Condo Buyers Guide

What you need to know

Fannie Mae®

Is buying a condo right for you?

Condominiums, or condos, can be an attractive option for homebuyers. Those who feel "priced out" of the homebuying market may discover condos offer a more affordable homeownership option.

For some buyers, a condo is a starter home and a place to live for only a few years. While for others looking to take advantage of a condo's recreational amenities (pools, fitness centers) and low property maintenance (included landscaping), a condo can be a forever home.

Buying a condo typically requires compliance with community rules and guidelines that may affect your loan terms. With a single-family home, the lender may only need to evaluate the finances of the borrower and the condition and value of the single property. With a condo, however, the lender must also evaluate the entire condo project's compliance with certain eligibility requirements.

This guide is created to familiarize you with essential terms, key questions to ask, and important obligations to understand before purchasing a condo.

Take the time to read and learn — you may find a bright and exciting future of condo ownership ahead of you!

What exactly is a condo?

Here's a basic explanation of condos:

- Condos are a community form of ownership where you own a "unit" within a larger building or complex shared with other condo owners. You and your neighbors may be in close proximity, possibly sharing walls.
- You and the other condo unit owners jointly own the exterior property, recreational amenities, and other common areas in the building or community.
- As a unit owner, you are a member of the condo owners association (referred to as the homeowners association (HOA)). There may also be elected officers (typically known as a condo board) to lead the condo association and keep it functioning. These officers or directors may hold **meetings** to bring up community issues and put solutions to a vote.
- You may be required to pay a mandatory monthly, quarterly, or annual condo fee to the HOA, which is in addition to your individual loan payment, local property taxes (in most areas), and insurance costs. This fee, which can increase over time, usually covers general repairs and maintenance to the building exterior and common areas, pays for project insurance (which may not include individual units), and builds up a cash reserve for future needs. Essentially, the HOA utilizes **condo fees** to keep the community functioning.

Quick condo facts

- **Individual ownership of your unit within a larger building or complex**
- **Shared ownership of exterior, common areas, and recreational amenities**
- **Condo association and community rules**
- **Condo fee for shared expenses**
- **Generally less direct maintenance compared to a single-family home**

Condos come in many different styles

High-rise and mid-rise buildings with interior hallways

Garden-style buildings with outside entrances

Multistory townhomes sharing common walls

Condo ownership is homeownership.

As a condo owner, you'll enjoy both the benefits and the responsibilities of homeownership. You may find that homeownership provides you with tax and investment advantages. For example, you may be able to deduct your mortgage interest if you itemize deductions on your tax return, and you may discover that, like detached homes, condos may appreciate in value over time. Please consult your tax advisor about your individual situation.

What is the difference between a condo and a co-op?

- The main difference between a condo and a cooperative (co-op) is property ownership. With a condo, you own your condo unit and a proportionate share of the common areas. With a co-op, the land and the building are owned by a corporation. You purchase shares of stock in the corporation, which gives you the right to live in the building and the right to occupy a unit.

Qualifying for a condo loan

Your lender will look at many of the same kinds of borrower qualifications for loans secured by condos as they do for loans secured by single-family homes.

Your monthly income, credit history, and monthly debts — the "homebuying basics" — all help determine if you qualify for a loan and how much loan you can afford. It is critical for your lender to know that you can repay the loan without undue financial hardship or risk of default on your loan.

As with single-family homes, if your down payment is less than 20% of the purchase price, you usually have to pay PMI, or Private Mortgage Insurance, each month. You can typically cancel PMI once you have more than 20% equity in your home or have paid down your loan balance below 80% of the purchase price.

Condos require a few special considerations by lenders.

Loan financing terms will require your lender to evaluate several factors to assess the financial stability and physical condition of the condo project, community, or building you are considering. Lenders will also factor in the condo fee in determining the loan amount you can qualify for.

Condo properties may come with additional risks due to the condo association's impact on the overall upkeep and, ultimately, property values. The lender will evaluate whether the property meets certain guidelines before approving a loan such as the following:

- The project is financially stable and viable.
- The project's condition and marketability are favorable.
- The project does not have any outstanding deficiencies related to the safety, soundness, structural integrity, or habitability of its buildings.
- The project does not have any pending orders to evacuate.
- All mandatory property inspections have been conducted, and the property has been cleared of any adverse conditions.

Before finalizing your purchase offer, carefully evaluate not only the individual unit but also the entire condo project.

Find out if the condo project has any of the following:

- **Special assessments** in place or planned (such as for capital improvements to the condo project) or a lack of reserve funds to make improvements that will affect your cost to own the condo unit or the building's value over the long term.
- Major lawsuits pending against the condo association or developer that could limit your ability to obtain financing to purchase the condo.

Discuss these issues and considerations with your lender.

Before you shop

Before you start condo shopping, it's helpful to know:

How much can you afford to spend on a condo?

Your lender will look at what your total monthly housing costs would be, taking into consideration the condo fee, property taxes, insurance, PMI (if applicable), and the principal and interest payments on your loan.

One of the best ways to determine how much you can afford is to get pre-qualified before you go condo shopping — ask your lender how.

Questions to ask before you buy

It's essential that you understand your legal rights and obligations under the **bylaws** of the specific condo you're purchasing. As a prospective buyer, you will receive a copy of the condo bylaws and other documents that you should review to understand the rules about remodeling, leasing your unit, fees and penalties, parking restrictions, pet ownership, and other obligations.

Talk to the officers of the HOA or the property management company to get answers to questions that may help you make an informed decision. You can also ask your real estate professional or a real estate attorney for information on your rights as a buyer and owner. Below are some sample questions to ask.

Condo fees:

- What is included in the condo fee?
- Are utilities, property insurance premiums, or real estate taxes paid directly by the unit owners, or are they included in the condo fee?
- Is there on-site property management?

Parking:

- Is parking assigned to owners or conveyed by deed?
- Are there spaces for visitors?
- How many parking spaces are provided for each unit?
- Can additional parking spaces be purchased?

Board members:

- How are officers elected to the condo board or HOA?
- How frequently are elections held? What are the qualifications to run for office?
- How long do officers serve, and are there term limits?

Unit modifications:

- What kinds of modifications to the unit are allowed?
- Is there a committee that reviews and approves changes?

Community:

- Is it possible to talk to some owners in the community or building?
- What is it like living in the building or the complex? For example, are maintenance requests handled well?
- Is there much turnover in ownership?

Noise control:

- Are there concerns about noise levels within the building or across the community?
- Are there restrictions on quiet hours to foster harmony (limits on indoor/outdoor music, parties, musical instruments)?

Pets:

- Are there rules regarding pets? *Pets may be prohibited altogether, or there may be rules on the size, kind, or number of pets allowed.*

Condo building and its components:

- What is the remaining useful life of the community or the building's major components?
- When was the roof last replaced?
- Have repairs or replacements been made to the sewer and water pipes outside individual units?
- Are the parking lots or garages in good condition? When were the elevators and other major building infrastructure last maintained?
- When was the last property inspection completed related to the safety, soundness, structural integrity, or habitability of the project's buildings? Have all mandatory property inspections been conducted and cleared of any adverse conditions?
- Is there a potential impact on the value of your condo due to any deferred maintenance or repairs needed?

Cash reserves:

- How much is in the cash **reserve fund** for future repairs? *Having adequate funds for both routine maintenance and cash reserves for major repairs or unexpected costs is critical.*
- Are there any pending assessments or major repair projects that exceed the repair fund?
- Has the HOA's accountant offered recommendations, or has the HOA obtained a study on the adequacy of the cash reserve fund (commonly referred to as a reserve study)?
- Does the condo have any history of special assessments? *If necessary, when repair costs exceed the available reserve funds, a mandatory special assessment may be imposed on all unit owners in the condo project, requiring a one-time payment or an increase in the monthly condo fee for a period of time.*
- Are other owners paying their condo fees as scheduled? *Determine the delinquency rate (how many owners don't pay condo fees compared to the total number of owners).*

Insurance:

- Does the master insurance policy cover full replacement costs of the project?
- Does the policy have a building-ordinance clause to cover costs associated with bringing the building up to code if rebuilding is required?
- Does the **master insurance** policy cover the interior of the units as well as "**common elements**" used by all owners? *If not, your loan documents will probably require you to purchase and maintain a condo insurance policy to cover your condo unit's interior, commonly known as an "***HO-6***" policy.*

Renting out and subleasing:

- Is the complex renter friendly or are there restrictions? *If you are looking to buy your condo as a long-term investment, you may not want any restrictions on your future ability to rent out or your renter's ability to sublease the unit. But if you plan to make the condo your forever home, you may prefer high* **owner occupancy** *rates that discourage short-term rentals, so you'll be living among property owners (like you!). Inquire about all terms and conditions by which you can rent your unit as there may be seasonal or other restrictions.*

When it's time to buy

When you're ready to purchase a condo, your lender can help you with the process and help you select the financing option that is best for you.

If you have credit or other financial challenges that need to be addressed before you can buy, ask your lender to refer you to a HUD-approved housing counselor.

Be proactive, and do your due diligence! Prepare your own checklist about the home style, features, services, and amenities that are important to you; and then visit a variety of condos to find one that fits your lifestyle.

Remember to ask questions to ensure that the project is managed appropriately (e.g., the interior and exterior is in good condition and the condo association sets aside reserves for future maintenance and repairs).

Low HOA dues do not always equate to low payments forever if the condo association is not properly managing its funds. A mismanaged community could end up being more expensive in the long run.

Now that you know about the unique aspects of condos and what to expect during the buying process, you can feel more confident deciding if condo ownership is right for you.

Glossary

Annual meetings
Meetings held by condo associations or property management companies to discuss agenda items with unit owners, providing a platform for unit owners to engage in discussions and vote on certain issues.

Appraisal
A written estimate or opinion of a property's value prepared by a qualified appraiser.

Bylaws
Rules governing the internal management of the condo. You should review these prior to purchase because when you buy a condo, you agree to abide by the condo bylaws. For example, there may be rules on exterior holiday decorations or renting out your unit.

Condo fees/dues
Amounts paid, usually monthly, by unit owners to meet daily operating costs as well as contributions to the required reserve fund. Condo fees are not included in your monthly loan payment and must be paid directly to the condo/HOA, usually through a professional management company. It is important to understand what is and is not included in the fees as it varies from condo to condo.

Common elements (areas)
Those portions of a building, land, and amenities that are used by all the unit owners who share in the common expenses of their operation and maintenance. Common areas may include swimming pools, tennis courts, common corridors of buildings, parking areas, entrances and exits, and community rooms or clubhouses.

Condominium
A form of homeownership that combines individual ownership of a unit with shared ownership of common facilities. Each owner has a separate loan for their unit (when not owned outright) and is responsible for making the payments on the loan and paying associated real estate taxes. An elected board of directors or a professional management company is responsible for operations and management of the common facilities. Each owner pays a monthly recurring fee (condo fees/dues) that covers their share of the cost to maintain and repair the common facilities.

Declaration
Also known as a "master deed," this is a legal document that formally creates the condominium corporation in accordance with state law. The declaration defines the units and common property and specifies the interest each owner has in the common elements.

HO-6 insurance policy

A condo unit owner's property insurance policy covering the unit interior. Condo buyers may be required or choose to purchase an HO-6 policy to obtain financing. (See also master insurance policy.)

Master insurance policy

An insurance policy purchased by a condo or HOA to provide coverage for the building exteriors and common elements; interiors of individual units may be included, making an HO-6 policy unnecessary.

Owner occupancy

Refers to individual condos being occupied by their owners (not rented out by the owner). The higher the rental rate, for example, the lower the rate of owner occupancy.

Reserve fund

A fund set aside for replacement of common property in a condo project. The amount of the fund is typically determined by periodic reserve studies conducted by experienced professional reserve analysts.

Special assessments

A one-time fee or additional condo dues that condo owners pay to cover unexpected expenses that are not covered by regular maintenance fees. These fees are in addition to the normal, recurring common element fees/expenses.

For more information and homebuyer educational resources, please visit our website.