secretary

SUGGESTED REVISION TO SECTION 234
OF THE NATIONAL HOUSING ACT

Delete subsection (2) of 12 U.S.C. 1715 y(c).

SUGGESTED REVISION TO TITLE 38,UNITED STATES CODE

Section 1810 (a)(6) of title 38, United States Code, is amended to read as follows:

"(6) To purchase a one-family residential unit in a condominium housing development or project, provided such development or project is approved by the Administrator under such criteria as he shall prescribe."

PRINCIPAL OFFICIALS RESPONSIBLE FOR ADMINISTERING
ACTIVITIES DISCUSSED IN THIS REPORT

Tenure of office
From To

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

SECRETARY OF HOUSING AND URBAN
DEVELOPMENT:

Patricia R. Harris	Feb. 1977	Present
Carla A. Hills	Mar. 1975	Jan. 1977
James T. Lynn	Feb. 1973	Feb. 1975
George W. Romney	Jan. 1969	Feb. 1973

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

(note a):

Lawrence B. Simons	Mar. 1977	Present
Johr T. Howley (acting)	Dec. 1976	Mar. 1977
James L. Young	June 1976	Dec. 1976

ASSISTANT SECRETARY FOR HOUSING
PRODUCTION AND MORTGAGE CREDIT-
FHA COMMISSIONER (note a):

David S. Cook	Aug. 1975	June 1976
David M. DeWilde (acting)	Nov. 1974	Aug. 1975
Sheldon B. Lubar	July 1973	Nov. 1974
Woodward Kingman (acting)	Jan. 1973	July 1973
Eugene A. Gullede	Oct. 1969	Jan. 1973

VETERANS ADMINISTRATION

ADMINISTRATION OF VETERANS'
AFFAIRS:

Max Cleland	Mar. 1977	Present
H. D. Grubb	Feb. 1977	Mar. 1977
Richard L. Roudebush	Oct. 1974	Feb. 1977
Richard L. Roudebush (acting)	Sept. 1974	Oct. 1974
Donald E. Johnson	June 1969	Sept. 1974

DIRECTOR, LOAN GUARANTY SERVICE:

R. C. Coon	Oct. 1974	Present
E. A. Echols	Jan. 1972	Oct. 1974

a/On June 14, 1976, HUD combined the functions of the Assistant Secretary for Housing Production and Mortgage Credit-FHA Commissioner and the Assistant Secretary for Housing Management under a single Office of Assistant Secretary for Housing-Federal Housing Commissioner.