

## DU Condominium and PUD Project Standards

### General Project Standards

#### Project Risk Overview

- The quality of mortgages secured by units in condo and planned unit development (PUD) projects can be influenced by certain characteristics of the project or by the project as a whole.
- Project eligibility risk is a risk that is distinct from the credit risk presented by individual borrowers. Units located in a project present risks that are also distinct from the risks associated with properties that are not part of a homeowners' association (HOA) or project. These risks include the following:
  - The financial stability and viability of the project;
  - The condition and marketability of the project;
  - Limitations on the unit owner's ability to control the decision making for the project, occupy the unit, or use the project's amenities and common elements;
  - Dissolution of the project and the unit owner's resulting rights and responsibilities;
  - Project level litigation;
  - Project level misrepresentation and fraud;
  - The inability to cure a mortgage default due to restrictions in the project documents such as right of first refusal provisions; and
  - Insurance coverage that is inadequate to protect the project from unexpected losses.
- Project eligibility and financial strength are key drivers of credit performance on individual unit mortgages and critical to the long-term success of the project. These eligibility and underwriting requirements seek to mitigate project level risks and to ensure that projects are well-managed.

#### Project documentation

- The documentation needed to complete a project review may differ depending on the project and review type. Underwriters are responsible for determining the documentation needed to ensure that the project meets all eligibility requirements. Project documentation may include the following:
  - Legal and recorded documents including the covenants and restrictions, declaration of condominium, or other similar documents that establish the legal structure of the project;
  - Project budgets, financial statements, and reserve studies;
  - Project construction plans;
  - Architects' or engineers' reports;
  - Completion reports;
  - Project marketing plans;
  - Environmental hazard reports;
  - Attorney opinions;
  - Appraisal reports;
  - Evidence of insurance policies and related documentation; and
  - Condominium project questionnaires.
- Fannie Mae provides two *Condominium Project Questionnaires* that help collect data to determine condo project eligibility:
  - *Condominium Project Questionnaire – Full Form, Form 1076* contains a list of eligibility questions to support a Full Review; and
  - *Condominium Project Questionnaire – Short Form, Form 1077* contains a shorter list of questions to facilitate a Limited Review.

## Project Types

- The specific eligibility criteria to be met are dependent upon various project types and/or loan level characteristics. The characteristics that define each project type are described in the following table:

<b>Project Type</b>	<b>Identification Criteria</b>
Established Condo Project	A project where all of the following are true: <ul style="list-style-type: none"> <li>At least 90% of the total units in the project have been conveyed to the unit purchasers;</li> <li>The project is 100% complete including all units and common elements;</li> <li>The project is not subject to additional phasing or annexation; and</li> <li>Control of the HOA has been turned over to the unit owners.</li> </ul>
New Condo Project	A project where one or more of the following is true: <ul style="list-style-type: none"> <li>Fewer than 90% of the total units in the project have been conveyed to the unit purchasers;</li> <li>The project is not fully completed such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo;</li> <li>The project is newly converted; or</li> <li>The project is subject to additional phasing or annexation.</li> </ul>
Detached Condo Project	A project comprised solely of detached units or that comprises a mixture of attached and detached units and may be a new or established project.
Two-to-Four Unit Condo Project	A project comprised of two, three, or four residential units where each unit is evidenced by its own title and deed. A two-to-four unit condo project may be either a new or established project and may be comprised of attached and/or detached units.
Planned Unit Development (PUD) Project	A project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD unit owners.

## Project Review Methods

- To determine whether the project meets eligibility requirements a number of project review methods are available. Whether a project review method is allowable or required depends on:
  - The unit type (attached or detached);
  - The project type (condo or PUD);
  - The project status (new or established); and
  - The mortgage transaction.
- The characteristics that dictate which method to use are shown in the following table:

<b>Unit and Project Type</b>	<b>Project Review Methods</b>
Attached condo unit in a new or newly converted project	<ul style="list-style-type: none"> <li>Full Review completed using Condo Project Manager (CPM); or</li> <li>Fannie Mae Review through the standard Project Eligibility Review Service (PERS) process*.</li> </ul>
Attached condo unit in an established project	<p>Based on the LTV, CLTV and HCLTV ratios, occupancy and location (projects in Florida), these projects may be reviewed using a Limited Review.</p> <p>Projects not meeting the Limited Review criteria must be reviewed using a:</p> <ul style="list-style-type: none"> <li>Full Review with CPM; or</li> <li>Fannie Mae Review through the streamlined PERS process for established condo projects.*</li> </ul>

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Attached condo in a new or established two-to-four unit condo project	Based on the mortgage transaction and project characteristics, two-to-four unit condo projects may be reviewed using a Limited Review.  Projects not meeting the Limited Review criteria must be reviewed using a: <ul style="list-style-type: none"> <li>• Full Review with CPM; or</li> <li>• Fannie Mae Review through the streamlined PERS process for established condo projects*</li> </ul>
Detached condo unit in a new or established project	A project review is not required.
Newly converted non-gut rehabilitation condo projects that contain more than four residential units; and <b>New or newly converted condo projects consisting of attached units located in Florida</b>	Fannie Mae Review through the standard PERS process*

**\*Lenox/WesLend does not initiate the PERS process. The project must be on Fannie Mae’s PERS approval list.**

### Fannie Mae to Fannie Mae Limited Cash-Out Refinances

- The project eligibility review is waived for all Fannie Mae owned loans that are being refinanced as limited cash-out refinances with the following conditions. Confirm:
  - The loan-to-value ratio is no higher than 80% (CLTV or HCLTV ratios may be higher);
  - The project has the required project related property and flood insurance coverage; and
  - The project is not a condo hotel or motel, houseboat project, or a timeshare or segmented ownership project.

The Project Type Codes and any applicable special feature codes are shown in the following table:

<b>Project Type Code</b>	<b>Description</b>
E	Established PUD project
F	New PUD project
P	Limited Review – New Condo Project
Q	Limited Review – Established Condo Project
R	Full Review – New Condo Project
S	Full Review – Established Condo Project
T	Fannie Mae Review – Condo project that received a Final Project Approval through PERS using the standard or streamlined process.
V	<ul style="list-style-type: none"> <li>• DU Refi Plus loans secured by a property in a condo project</li> <li>• Detached condo loans delivered without a condo review</li> <li>• Fannie Mae to Fannie Mae limited cash-out refinances without a condo project review.</li> </ul>

<b>Special Feature Code</b>	<b>Description</b>
588	Detached Condominium – Used to identify units in a condo project.
296	Project Eligibility Waiver – Used to identify loans for which Fannie Mae has provided a project eligibility waiver.

## Expiration for Project Reviews

- Project reviews must meet the following timeline requirements:

<i>Project Review Process</i>	<i>Expiration of Project Review</i>
<ul style="list-style-type: none"> <li>Limited Review</li> <li>Full Review</li> </ul>	Must have been completed within 180 days prior to the Note date.
<ul style="list-style-type: none"> <li>Approved by Fannie Mae through PERS</li> </ul>	PERS approval must be unexpired as of the Note date.

## Special Geographic Requirements

### Florida Requirements

#### **Florida** – Attached Units in New and Newly Converted Condo Projects

- PERS approval is required for new and newly converted projects consisting of attached units located in Florida.**
- The following project review methods **may not** be used to review these types of projects in Florida:
  - Limited Review; or
  - Full Review

#### **Florida** – Project Review Maximum LTV Requirements for Attached Units in New, Newly Converted and Established Projects

- The following tables describe the maximum LTV ratios that are permitted for specific project review types for loans secured by units in a condo project located in Florida.
- Unless noted otherwise these requirements are based on the LTV ratio of the mortgage loan.

<i>Florida – Attached Units in New and Newly Converted Condo Projects</i>			
<i>Maximum LTV Ratios</i>			
	<i>PERS Approval*</i>	<i>Full Review</i>	<i>Limited Review</i>
Principal Residence	97% DU Manual not Allowed	Not Eligible	
Second Home	90%		
Investor	85%		

\*Refer to the *Eligibility Matrix* for the maximum allowable CLTV and HCLTV ratios.

<i>Florida – Attached Units in Established Condo Projects</i>			
	<i>Maximum LTV Ratios*</i>		<i>Maximum LTV, CLTV, and HCLTV Ratios*</i>
	<i>PERS Approved</i>	<i>Full Review</i>	<i>Limited Review</i>
Principal Residence	97% DU Manual not Allowed		75/90/90%
Second Home	90%		70/75/75%
Investor	85%		Not Eligible

\*Refer to the *Eligibility Matrix* for the maximum allowable CLTV and HCLTV ratios.

## Project Eligibility

### Limited Review Process

- To be eligible for a Limited Review the unit securing the mortgage must be an **attached unit in an established project**.
- An attached unit in an established condo project, including a two-to-four unit condo project, is eligible for a Limited Review if it meets the requirements in the table below:

<i>Eligible Transactions for Limited Review Attached Units in Established Condo Projects Including Two-to-Four Unit Projects For Properties Outside of Florida</i>	
<i>Occupancy Type</i>	<i>Maximum LTV, CLTV, and HCLTV Ratios</i>
Principal Residence	90%
Second Home	75%
Investment Property	<b>Ineligible for Limited Review</b>

- Attached units in established projects located in Florida are subject to more restrictive LTV ratio requirements under the Limited Review process.
- Refer to the Special Geographic Requirements listed above for all Florida requirements.**
- In completing a Limited Review, ensure that the project and subject unit meet all of the eligibility requirements described in the table below:

<b>X</b>	<b>Limited Review Eligibility Requirements</b>
	The project is not an ineligible project.
	The project does not consist of manufactured homes.
	When an appraisal is obtained the appraisal of the subject unit meets all applicable appraisal requirements.
	The unit securing the mortgage satisfies all insurance requirements including all provisions applicable to condo projects.

- Provided the project and loan transaction are eligible for and meet all of the eligibility requirements of the Limited Review process, underwriters are not required to validate that the project also meets the eligibility requirements of another project review type.
- In the event an underwriter becomes aware of a circumstance that would cause the project or transaction to be ineligible under a Limited Review, he/she must use one of the other project review methods to determine project eligibility and the project must meet all of the eligibility requirements of that selected alternate project review type.**

### Full Review Process

- A Full Review may be performed when the unit securing the mortgage is an attached unit located in one of the following project types:
  - An established condo project; or
  - A new or newly converted condo project, excluding properties located in Florida.
- Two-to-four unit condo projects reviewed using the Full Review process must comply with all of the Full Review requirements unless specifically stated otherwise.
- Projects consisting of manufactured homes are not eligible for the Full Review process but must have a Fannie Mae PERS approval.\***
- Condo Project Manager (CPM) **must be used** to assist underwriters with their Full Review of a project.
  - CPM certifications are based solely on the data that is entered into CPM. **Underwriters are responsible for reviewing the applicable project documentation to obtain the information needed to complete the project review and enter the data into CPM.**

- Underwriters are also responsible for ensuring that all data entered into CPM is correct and that the project meets all applicable eligibility requirements.
- When determining the eligibility of a condo project on the basis of a Full Review, ensure the condo project meets the eligibility requirements described in the table below:

X	<i>Full Review Eligibility Requirements Attached Units in New, Established or Two-to-Four Unit Condo Projects</i>
	The project must not be an ineligible project. Refer to the Ineligible Projects section below.
	The project must not be a manufactured housing project. <ul style="list-style-type: none"> <li>• Manufactured housing projects require a Fannie Mae PERS review</li> </ul>
	The unit securing the mortgage satisfies all Fannie Mae insurance requirements including all provisions applicable to condo projects.
	When an appraisal is obtained the appraisal of the subject unit must meet all applicable appraisal requirements.
	No more than <b>15%</b> of the total units in a project may be <b>60 days or more past due</b> on their common expense assessments (HOA dues). For example, a 100 unit project may not have more than 15 units that are 60 days or more past due. <ul style="list-style-type: none"> <li>• <b>In a two-to-four unit project, none of the unit owners may be 60 or more days past due on their HOA common expense assessments.</b></li> </ul>
	For projects where the units are not separately metered for utilities, underwriters must: <ul style="list-style-type: none"> <li>• Determine that having multiple units on a single meter is common and customary in the local market where the project is located; and</li> <li>• Confirm that the project budget includes adequate funding for utility payments.</li> <li>• These requirements are <b>not applicable to two-to-four unit projects</b>.</li> </ul>
	The project must be located on contiguous parcels of land. It is acceptable for a project to be divided by public or private streets.
	The structures within the project must be within a reasonable distance from each other.
	Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.
	Unit owners in the project must have the sole ownership interest in and rights to the use of the project's facilities, common elements, and limited common elements except as noted below. <p>Shared amenities are permitted only when two or more HOAs share amenities for the exclusive use of the unit owners. The associations must have an agreement in place governing the arrangement for shared amenities that includes the following:</p> <ul style="list-style-type: none"> <li>• A description of the shared amenities subject to the arrangement;</li> <li>• A description of the terms under which unit owners in the project may use the shared amenities;</li> <li>• Provisions for the funding, management and upkeep of the shared amenities; and</li> <li>• Provisions to resolve conflicts between the associations over the amenities.</li> </ul> <p>Examples of shared amenities include clubhouses, recreational or fitness facilities, and swimming pools.</p> <p>The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities, including parking and recreational facilities, may not be subject to a lease between the unit owners or the HOA and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.</p>
	The financing of a single or multiple parking space(s) with the mortgage is permitted provided that the parking space(s) and residential unit are included on one deed as evidenced on the legal description in the mortgage. In such cases, the LTV, CLTV, and HCLTV ratios are based on the combined value of the residential unit and the parking space(s).

	<p>Phase I and Phase II environmental hazard assessments are not required for condo projects unless the underwriter identifies an environmental problem through the performance of his/her project underwriting or due diligence.</p>
	<p>For investment property transactions on attached units in established projects, including two-to-four unit projects, at least <b>50%</b> of the total units in the project <b>must be conveyed to principal residence or second home purchasers.</b></p> <ul style="list-style-type: none"> <li>• This requirement does not apply if the subject mortgage is for a principal residence or second home.</li> <li>• Financial institution owned REO units that are for sale, not rented, are considered to be owner-occupied when calculating the 50% owner-occupancy ratio requirement.</li> </ul>
	<p>If the project was a gut rehabilitation project all rehabilitation work involved in a condo conversion must have been completed in a professional manner.</p> <p>“Gut rehabilitation” refers to the renovation of a property down to the shell of the structure including the replacement of all HVAC and electrical components unless the HVAC and electrical components meet current code requirements.</p> <p>For a conversion that was legally created during the past three years the architect’s or engineer’s report that was originally obtained for the conversion must comment favorably on the structural integrity of the project and the condition and remaining useful life of the major project components such as the heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc.</p> <ul style="list-style-type: none"> <li>• <b>If the project is a newly converted <u>non-gut rehabilitation</u> project with more than four residential units, a PERS approval is required.</b></li> </ul>
	<p>For newly converted two-to-four unit non-gut rehabilitation projects the following requirements apply:</p> <ul style="list-style-type: none"> <li>• All rehabilitation work involved in a condo conversion must have been completed in a professional manner.</li> <li>• A current reserve study prepared by a qualified, independent professional company, accompanied by an engineer’s report, must comment favorably on the structural integrity of the project and the remaining useful life of the major project components.</li> <li>• The project budget must contain line items for the following:             <ul style="list-style-type: none"> <li>▪ Reserves that adequately support the costs identified in the reserve study even if the study recommends budgeting reserves greater than 10% of the project’s income;</li> <li>▪ Funds to cover the total cost of any items identified in the reserve study or engineer’s report that need to be replaced within five years from the date of the study must be deposited in the HOA’s reserve account in addition to the amount required by the reserve study; and</li> <li>▪ A utility contingency of at least 10% of the previous year’s utility costs if the utilities are not separately metered.</li> </ul> </li> <li>• All of the requirements for gut rehabilitation projects must also be met.</li> </ul>

## Budget Review

- Review the HOA projected budget to determine that it:
  - Is adequate, includes allocations for line items pertinent to the type of condo project; and
  - Provides for the funding of replacement reserves for capital expenditures and deferred maintenance that is at least 10% of the budget.
- To determine whether the association has a minimum annual budgeted replacement reserve allocation of 10%, divide the annual budgeted replacement reserve allocation by the association's annual budgeted assessment income which includes regular common expense fees.
- The following types of income may be excluded from the reserve calculation:
  - Incidental income which the project does not rely on for ongoing operation, maintenance or capital improvements;
  - Income collected for utilities that would typically be paid by individual unit owners such as cable TV or Internet access;
  - Income allocated to reserve accounts; and
  - Special assessment income.
- A reserve study may be used in lieu of calculating the replacement reserve of 10% provided the following conditions are met:
  - Obtain a copy of an acceptable reserve study;
  - The study demonstrates that the project has adequate funded reserves that provide financial protection for the project equivalent to the standard reserve requirements.
  - The study demonstrates that the project's funded reserves meet or exceed the recommendations included in the reserve study; and
  - The study meets all of the requirements for replacement reserve studies listed below.
- These requirements for a budget review, replacement reserves, and reserve study are **not applicable to two-to-four unit projects**.

## Replacement Reserve Studies

- Reserve studies may be used to determine the appropriate level of reserves the HOA must maintain to ensure the project's long-term success.
- Reserve studies will also provide useful information regarding the adequacy of the HOA's current reserve funds and offer recommendations to meet funding goals in the event the HOA has under-reserved for its needs in the past.
- Underwriters may review the most current reserve study or a reserve study update provided it has been completed within three years of the date the underwriter approves the project.
- Reserve studies must be prepared by an independent third party that has specific expertise in completing reserve studies. This expertise may include any of the following:
  - A reserve study professional with reserve study credentials;
  - A construction engineer;
  - A certified public accountant who specializes in reserve studies; or
  - Any professional with demonstrated knowledge of and experience in completing reserve studies.
- The following items must be addressed:
  - All major components and elements of the project's common areas for which repair, maintenance or replacement is expected;
  - The condition and remaining useful life of each major component;
  - An estimate of the cost of repair, replacement, restoration or maintenance of major components;
  - An estimate of the total annual contributions required to defray costs, minus the existing reserves funded for this purpose, including inflation;
  - An analysis of existing funded reserves; and
  - A suggested reserve funding plan.
- The reserve study used for analysis must meet or exceed the requirements set forth in any relevant state statute.



## Full Review Additional Requirements for Attached Units in New and Newly Converted Projects

- When performing a Full Review of **attached units in new or newly converted** condo projects, ensure compliance with the following additional requirements:
  - There may be no more than one legal phase per building.
  - The project or the subject legal phase must be “substantially complete”. “Substantially complete” means that:
    - A certificate of occupancy or other similar document has been issued by the applicable governmental agency for the project or subject phase; and
    - All of the units and buildings in the legal phase where the unit securing the mortgage is located are complete, subject to the installation of buyer selection items, such as appliances.
  - Obtain the appropriate documentation to verify that all buyer selection items for the unit being financed are properly installed prior to closing.
- **Two-to-Four Unit Projects:** All units, common elements, and facilities within the project must be **100% complete** and not subject to additional phasing even when the project is a new or newly converted project.
- At least **50%** of the total units in the project or subject legal phase must have been conveyed or be under contract for sale to principal residence or second home purchasers.
  - For a specific legal phase or phases in a new project at least **50%** of the total units in the subject legal phase(s), considered together with all prior legal phases, must have been conveyed or be under contract for sale to principal residence or second home purchasers.
  - A project consisting of one building cannot have more than one legal phase.
- Individual units in new condo projects must be available for immediate occupancy at the time of loan closing.

## Requirements not Applicable to Two-to-Four Unit Projects

- If the project is part of a larger development, and the unit owners are required to pay monthly assessments of more than \$50 to a separate master association for that development, review the overall development plan for the master association to evaluate the acceptability of the project.
- The overall development plan of the project must be reviewed and the following must be acceptable:
  - Consistency of future and existing improvements;
  - Time limitations for expansion; and
  - Reciprocal easements between legal phases.
- For projects, or the subject legal phase, that are only substantially complete rather than 100% complete, determine that acceptable completion arrangements that guarantee the future completion of all project facilities, common elements, and limited common elements have been provided. These assurance arrangements may include:
  - Cash deposits;
  - Letters of credit;
  - Assignments of certificates of deposit; or
  - Assignments of other assets that can be readily converted to cash.
- Similar arrangements must be provided to support assurances against construction and structural defects. The assurances must:
  - Protect each unit against defects that become apparent within one year from the date of its settlement; and
  - Cover all common facilities for one year from the date on which units that represent at least 60% of the votes in the HOA have been transferred.
- The developer should provide for and promote the unit owner’s early participation in the management of the project.

- The project must meet the condo legal document requirements in the following section. The below table provides requirements for the review of the condo project’s legal documents for **attached units in new and newly converted condo projects containing more than four units.**

<b>Condo Project Legal Document Review Requirements</b>	
<b>Limitations on the Ability to Sell/Right of First Refusal</b>	Any right of first refusal in the condo project documents will not adversely impact the rights of a mortgagee or its assignee to: <ul style="list-style-type: none"> <li>• Foreclose or take title to a condo unit pursuant to the remedies in the mortgage;</li> <li>• Accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor; or</li> <li>• Sell or lease a unit acquired by the mortgagee or its assignee.</li> </ul>
<b>Rights of Condo Mortgagees and Guarantors</b>	The project documents must give the mortgagee and guarantor of the mortgage on any unit in a condo project the right to timely written notice of: <ul style="list-style-type: none"> <li>• Any condemnation or casualty loss that affects either a material portion of the project or the unit securing its mortgage;</li> <li>• Any 60 day delinquency in the payment of assessments or charges owed by the owner of any unit on which it holds the mortgage;</li> <li>• A lapse, cancellation, or material modification of any insurance policy maintained by the homeowners’ association; and</li> <li>• Any proposed action that requires the consent of a specified percentage of mortgages.</li> </ul>
<b>First Mortgagee’s Rights Confirmed</b>	No provision of the condo project documents gives a condo unit owner or any other party priority over any rights of the first mortgagee of the condo unit pursuant to its mortgage in the case of payment to the unit owner of insurance proceeds or condemnation awards for losses to or a taking of condo units and/or common elements.
<b>Amendments to Documents</b>	Required provisions related to amendments to project documents are as follows: <ul style="list-style-type: none"> <li>• The project documents must provide that amendments of a material adverse nature to mortgagees be agreed to by mortgagees that represent at least 51% of the votes of unit estates that are subject to mortgages.</li> <li>• The project documents must provide for any action to terminate the legal status of the project after substantial destruction or condemnation occurs or for other reasons to be agreed to by mortgagees that represent at least 51% of the votes of the unit estates that are subject to mortgages.</li> <li>• The project documents may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 60 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a return receipt requested. Notwithstanding the foregoing, project documents that were recorded prior to August 23, 2007 may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 30 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a return receipt requested.</li> </ul>

## Waiver of Project Eligibility Review Requirements

- The above requirements do not apply for certain transactions. These transactions include:
  - Fannie Mae to Fannie Mae limited cash-out refinances that meet the criteria for a waiver of project review; and
  - DU Refi Plus mortgages.

## Detached Condo Review Requirements

- A detached condo is defined as any condo unit that is completely detached from other condo units in the project.
- The unit may share no adjoining walls, ceilings, floors, or other attached architectural elements such as breezeways or garages with any neighboring unit.
- A detached condo unit may be in a project consisting solely of detached units or in a development containing a mixture of attached and detached units.
- Site condos where the unit owner owns the detached condo unit and the land upon which the unit is built are a type of detached condo.
- A project review is not required. Confirm all of the following requirements are met:
  - The project and the unit are in compliance with all other Fannie Mae requirements for property eligibility and appraisal standards.
  - The project and the unit have the required insurance.
  - The detached unit is not a manufactured home and the condo project contains no manufactured homes.
  - The project is in compliance with the requirements for priority of common expense assessments.

## Ineligible Projects

- Projects that have characteristics described in the table below are **ineligible**:

X	<i>Ineligible Project Characteristics</i>
	Investment securities – projects that have documents on file with the Securities and Exchange Commission (SEC) or projects where unit ownership is characterized or promoted as an investment opportunity.
	Timeshare, fractional or segmented ownership projects.
	New projects where the seller is offering sale or financing structures in excess of Fannie Mae's eligibility policies for individual mortgage loans. These excessive structures include builder/developer contributions, sales concessions, HOA assessments, or principal, interest payment abatements, and/or contributions not disclosed on the Settlement Statement.
	Projects with mandatory upfront or periodic membership fees for the use of recreational amenities such as country club facilities and golf courses owned by an outside party including the builder/developer. Membership fees paid for the use of recreational amenities owned exclusively by the HOA or master association are acceptable.
	Projects that are managed and operated as a hotel or motel even though the units are individually owned.
	Projects with covenants, conditions and restrictions that split ownership of the property or curtail an individual borrower's ability to use the property.
	Projects with property that is not real estate such as houseboat projects.
	Any project that is owned or operated as a continuing care facility.
	Projects with non-incidentual business operations owned or operated by the HOA including a restaurant, spa, or health club.
	Projects that do not meet the requirements for live-work projects.
	Projects where the HOA is named as a party to pending litigation or where the developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project.
	Any project that permits a priority lien for unpaid common expenses in excess of Fannie Mae's priority lien limitations.

	<p>Projects where a single entity (the same individual, investor group, partnership or corporation) owns more than the following total number of units in the project:</p> <ul style="list-style-type: none"> <li>• Projects with 2 to 4 units: - 1 unit</li> <li>• Projects with 5 to 20 units – 2 units</li> <li>• Projects with 21 or more units – 10%</li> </ul> <p>Units currently subject to any lease arrangement must be included in the calculation. This includes lease arrangements containing provisions for the future purchase of the units such as lease-purchase and lease-to-own arrangements.</p>
	<p>Multi-dwelling unit projects that permit an owner to hold title to more than one dwelling unit with ownership of all of his/her owned units evidenced by a single deed and financed by a single mortgage.</p>
	<p>The total space that is used for non-residential or commercial purposes exceeds 25%.</p>
	<p>Newly converted non-gut rehabilitation projects with more than four attached units that have not been approved by Fannie Mae through the PERS process.</p>
	<p>New or newly converted projects in <b><i>Florida with attached units</i></b> that have not been approved by Fannie Mae through the PERS process.</p>
	<p>Projects that represent a legal, non-conforming use of the land if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction.</p>

## Projects that Operate as Hotels or Motels

- Projects with one or more of the following **characteristics** may be operating as a hotel or motel and are ineligible:
  - Hotel or motel conversions, or conversions of other similar transient properties, unless the project is an established project, meets all requirements for gut rehabilitation projects and all units are residential units;
  - Projects that include registration services and offer rentals of units on a daily basis;
  - Projects that restrict the owner's ability to occupy the unit; and
  - Projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over the occupancy of the units.
    - These formal agreements between the developer, homeowners' association, and/or the individual unit owners, obligate the unit owner to rent the property on a seasonal, monthly, weekly, or daily basis.
    - In many cases the agreements include blackout dates, continuous occupancy limitations, and other such use restrictions. In return the unit owner receives a share of the revenue generated from the rental of the unit.
- Perform an analysis of the project to determine whether it is operating as a hotel or motel. There are several sources of information on which to rely including:
  - Project legal and recorded documents and exhibits;
  - The appraisal
  - The contract for sale; and
  - The Internet.
- Project characteristics that may indicate the project is operating as a hotel or motel include:
  - Central telephone systems;
  - Room service;
  - Units that do not contain full sized kitchen appliances;
  - Daily cleaning services,
  - Advertising of rental rates;
  - Registration services;
  - Restrictions on interior decorating;
  - Franchise agreements;
  - Central key systems;
  - Location of the project in a resort area;
  - Owner-occupancy density – the project may have few or even no owner-occupants;

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- Projects converted from a hotel or motel;
- Units that are less than 400 square feet;
- Projects with a name that includes the word “hotel” or “motel”; or
- Interior doors that adjoin other units.
- Thoroughly examine the appraisal, sales contract, and other documentation to determine if there are guaranteed rent-backs, references to mandatory rental pooling or management agreements, and/or SEC filing references and prospectus documents.
- The Internet has become a useful tool for obtaining project and unit-specific information. The project’s website may contain information on the project type, amenities, and the availability of units for rent. Internet searches may identify unit owners offering their unit for short term rentals within the subject property’s project.
  - As long as the project is not being operated as a hotel or motel and the units are not subject to mandatory rentals or to optional leasing programs to a hotel or motel, then the advertising of a unit for short term rental by the unit owner does not, alone, constitute the project as a hotel or motel.
  - Underwriters are responsible for fully evaluating the project to understand if the practice of offering short-term rentals by unit owners is organized in such a way that the project’s predominant use is to operate as a hotel or motel.

### Project Subject to Split Ownership Arrangements

- Projects with covenants, conditions and restrictions that split ownership of the property or curtail an individual borrower’s ability to use the property are not eligible. These types of properties include the following:
  - “Common Interest” apartments or community apartment projects that are projects or buildings owned by several owners as tenants-in-common or by an association where individuals have an undivided interest in a residential apartment building and land, and have the right or exclusive occupancy of a specific apartment in the building;

### Projects that Contain Multi-Dwelling Unit Condos

- Projects that contain multi-dwelling units are not eligible. These projects allow an owner to hold title to a single legal unit that is subdivided into multiple residential dwellings within the single legal unit, with ownership of the unit evidenced by a single deed and financed by a single mortgage. The subdivided units are not separate legal units. This restriction applies regardless of whether or not the unit owner maintains one or more of the subdivided units as rental units or uses one or more of the subdivided units as accessory or lock-out units.
- This provision does not apply to condo projects that allow an individual to buy two or more individual legal units with the intent of structurally and legally combining the units for occupancy as a single-unit dwelling. Mortgages secured by units in these types of projects are eligible provided all of the following requirements are met:
  - The unit securing the mortgage represents a single unit under a single deed;
  - Any construction or renovation to structurally combine units has no material impact on the structural or mechanical integrity of the project’s buildings or the subject property unit;
  - The individual units must be fully described in the legal description in the mortgage and under a single deed;
  - The project’s legal documents must have been amended to reclassify the combined units as a single unit in the project; and
  - All structural renovation to physically combine the units must be complete.

### Projects that are not Real Estate

- Houseboats, boat slips, cabanas, timeshares, and other forms of property that are not real estate are not eligible.
- Boat slips, cabanas and other amenities are permitted when owned in common by the unit owners as part of the HOA.

### Projects that Operate as a Continuing Care Facility

- Mortgages secured by loans in a project that operates either wholly or partially as a continuing care community are not eligible. These communities or facilities are residential projects designed to meet specialized health and housing needs and typically require residents to enter into a lifetime contract with the facility to meet all future health, housing or care needs. These communities may also be known by other names such as life-care facilities.
- Projects that make continuing care services available to residents are eligible only if the continuing care facilities or services are not owned or operated by the HOA and the residential unit owners are not obligated to purchase or use the services through a mandatory membership, contract or other arrangement.
- Continuing care communities are not the same as age-restricted projects. Age-restricted projects that restrict the age of residents but do not require residents to enter into a long-term or lifetime contract for healthcare and housing are eligible.

### Non-Incidental Business Arrangements

- A condo project is ineligible if the HOA is receiving more than 10% of its budgeted income from non-incidental business arrangements related to the active ownership and/or operation of amenities or services available to unit owners and the general public. This includes businesses such as a restaurant or other food and beverage related services, health clubs, and spa services.
- Non-incidental income from the following sources is permitted provided the income does not exceed 15% of the project's budgeted income:
  - Income from the use of recreational amenities or services owned by the HOA for the exclusive use by unit owners in the project or leased to another project according to a shared amenities agreement; or
  - Income from the leasing of units in the project acquired by the HOA through foreclosure.
- ***The single-entity ownership limits will apply to the number of units owned and rented by the HOA.***

### Commercial Space and Mixed-Use Allocation

- No more than 25% of a condo project or 25% of the building where the project is located may be commercial space or allocated to mixed-use. This includes commercial space that is above and below grade.
- Any commercial space in the project or in the building where the residential project is located must be compatible with the overall residential nature of the project.
  - Rental apartments and hotels located within the project must be classified as commercial space even though these may be considered "residential" in nature.
- Commercial space allocation is calculated by dividing the total non-residential square footage by the total square footage of the project or building. Underwriters are responsible for determining the total square footage of the project, the square footage of the non-residential space, and the residential space square footage. This calculation includes the total square footage of commercial space even if the residential and commercial owners are represented by separate associations.
- Non-residential square footage includes:
  - Retail and commercial space;
  - Parking space that is separate from parking allocated to residential unit owners; and
  - Space that is non-residential in nature and owned by a private individual or entity outside of the HOA structure.
- Examples include:
  - Public parking facilities (fee based or free);
  - Rental apartments;
  - Hotels;
  - Restaurants; and
  - Private membership based fitness facilities.

- Non-residential square footage excludes amenities that are:
  - Residential in nature;
  - Designated for the exclusive use of the residential unit owners such as a fitness facility, pool, community room, and laundry facility; and
  - Owned by the unit owners or the HOA.
- The following table shows which commercial or mixed-use space must be included in the calculation of the percentage of commercial space:

<i>If the commercial or mixed-use space is...</i>	<i>Then its square footage is included in the calculation of commercial space percentage</i>
Owned, controlled, or operated by the subject property's HOA that is unrelated to the project specific amenities offered for the exclusive use and enjoyment by the HOA members	Yes
Owned by the subject property's HOA but controlled or operated by a separate private entity. <b>Example:</b> Office space owned by the HOA but leased to a private business	Yes
Owned and controlled by a project HOA other than the subject property's HOA that shares the same master HOA with the subject property's HOA AND the commercial space is co-located in the project's building(s) that contain(s) the residential units	Yes
Owned, controlled or operated by a private entity that is co-located in the building(s) that contain(s) the project's residential units <b>Example:</b> <ul style="list-style-type: none"> <li>• Floors 1 to 4 consist of hotel and retail;</li> <li>• Floors 5 to 7 consist of privately owned and managed rental apartments; and</li> <li>• The remaining floors consist of the condo project units</li> </ul>	Yes
Owned, controlled or operated by a private entity that is NOT co-located in the building(s) or common elements as declared in the project legal documents that contain(s) the project's residential units	No
Owned and controlled by a project HOA other than the subject property's HOA that shares the same master HOA with the subject property's HOA BUT the commercial space is located in a building that is separate from the building(s) containing the project's residential units	No

### Live-Work Projects

- Live-work projects are projects that permit individual residential unit owners to operate and run a small business from their residential unit. Units in projects that permit live-work arrangements are eligible provided the following additional requirements are met:
  - The overall character of the project is residential;
  - Live-work units must be limited to residential units that are occupied as primary residences where the unit owner is the owner and operator of the small business.
  - The live-work unit must be primarily residential in character with minimal space designated to or modifications made to accommodate the unit owner's commercial activity.
  - The commercial use must be consistent with the residential nature of the project.
  - The project documents must permit commercial use and state what types of commercial use are acceptable.

- The project must conform to any applicable local ordinances governing the structure and operation of live-work projects including limitations on the number of live-work units or the percentage of live-work unit space permitted.
- Confirm that the live-work component of the project is considered and adequately addressed in the appraiser's assessment of the property. All of the following requirements must be met:
  - The appraisal must include an adequate description of the live-work characteristics of the project and unit.
  - The market value of the unit is primarily a function of its residential characteristics rather than of the business use or any special business use modifications that were made.
  - The future marketability of the unit will not be negatively impacted by the business use or any special business use modifications that have been made.

### Litigation:

- Projects where the HOA is named as a party to pending litigation or where the project developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project are ineligible.
- If it is determined that pending litigation involves minor matters with no impact on the safety, structural soundness, habitability, or functional use of the project, the project is eligible provided the litigation meets one or more of the following:
  - Non-monetary litigation including neighbor disputes or rights of quiet enjoyment;
  - Litigation where the insurance carrier has agreed to provide the defense and the amount is covered by the HOA's insurance;
  - The HOA is the plaintiff in the litigation and upon investigation and analysis the underwriter has reasonably determined the matter is minor and will result in an insignificant impact to the financial stability of the project;
  - The reasonably anticipated or known damages and legal expenses are not expected to exceed 10% of the project's funded reserves;
  - The HOA is seeking recovery of funds for issues that have already been remediated, repaired, or replaced and there is no anticipated material adverse impact to the HOA if funds are not recovered;
  - Litigation concerning localized damage to a unit in the project that does not impact the overall safety, structural soundness, habitability, or functional use of the project; or
  - The HOA is named as the plaintiff in a foreclosure action or as a plaintiff in an action for past due HOA assessments.
- ***Litigation that involves personal injury or death does not meet the criteria for minor litigation unless:***
  - The claim amount is reasonably anticipated or known;
  - The insurance carrier has agreed to provide the defense; and
  - The reasonably anticipated or known damages are covered by the HOA's insurance.
- Construction defect litigation where the HOA is the plaintiff is not considered a minor matter unless the HOA is seeking recovery of funds for issues that have already been remediated, repaired or replaced and there is no anticipated material adverse impact to the HOA if the funds are not received.
- Obtain documentation to support the analysis that the litigation meets the criteria for minor litigation as described above.

### Priority of Common Expense Assessments

- Fannie Mae allows a limited amount of regular common expense assessments (HOA fees) to have priority over the mortgage lien for mortgage loans secured by units in a condo project. This applies if the condo or PUD project is located in a jurisdiction that has enacted:
  - The Uniform Condominium Act;
  - The Uniform Common Interest Ownership Act; or
  - A similar statute that provides for unpaid assessments to have priority over first mortgage liens.



- The table below describes the permitted priority of common expense assessments for purposes of determining the eligibility of a mortgage loan secured by a unit in a condo or PUD project:

<i>If the condo or PUD project...</i>	<i>Then...</i>
Is located in a jurisdiction that enacted a law on or before January 14, 2014 that provides that regular common expense assessments will have priority over the first mortgage lien for a maximum amount greater than six months,	The maximum number of months of regular common expense assessments permitted under the applicable jurisdiction's law as of January 14, 2014 may have priority over the first mortgage lien provided that if the applicable jurisdiction's law as of that date referenced an exception for Fannie Mae's requirements, then no more than six months of common expense assessments may have priority over the first mortgage lien.
Is located in any other jurisdiction,	No more than six months of regular common expense assessments may have priority over the first mortgage lien even if applicable law provides for a longer priority period.

- The condo or PUD project legal documents must evidence compliance with the above priority of common expense assessment requirements.

## Environmental Hazard Assessments

### Overview

- An environmental hazard assessment is required for condo projects if an environmental problem is identified through performance of underwriting the project or other due diligence.
- If environmental problems are identified the problems must be determined to be acceptable.
- The table below describes two types of environmental hazard assessments:

<i>Type</i>	<i>Performed By</i>	<i>Description</i>
Phase I assessment	The lender or by someone employed by the lender	Gathers information from various sources to evaluate the environmental soundness of the project.
Phase II assessment	A qualified environmental consultant	When required: <ul style="list-style-type: none"> <li>Phase I assessment identifies problems;</li> <li><b>or</b></li> <li>Phase I assessment is inconclusive with regard to any particular hazard.</li> </ul>

### Phase I Environmental Assessment

- A Phase I assessment enables underwriters to quickly determine whether adequate information exists to evaluate the environmental status of a property.
- A Phase I assessment is principally a screening process that focuses on reviewing the available documentation, interviewing people who are knowledgeable about the site operations, and inspecting the site, the building, and adjoining properties.
- There is no specific form for a Phase I assessment. Any report that is thorough and professionally prepared will be acceptable.

### Phase II Environmental Assessment

- A Phase II assessment provides a more detailed review of the site. It indicates specific physical sampling for each hazard that was not acceptable under the Phase I assessment as well as a review of historical records.
- It determines the presence or absence of specific environmental liabilities such as asbestos or leaking underground storage tanks, or quantifies the extent of an observed or suspected environmental liability such as soil or groundwater contamination.

- Confirm that the consultant being used for the Phase II assessment is not affiliated with the buyer or seller of the subject property or a firm engaged in a business that might present a conflict of interest. Evaluate whether the consulting firm’s personnel have adequate and appropriate education and training to carry out the required duties.
- There is no specific format for the consultant’s report. Any report that is thorough and professionally prepared will be acceptable.
- The table below provides the requirements for the Phase II Environmental Assessment Report:

X	<i>The Consultant’s Report for a Phase II Assessment Report Must:</i>
	Include a full description of the sampling procedures.
	Include the laboratory results
	Include the consultant’s recommendations
	Follow all regulatory standards and good management practices at all times, especially when physical sampling and laboratory analysis are involved
	Include a certification in the report that: <ul style="list-style-type: none"> <li>• The assessment was performed diligently and in accordance with all regulatory and good management standards; and</li> <li>• To the best of the consultant’s knowledge the results are complete and accurate</li> </ul>
	Include the signature of an officer of the consulting firm that conducted the work

- Examples of the kind of testing or sampling that occur under a Phase II assessment include the following:
  - Investigating the status of any enforcement actions related to neighboring properties under the Superfund or Resource, Conservation, and Recovery Acts;
  - Testing for underground storage leaks;
  - Sampling and analyzing the soil;
  - Sampling and analyzing the groundwater;
  - Testing soil or facilities that are suspected of being contaminated by polychlorinated biphenyls; and
  - Sampling and analyzing bulk asbestos and developing related abatement and maintenance programs, if necessary.

**Unacceptable Environmental Conditions**

- The existence of one or more unacceptable environmental conditions will result in the project being ineligible.
- The table below describes examples of unacceptable environmental conditions. This list is not exhaustive:

X	<i>Examples of Unacceptable Environmental Conditions</i>
	A property that is, or has been, used as a landfill or other solid, hazardous, or municipal waste disposal site.
	A property that is, or has been, used for activity related to the storage of oil, hazardous waste, or other toxic substances – except that the property may have been used for the storage of small quantities of hazardous substances that are generally recognized as appropriate for residential uses and maintenance of the property.
	A property that is the subject of outstanding environmental or public health litigation or administrative action from private parties or public officials.
	A high-risk neighboring property that has evidence of hazardous waste spills or soil or groundwater contamination on or around its site.
	A property that has documented soil or groundwater contamination and/or a documented tank leak that is leaking at more than 0.05 gallons per hour which is the National Fire Protection Association’s standard.

	<p>A property with soil sampling that has values for metal in excess of the following concentration limits in parts per million (ppm):</p> <ul style="list-style-type: none"> <li>• Chromium: 100 ppm</li> <li>• Arsenic: 20 ppm</li> <li>• Zinc: 350 ppm</li> <li>• Cadmium: 3 ppm</li> <li>• Lead: 100 ppm</li> <li>• Nickel: 100 ppm</li> <li>• Copper: 170 ppm</li> <li>• Selenium: 20 ppm</li> </ul>
	A property that is contaminated from polychlorinated biphenyls (PCBs)
	<p>A property with soil sampling that has values for other organic material in excess of the following concentration limits in parts per million (ppm):</p> <ul style="list-style-type: none"> <li>• Total volatile organics: 1 ppm</li> <li>• Total hydrocarbons: 100 ppm</li> <li>• Total petroleum hydrocarbons: 100 ppm</li> </ul>
	<p>A property with groundwater sampling that has values for other organic materials in excess of the following concentration limits in parts per million (ppm):</p> <ul style="list-style-type: none"> <li>• Total organics (volatiles and base neutrals): 0.10 ppm</li> <li>• Total petroleum hydrocarbons: 1.00 ppm</li> </ul>
	<p>A property with groundwater sampling that has values for metals in excess of the following concentration limits in parts per million (ppm):</p> <ul style="list-style-type: none"> <li>• Arsenic: 0.05 ppm</li> <li>• Lead: 0.05 ppm</li> <li>• Boron: 1.00 ppm</li> <li>• Mercury: 0.002 ppm</li> <li>• Cadmium: 0.01 ppm</li> <li>• Selenium: 0.01 ppm</li> <li>• Chromium: 0.05 ppm</li> <li>• Silver: 0.05 ppm</li> </ul>
	A property with high radon levels (above four picocuries per liter) that can be corrected only through large capital improvements or extensive ongoing maintenance programs which are beyond the financial or technical abilities of the HOA for the project.
	A property that has conditions representing material violation of applicable local, state, or federal environmental or public health statutes and laws.
	A property that is contaminated by friable asbestos containing materials.

**Remedial Actions for Environmental Assessments**

- Properties that fail to meet a particular standard may be corrected through remedial actions and then retested.
- Remedial actions must be undertaken with the advice and written endorsement of a qualified environmental consultant. All remedial actions must be taken in accordance with all regulatory and good management standards.
- Confirm the completion and effectiveness of remedial actions.

**PUD Eligibility Requirements**

**Requirements for Units in PUD Projects**

- A PUD is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units.
- For a project to qualify as a PUD all of the following requirements must be met:
  - Each unit owner’s membership in the HOA must be automatic and non-severable;
  - The payment of assessments related to the unit must be mandatory;

- Common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners; and
- The subject unit must not be part of a condo or co-op project.
- Zoning is not a basis for classifying a project or subdivision as a PUD. Units in projects or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects. These projects:
  - Have no common property and improvements;
  - Do not require the establishment of and membership in an HOA; and
  - Do not require the payment of assessments.
- PUD projects are classified as either:
  - Type E – Established PUD projects where the developer has turned over voting control of the HOA to the unit purchasers.
  - Type F – New PUD projects where the developer has not turned over voting control of the HOA to the unit purchasers.
- PUD projects are not eligible for review using the PERS process.
- Determine that the subject unit meets the following requirements:
  - The appraisal of the unit meets all appraisal requirements.
  - The individual unit securing the mortgage must be substantially complete.
  - The unit securing the mortgage satisfies all Fannie Mae's insurance requirements.
  - The PUD project must be in compliance with Fannie Mae's policy for priority liens.
- Any unit located in a condo project within a larger PUD project or master association must meet the applicable requirements for condo projects.