

# Condominium Project Eligibility and Review

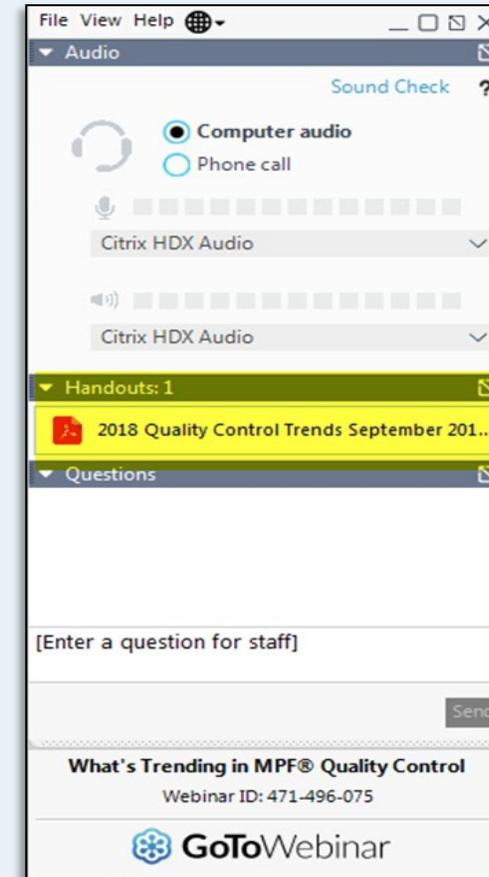
April 13, 2022

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- **Condo Project Types**
- **What is a PUD?**
- **Review Types and Tools**
- **Insurance Requirements**
- **Ineligible Condo Features**
- **Temporary Policies**



# Knowledge Check

**What's the primary difference between a condominium and a townhome?**



*A condominium is a type of ownership, whereas a townhouse is an architectural style.*

# What is a Condo?

## A condominium is a form of ownership, not a building type

- The purchaser receives title to a particular unit and a proportional interest in certain common areas.
- Owns the dwelling but not the land.
- The unit is owned from the “paint” or “walls-in”.
- Condo legal descriptions usually include the name of the condominium project and unit number.

**UNIT 8B, BUILDING 8 OF MILL CREEK COURT, A CONDOMINIUM RECORDED UNDER SNOHOMISH COUNTY RECORDING NO. 9902245003, ACCORDING TO THE DECLARATION THEREOF, RECORDED UNDER SNOHOMISH RECORDING NO. 9902240406 AND ANY AMENDMENTS THERETO;  
SITUATE IN THE COUNTY OF SNOHOMISH, STATE OF WASHINGTON.  
Tax Parcel Number(s): 00891200800200**

# Project Types: Established Condos

# Established Condo Projects

- At least 90% of all units must be conveyed to the unit purchasers.
- The project is 100% complete including all units and common elements.
- The unit owners must be in control of the homeowner's association (HOA).
- The project is not subject to additional phasing or annexation.



# Established Condo Projects

- If the subject property is an investment property (MPF Xtra product only), 50% of all conveyed units must be a primary or secondary residence.
- If the subject property is a second home, at least 50% of all conveyed units must be a primary or secondary residence (applies to MPF Traditional manually underwritten loans only).
- All conveyed units must be owned fee simple (applies to MPF Traditional manually underwritten loans only).



# Established Condo Projects

**A project may also be treated as an established project with less than 90% of the units sold, provided the deficit is the result of the developer holding back units to rent out\***

- Construction must be 100% complete.
- Project is not subject to additional phasing.
- The HOA has been turned over to the unit owners.
- The developer's share of rental units is no more than **20%** of the total units.
- HOA fees are paid current in developer-held units.
- There are no active or pending special assessments.

*\* Not applicable to MPF Traditional manually underwritten loans.*

# Project Types: New Condo Projects and Conversions

# New Condo Projects

## New Condo Projects have one or more of these features:

- Fewer than 90% of the total units have been conveyed to the unit purchasers (80% if units are held by the developer for rental\*).
- The project is under construction
- The project is proposed construction
- The project is a conversion of an existing building or condo that is new, currently under construction or proposed construction.



*\*80% option not eligible under manually underwritten MPF Traditional loans, which also require 50% of all units be conveyed as a principal or second home.*

# New Condo Projects

## Occupancy Requirements

- At least 50% of the total units in the project must have been conveyed or be under contract for sale to principal residence or second home purchasers.
- For new projects in a specific legal phase, at least 50% of the total units in the subject legal phase(s), and all prior legal phases must have been conveyed or be under contract for sale to principal residence or second home purchasers.
- If the property is a second home and manually underwritten under the MPF Traditional product, at least 50% of all units in the project must be conveyed to principal or second home purchasers.

# Detached Condos

# Detached Condos

## Detached Condo Projects (aka Site Condos)

- A project made up solely of detached units or comprises a mixture of attached and detached units.
- May be a new or established project.
- May not share walls ceilings, floors or any other attached elements such as breezeways or garages.



# Small Projects

# Small Projects

- A small project is made up of **two, three or four residential units**.
- Each unit has its own title and deed.
- May be a new or an established project.
- May be made up of attached and/or detached units.

*Manually underwritten MPF Traditional loans allow for no more than one unit occupied as an investment property.*



# Planned Unit Developments (PUDS)

# Knowledge Check

Which of the following does **NOT** apply to a PUD?

- a. Each unit owner's membership in the Homeowner's Association (HOA) is voluntary.
- b. The payment of assessments related to the unit must be mandatory.
- c. Common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners.
- d. The subject unit must not be part of a condo project.

*a. Membership in the HOA is automatic and nonseverable.*



# Characteristics of a PUD

- PUDs are communities that may include a mix of housing options with convenient access to workplaces, shopping and recreation.
  - ✓ *A condo project and single-family homes may be located within a PUD.*
- Owners of PUD units own their unit, the land beneath it and in some cases a front and/or back yard.
- A Homeowners Association (HOA) owns and maintains common areas and amenities that all unit owners may use.
- Homeowners pay HOA fees to maintain the community and its amenities.
- The homeowners' membership in the HOA is mandatory.



# Condo or PUD?

## How to Identify if a Property is in a PUD

- Check the sales contract and addendums, watch for mention of PUD, homeowner's association, dues, subdivision covenants, requirements and restrictions.
- Look at the appraisal.
  - ✓ Is the PUD box checked?
  - ✓ Are HOA fees due and does the appraiser comment if they are mandatory?
- Look at the legal description and title commitment.
  - ✓ Condo units usually make mention of a unit number while a PUD may not.
  - ✓ Review the title commitment (Schedule B Part II) for mention of a recorded PUD Declaration.

## Condo or PUD? (continued)

- Note that a condo unit may be located within a PUD.
- Condos typically share the same tax parcel number with other units, differentiated by an additional suffix or set of numbers.
- A unit in a PUD may have it's own tax parcel number without an additional suffix.



# Condo Project Reviews

# Condo Review Types and Tools

- **Full Review**
- **Limited Review**
- **Fannie Mae's Condo Project Manager (CPM)**
- **Fannie Mae's Project Eligibility Review Service (PERS)**
- **And sometimes, no review at all!**



# Project Review Methods

The specific project review method depends upon certain characteristics:

- Is the unit attached or detached?
- What is the project type (condo, PUD)?
- Is the project new or established?
- What's the LTV?



# Project Review Methods

Unit and Project Type	Project Review Methods
<b>Attached condo in a new or newly converted project</b>	Full review with or without Condo Project Manager™ (CPM™) or review through Project Eligibility Review Service (PERS).
<b>Attached condo in an established project</b>	Based on LTV, some may qualify for a limited review, if not, use a full review (with or without CPM or the streamlined PERS process if an established condo project).
<b>Unit in a new or established 2-4 unit project</b>	<b>Project review is waived if it meets certain standards*.</b>
<b>Detached unit in a new or established condo project</b>	
<b>Unit in a PUD project</b>	

\*Even when a project review is waived, lenders must still ensure compliance with all requirements for property eligibility, appraisal standards, insurance, and lien priority.

# Full Reviews

# Full Reviews

**Full reviews are required for attached units in new or newly converted condo projects or units in established projects that do not meet the requirements for a limited review.**

- Full reviews require a thorough review of a project with complete documentation.
- Full reviews may be done manually or with the aid of Fannie Mae's Condo Project Manager (CPM).
- Documents *generally* required for full reviews:
  - ✓ **Condominium Project Questionnaire** (or equivalent)
    - **Form 1076 (Fannie Mae) or Form 476 (Freddie Mac)**
  - ✓ Appraisal
  - ✓ Project budgets for current year
  - ✓ Declarations and Bylaws
  - ✓ Master Insurance Policy
  - ✓ HO-6 Insurance as required



***More documentation may be required based upon the Questionnaire responses.***

# Full Review - Budgets

## Projected budgets must be reviewed to determine if they are adequate

- Does it include allocations to cover line items that are customary for the project type?
- Is there an annual budgeted replacement reserve that is at least 10% of the association's budgeted HOA fee income?
  - ✓ There should be separate accounts for reserves and operating funds (think checking vs. savings).
  - ✓ To determine the minimum required amount that should be in reserves, divide the budgeted reverse allocation by the association's annual budgeted assessment income.

**Let's see an example...**

# Full Review – Reserve Calculation

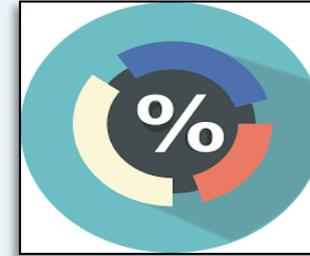
The budget  
allocates \$3500  
annually for  
reserves



Owners pay  
\$20,000  
annually through  
monthly HOA fees



$3500 \div 20,000 = 18\%$  of the  
annual income is being  
allocated for reserves



## Some types of income may be excluded from the reserve calculation:

- Incidental income that is not relied upon for ongoing operations, maintenance or capital improvements.
- Income collected for utilities that are typically paid by owners (i.e. cable or internet).
- Other income allocated to reserve accounts.
- Special assessment income

# Limited Reviews

# Limited Reviews

**Limited reviews require slightly less documentation than full reviews**

- Documents generally required for limited reviews:
  - ✓ **Condominium Project Questionnaire- Form 1076 (Fannie Mae) or Form 476 (Freddie Mac)** (or the equivalent)
  - ✓ Appraisal
  - ✓ Master Insurance Policy
  - ✓ HO-6 Insurance as required

*Please note that some questionnaire responses may prompt additional documentation.*



# Limited Reviews

## What makes a property eligible for a limited review?

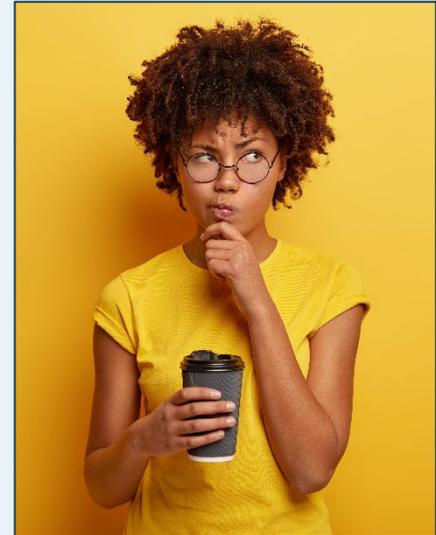
The unit must be an **attached unit** in an **established condo project**.

Maximum LTV/TLTV				
Occupancy	Locations other than Florida		Florida Properties	
	MPF Xtra or MPF Traditional using DU/LPA	MPF Traditional Manual Underwriting	MPF Xtra or MPF Traditional using DU/LPA	MPF Traditional Manual Underwriting
Primary Residence	90%	80%	75%/90%/90%	75%
Second Home	75%	75%	70%/75%/75%	70%
Investment Properties (MPF Xtra only)	75%	N/A	70%/75%/75%	N/A

# Knowledge Check

## When do limited project reviews expire?

- a. Must be completed within 90 days prior to the Note date.
- b. Must be completed within 120 days prior to the Note date
- c. Must be completed within 180 days prior to the Note date
- d. Must be completed within 360 days prior to the Note date



**The answer is d.** Reviews must have been completed within one year prior to the Note date. The same time frame applies to full reviews of established projects made with or without CPM.

**New** projects with full reviews must be completed within 180 prior to the Note date.

# To Review or Not to Review?

**Certain project types may not require a formal review, such as:**

- Detached condo units (established or new)
- Units in a two-to four-unit condo project
- Units in a PUD project (must fit basic established requirements)
- Fannie Mae to Fannie Mae limited cash-out refinances with LTV ratios  $\leq$  80%.



# Condo Review Tools

# Condo Project Manager™ (CPM™)

## Lenders may use CPM to assist with a full review of a project

- CPM is a web-based tool designed to assist lenders determine if a project meets Fannie Mae guidelines.
- If using CPM, the file must contain the CPM decision by including the unexpired CPM Certification in the file.
- Certifications are based on data lenders input into CPM.
  - ✓ The appropriate documentation must be reviewed in order to supply CPM with accurate data (i.e. information from the appraisal and condo questionnaire).
  - ✓ Projects containing manufactured homes are not eligible for CPM.\*

# Project Eligibility Review Service (PERS)

**PERS is a method available to lenders to submit new or newly converted (and sometimes established) projects to Fannie Mae to determine eligibility.**

- Lenders complete a project submission package via email that includes specific forms and documentation.
- PERS reports do carry fees starting at \$500.
- Conditional approvals expire after nine months, final approvals, 18 months.
- A list of approved projects is available on Fannie Mae's website.

# Project Eligibility Review Service (PERS)

## PERS is required for:

- Newly converted non-gut condo rehab projects with attached units containing more than five units.
- New and newly converted condo projects consisting of attached units located in Florida.
- New condo projects consisting of manufactured homes.\*
- PUD or condo projects consisting of single-wide manufactured homes.\*



*\*Manually underwritten MPF Traditional loans do not currently permit projects that contain manufactured housing.*

# Insurance Requirements

# Insurance Requirements- PUDs

**The PUD HOA must maintain a property insurance policy with premiums being paid as a common expense.**

- The policy must cover all of the common elements.
  - ✓ May exclude items such as land, foundation, and excavations.
  - ✓ Fixtures and building service equipment that are considered part of the common elements, as well as common personal property and supplies should be covered.
  - ✓ Individual insurance policies (HO-6 policies) may also be required for the unit.
  - ✓ If the project's legal documents allow for a blanket type of insurance policy to cover both the individual units and the common elements, that may be accepted.

# Insurance Requirements- Condos

**The HOA must maintain a master or blanket type of insurance policy, with premiums paid as a common expense.**

Insurance requirements vary based on the type of HOA master or blanket policy.

Type of Insurance	Coverage	HO-6 Required?
<b>Bare Walls Policy</b>	Covers the structure and common areas but usually doesn't cover sinks, cabinets, flooring, appliances, or any upgrades made to the unit	<b>Yes</b> , to ensure the property can be restored to the pre-event condition
<b>Single Entity Policy</b>	Covers the structure and common areas but does not cover owner upgrades	<b>Yes</b> , to ensure the property can be restored to the pre-event condition
<b>All-in or All-Inclusive Policy</b>	Covers the structure and common areas including upgrades that the individual owner has made.	Borrower may have their own HO-6 coverage but it may not be required based upon the coverage provided in the master/blanket policy

For manually underwritten MPF Traditional loans, see Chapter 9.8.2 in the MPF Traditional Selling Guide for information relating to coverage requirements. HO-6 coverage of 20% of the property value is required.

# Ineligible Features

# Examples of Ineligible Features

- New projects that offer sales or financing options (i.e. concessions) that do not conform with Fannie Mae requirements.
- Projects with mandatory upfront or periodic membership fees for the use of recreational amenities, such as country club facilities and golf courses, that are owned by an outside party.
- Projects subject to recreational leases.
- Projects that are managed and operated as a hotel, motel, or resort, or that are primarily transient in nature even though the units are individually owned.



# Examples of Ineligible Features

- Projects made up of more than 35% non-residential or commercial space.\*
  - ✓ Does not include parking allocated for unit owners or commercially owned and operated parking spaces.
  - ✓ Excludes amenities that are designated for the exclusive use of the residential owners such as fitness facilities, pool, community rooms and laundry rooms.
- Timeshares or fractional ownerships.
- Property that is not real estate (i.e. houseboats).
- Projects that operate as a continuing care facility.



*\*The limit is 25% for manually underwritten MPF Traditional loans.*

# Examples of Ineligible Features

**Projects where the HOA or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or use of the project.**

- If pending litigation involves minor matters that have no impact on the items listed above, it may be eligible.\*
- Non-monetary litigation including neighbor disputes are exempt.
- If an insurance carrier is providing defense and the amount is covered by insurance it may be excluded.



*\*See Fannie Mae Selling Guide B4-2.1-02 for more information about acceptable litigation situations.*

# Single Entity Ownership Restrictions

Projects in which a single entity owns more than the following total number of units in the project

Project Size	MPF Xtra or MPF Traditional with DU or LPA*	MPF Traditional with Manual Underwriting
Projects with 2-4 Units	1 Unit	1 Unit
Projects with 5-20 Units	2 Units	2 Units
Projects with 21 or more Units	20%	10%

Vacant units owned by the project sponsor or developer actively marketed for sale are not included.

*\*LPA is eligible for MPF Traditional loans only.*

# Temporary Requirements for Condos

# Update on Temporary Requirements

**In October, 2021 Fannie Mae published temporary requirements for condominiums with significant deferred maintenance and unsafe conditions.**

- These requirements apply to all loans secured by units in projects with five or more attached units, regardless of the type of project review or review waiver.
- Loans secured by units in condo projects with significant deferred maintenance or in projects that have received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions are **not eligible for purchase**.
- A **Building Safety, Soundness, Structural Integrity and Habitability** section has been added to the **Condominium Project Questionnaire. (Form 1076)**.

# Update on Temporary Requirements

## What could make a project ineligible?

- Repairs that require full or partial evacuation of the building for more than 7 days or an unknown period of time.
- The project has deficiencies that are severe enough to affect the safety, soundness, structural integrity or habitability of the property.
- The project needs substantial repairs or impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements such as the foundation, roof, load bearing structures, electrical system, HVAC or plumbing.
- Projects without an acceptable certificate of occupancy or failed local regulatory inspections.



# Update on Temporary Requirements

**Any current or planned special assessments must be reviewed and the following must be documented in the file:**

- The reason for the special assessment.
- The total amount assessed and repayment terms.
- Documentation to support no negative impact to the financial stability and marketability of the project.
- Borrower qualification with any outstanding special assessment payment.
- Documentation to confirm the association has the ability to fund any repairs.
- If a special assessment is related to safety, structural integrity or habitability all related repairs must be completed or the project is not eligible.

Condominium Project Questionnaire Addendum	
This Addendum is applicable to both condominium and cooperative projects. It must be completed by an authorized representative of the HOA/Cooperative Corporation.	
Project Information	
Project Name:	
Project Address:	
Building Safety, Soundness, Structural Integrity, and Habitability	
1	When was the last building inspection by a licensed architect, licensed engineer, or any other building inspector?
2	Did the last inspection have any findings related to the safety, soundness, structural integrity, or habitability of the project's building(s)? <input type="checkbox"/> YES <input type="checkbox"/> NO
2a	If Yes, have recommended repairs/replacements been completed? <input type="checkbox"/> YES <input type="checkbox"/> NO
If the repairs/replacements have not been completed:	
2b	What repairs/replacements remain to be completed?

# Resources

Fannie Mae has a significant amount of information and training available to assist you with condominium reviews

[https://singlefamily.fanniemae.com/originating-underwriting/condo-co-op-and-pud-eligibility?\\_ga=2.84593053.526935006.1630593773-1242788903.1617971455](https://singlefamily.fanniemae.com/originating-underwriting/condo-co-op-and-pud-eligibility?_ga=2.84593053.526935006.1630593773-1242788903.1617971455)

## Originating & Underwriting

### Condo, Co-Op, and PUD Eligibility

Fannie Mae is committed to helping lenders lend with confidence. Our ongoing commitment to risk management makes condos a more sustainable and affordable homeownership option for many borrowers.

#### Get Started

**Step 1:** Determine a Condo Project Review Type

**Step 2:** Follow the Condo Project Review Type Requirements

**Step 3:** Confirm the Condo Project Insurance Requirements

- [At-A-Glance: Condo Project Review and Insurance Requirements](#)
- [Ineligible Project Characteristics for Condos](#)
- [Flood Insurance Coverage Calculator](#)

#### Condo Project Standards Training

Access resources including job aids, online learning videos, and frequently asked questions.

[Learn More >](#)

#### What's New

*Dec. 15, 2021*

We've update the [Condominium Project Questionnaire \(Form 1076\)](#).

*Oct. 13, 2021*

We've issued [LL-2021-14, Temporary Requirements for Condo and Co-op Projects](#), along with a [commentary](#) and [fact sheet](#) to help appraisers and lenders.

*Sept. 1, 2021*

We've updated [Co-op Share Loan Documentation Requirements](#)

# MPF Contacts and Resources

## MPF Service Center

- Email - [MPF-Help@FHLBC.com](mailto:MPF-Help@FHLBC.com)
- Hours - 8:30 am to 4:30 pm CST
- Phone: (877) 345-2673



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