

Condominium Project Eligibility and Review

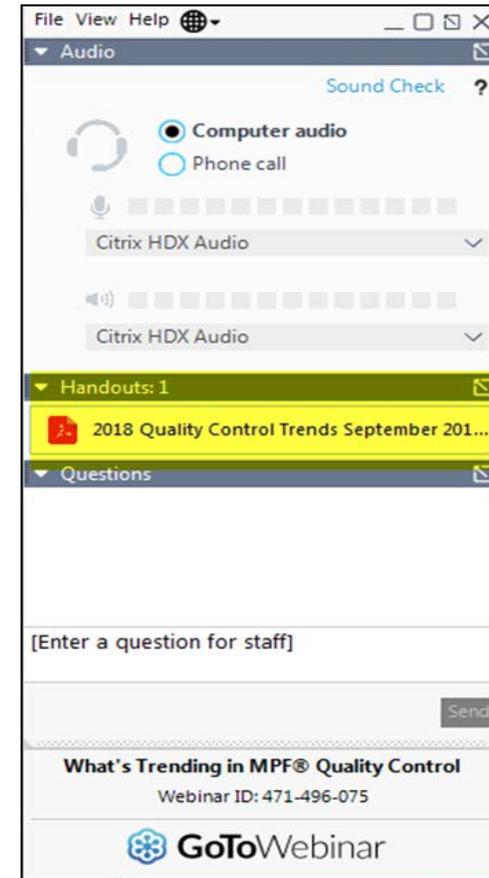


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Knowledge Check

When was the first law passed that permitted condominiums in the U.S.?

1958

Where was it passed?

The Commonwealth of Puerto Rico

Where was the first condo project in the contiguous U.S. located?

Salt Lake City, Utah (1960)

Topics

- **What is a Condo**
- **Condo Types**
- **What is a PUD**
- **To Review or not to Review?**
- **Condo Review Methods**
 - ✓ **Limited Review**
 - ✓ **Full Review**
- **Insurance Requirements**
- **Ineligible Condo Features**



Project Risk Overview

Condo and PUD projects present more risks than single-family homes

- The project's financial stability.
- The condition and marketability of the project.
- Limitations on the owner's ability to control decisions about the project:
 - ✓ Occupancy restrictions
 - ✓ Access to amenities and common areas
- Potential for litigation against the project.
- Fraud
- Inadequate insurance coverage to protect the project from unexpected losses.

Guidelines on project eligibility are established to mitigate risks and to ensure that projects are well-managed and financially sound.

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 (unless a site condo or detached condo).
- 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

Sample legal description: Ticor Title Insurance



Condo Project Types

Condo Project Types

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 cannot be subject to additional phasing or annexation.
- If the subject property is a second home, at least 50% of all units must be a primary or secondary residence (applies to MPF Traditional manual underwritten loans).
- All conveyed units must be owned fee simple (MPF Traditional manual underwritten loans).

Condo Project Types

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 for rent.*
 - ✓ 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.
 - ✓ No active or pending special assessments.

* Not applicable to MPF Traditional manually underwritten loans

Condo Project Types

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 not fully completed, such as proposed construction, new construction or proposed or incomplete conversion of an existing building or condo.
- The project is newly converted.
- The project is subject to additional phasing or annexation.
- The HOA is still in the developer's control.

*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.

Other Condo Project Types

Detached Condo Project (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 other attached elements such as breezeways or garages.



Other Condo Project Types

2-4 Unit Condo Projects*

- A project made up of two, three or four residential units.
- Each unit has its own title and deed.
- May be a new or 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.*



What is a PUD?

PUD refers to a Planned Unit Development

- PUDs may contain multiple property types.
- PUD units may be attached or detached.
- The property owned includes the structure and the land.
- The development is administered by a homeowners association that is obligated to maintain the property's common areas, amenities and improvements.
- Unit owners pay periodic fees to a homeowners association.



Condo or PUD?

How to Identify if a Property is 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.
 - ✓ Condo units usually make mention of a unit number while a PUD may not.
 - ✓ Unit owner owns the lot and structure.
- 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

Knowledge Check

Your borrowers want to be pre-approved to purchase A condo. Why is it more difficult to provide an accurate pre-approval scenario?

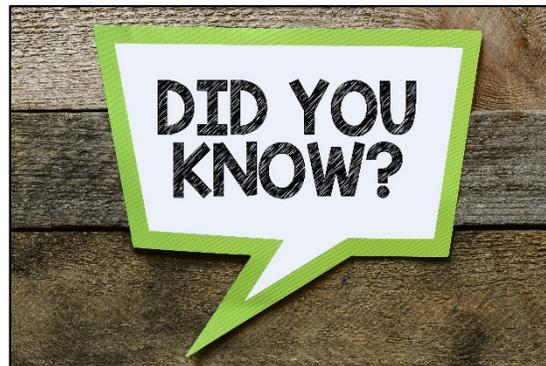
Because HOA fees vary so much, it's difficult to qualify borrowers for a set purchase price and loan amount.

It's best to discuss a maximum payment vs. a purchase price/loan amount.

To Review or Not to Review?

Certain Project Types May Not Require a Formal Review

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



Project Review Waivers

What makes certain units in a PUD eligible for a review waiver?

- 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 owners.
- Owners must be members of the HOA.
- Payment of assessments must be mandatory.
- Common property must be owned and maintained by the HOA for the benefit and use of unit owners.
- Must not be part of a condo or co-op project.
 - ✓ If located in a condo or co-op project within a larger PUD, requirements for condos must be met.



Project Review Methods

There are a number of project review methods available. The specific project review method allowable 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
Attached condo in a new or newly converted project	Full review with or without Condo Project Manager™ (CPM™) or review through Project Eligibility Review Service (PERS).
Attached condo in an established project	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).
Unit in a new or established 2-4 unit project	Project review is waived with the exception of some basic requirements.
Detached unit in a new or established condo project	
Unit in a PUD project	

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

Limited Reviews

What is a limited review?

- Limited reviews require less documentation.
- Documents generally required for limited reviews:
 - ✓ **Limited Review Condo Questionnaire** (or equivalent)
 - *Form 1077 (Fannie Mae) or Form 477 (Freddie Mac)*
 - ✓ Appraisal
 - ✓ Master Insurance Policy
 - ✓ HO-6 Insurance as required

Limited Reviews

What makes a property eligible for a limited review?

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

The following transaction **LTV** requirements must be met:

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%

Limited Review Questionnaire

The limited review or short form condo questionnaire contains questions about the following:

- Basic condo information (project name, HOA name, management company name when applicable).
- A checklist of project features that may make it ineligible.
- Questions about the project being complete or if it's subject to any phasing, number of units sold and closed.
- Questions about pending litigation or other legal matters.
- Insurance details and information about HOA financial accounts.

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:
 - ✓ Full Review Condo 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

Full Review Questionnaire

In addition to the questions on the short-form questionnaire, the full review questionnaire gathers information relating to:

- Specific questions pertaining to newly converted or rehabilitated projects.
- Additional questions about the project's level of completion.
- More detailed questions concerning the ownership and number of units.



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.*

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

Full Review-HOA Dues

Delinquent HOA dues

- No more than 15% of the total units in a project may be 60 days or more past due on their HOA dues.



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 assessment 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 - Budgets

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

A reserve study may be used in lieu of calculating the replacement reserve (see Fannie Mae Selling Guide B4-2.2-02 for details).

Full Review- New Projects

Full Review of New or Newly Converted Condo Projects

- All units and amenities must be substantially complete.
 - ✓ Subject to common and customary items (buyer selections items must be properly installed before closing).
 - ✓ Certificate of Occupancy (or equivalent) has been issued.
 - ✓ There may not be more than one legal phase per building.
 - ✓ All units in the legal phase where the unit is located are complete (subject to buyer selection items).
- At least 50% of the total units in the project or legal phase must have been conveyed or under contract as a primary or second home.
- Individual units in a new condo project must be available for immediate occupancy at the time of the loan closing.
- Must meet the condo project legal document requirements (see Fannie Mae Selling Guide B4-2.2-03 for details).

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.

- The process is highly detailed and requires the submission of a number of forms.
- Approved projects are posted on Fannie Mae's website.
- PERS reports do carry fees of \$500.00 and up.
- Conditional approvals expire after nine months, final approvals, ten months.
- A list of approved projects is available on Fannie Mae's website.

Project Eligibility Review Service (PERS)

Fannie Mae PERS

- In some situations projects may have to be submitted to PERS for an approval.
 - ✓ New and newly converted condo projects consisting of attached units located in Florida.
 - ✓ Newly converted **non-gut** rehabilitation attached condos in projects that contain more than four units.
 - ✓ All condos projects consisting of manufactured homes with the exception of a PUD that contain multi-width manufactured homes only.



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



Insurance Requirements

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.
 - ✓ **Bare Walls Policy-** Covers the structure and common areas but usually doesn't cover sinks, cabinets, flooring, appliances, or any upgrades made to the unit. HO-6 coverage is required ensure the property may be restored to pre-event condition.
 - ✓ **Single Entity Policy-** Covers the structure and common areas but does not cover owner upgrades. HO-6 coverage is required to ensure the property can be restored to pre-event condition.
 - ✓ **All-in or All-inclusive Policy-** Covers the structure and common areas including and upgrades that the individual unit owner has made. Borrower will probably have HO-6 coverage, but it may or 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.

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 are also 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.

General Insurance Requirements

Replacement coverage: 100% of the insurable replacement cost of the project improvements including the individual units in the project.

The following coverages are acceptable:

- **Guaranteed Replacement Cost-** Insurer agrees to replace the insurable property regardless of the cost.
- **Extended Replacement Cost-** insurer agrees to pay more than the property's insurable replacement cost.
- **Replacement Cost-** insurer agrees to pay up to 100% of the property's insurable replacement cost.

Policies covering common elements in a PUD project or condo, the maximum deductible is 5% of the face amount of the policy.

For blanket policies covering both individual units and common elements, the maximum deductible should be no greater than 5% of the replacement cost of the unit.

General Insurance Requirements

Liability Insurance is required for certain condo projects*

- Coverage must be at least \$1 million for bodily injury and property damage.
- Not required if the project is eligible for a *review waiver* or if a project is eligible for a limited review.

Fidelity/Crime Insurance*

- Coverage must cover the maximum amount of funds held by the HOA .
- Not required if the project is eligible for a review waiver or if a project is eligible for a limited review.
- Not required for condo projects with less than 20 units.
- Not required if maximum estimated funds in the custody of the HOA are less than \$5,000.
- In some cases a lesser amount of coverage may be acceptable – see Fannie Mae Selling Guide Chapter B7-4-02 for more details.

*MPF Traditional manually underwritten loans require liability coverage for all project types and fidelity insurance for projects consisting of more than 20 attached units. Please refer to the MPF Traditional Selling Guide.



Ineligible Features

Ineligible Project Features

Projects that operate as a hotel or motel

- The HOA is licensed as a hotel, motel, resort or hospitality entity.
- Restrictions on the owner's ability to occupy the unit.
- Mandatory rental pooling agreements that require the owner to rent or give a management firm control over the occupancy of the units.
- HOA legal documents require unit owners to share profits from rental units with the HOA, management company, or hotel rental company.

What may provide evidence that a condo is actually a “condotel”?

- Appraisal
- Sales contract
- Project legal and recorded documents
- The Internet



Ineligible Project 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.
- Properties with 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.***



Ineligible Project 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.*

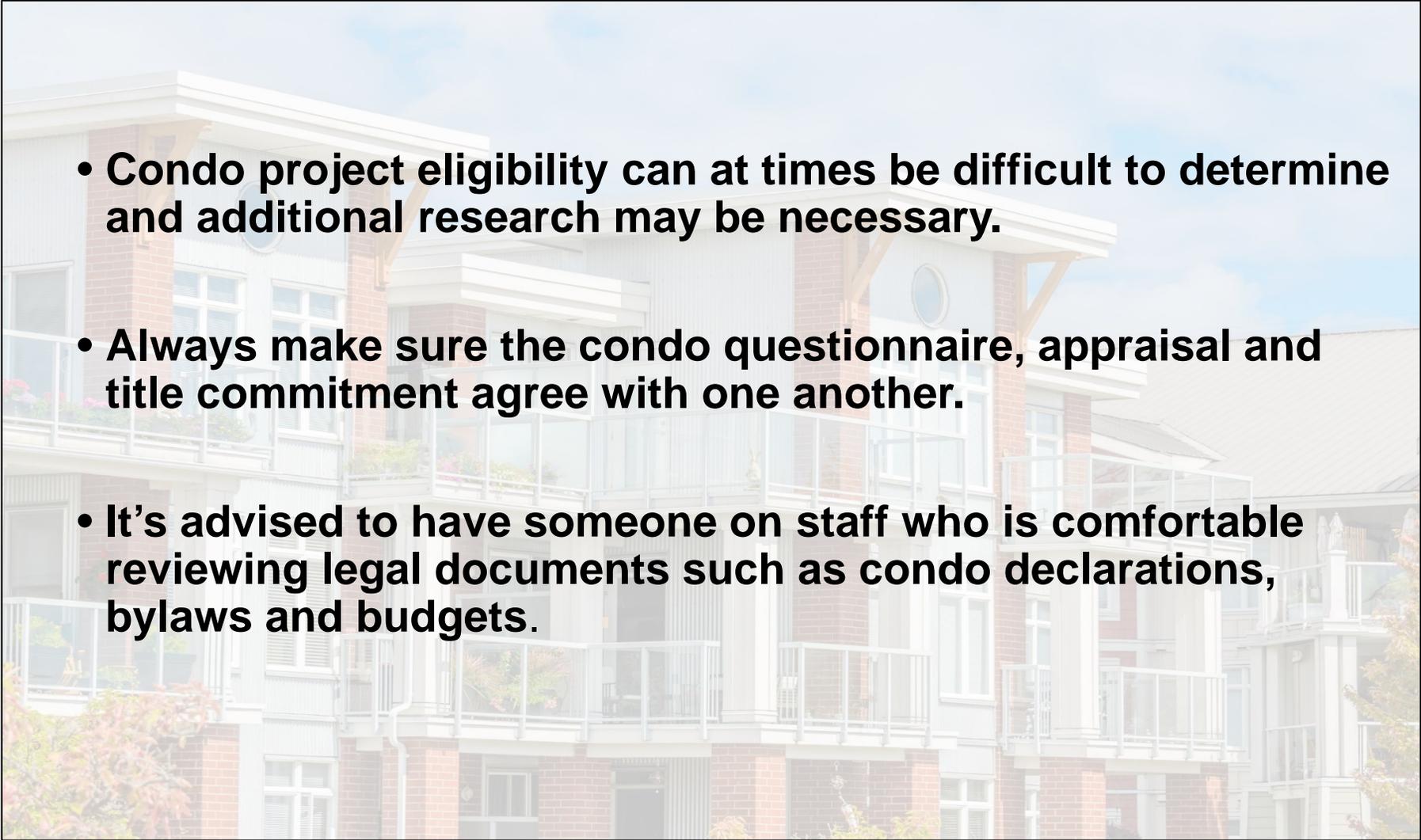
Ineligible Project Features

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 UW
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.

Summary

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- **Condo project eligibility can at times be difficult to determine and additional research may be necessary.**
 - **Always make sure the condo questionnaire, appraisal and title commitment agree with one another.**
 - **It's advised to have someone on staff who is comfortable reviewing legal documents such as condo declarations, bylaws and budgets.**

MPF Contacts and Resources

MPF Service Center

Email - MPF-Help@FHLBC.com

Hours - 8:30 am to 4:30 pm CST

Phone: (877) 463-6673



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