Section 1.06 - Condominium and PUD Approval Requirements

In This Section This section contains the following topics.

Overview

General

The quality of mortgages secured by units in condominium and planned unit development (PUD) projects can be influenced by certain characteristics of the project or by the project as a whole. The lender must determine that the project meets eligibility requirements.

Related Bulletins

General

Related bulletins are provided below in PDF format. To view the list of published bulletins, select the applicable year below.

- 2018
- 2017
- 2016
- 2015
- 2014

Agency

General Information on Condominium Review

- When lending on a condominium unit, the condominium project must be reviewed for compliance with Agency requirements. The scope of the review depends on the characteristics of the condominium project and the type of loan being made (product, occupancy and LTV/TLTV/HLTV). Prior to closing, the condominium project must have received approval by one of the following methods:
  - Fannie Mae's **FINAL** approval through their Project Eligibility Review Service (PERS) process
  - Project approval issued by the SunTrust Condominium Department: *Certification of Project Compliance: Condominium/PUD Lender Warranties – Agency and Non-Agency Loan Products* (COR 0212a)
    - See the "Workflow and Procedures for Obtaining Condominium Warranties via the SunTrust Condominium Department" subtopic subsequently presented for additional information on the requirements.
  - A warranty of project eligibility issued by a Correspondent Lender with delegated projects underwriting authority.

Fannie Mae PERS Approved Project List

- The Fannie Mae PERS approved project list can be accessed from the following link: https://www.fanniemae.com/singlefamily/project-eligibility-review-service.
- When utilizing the Fannie Mae approved projects list to evidence project approval the following requirements must be met:
  - The condominium project, including the subject's legal phase, must have received Fannie Mae's **FINAL** PERS project approval with an expiration date extending beyond the loan closing date. These projects will appear on Fannie Mae's list with dates in the last two columns on the right.
  - Projects with only **CONDITIONAL** PERS approval are not eligible for financing unless they qualify under one of the other project approval methods covered in this document and have received approval from the SunTrust Condominium Department or a Correspondent Lender with delegated projects underwriting authority.
  - When financing a unit in a condominium project, the Fannie Mae accepted condominium projects list should be reviewed prior to submitting any project information to the SunTrust Condominium Department.
  - Verification of adequate hazard, flood (if applicable), liability and fidelity bond insurance is required prior to closing.
  - If these items have been verified and meet the appropriate requirements, a copy of the page from the Fannie Mae list with the project name and phase circled must be placed in the loan file.
  - The appropriate warranty type must be entered into the loan processing system (Type "T").
  - For additional information on obtaining Fannie Mae PERS approval, see the "Project Eligibility Review Service (PERS)" section subsequently presented.

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General Information on Condominium Review, continued

SunTrust Approved Condominium Project List

- Click here to access the SunTrust Approved Condominium Project List.
- When utilizing the SunTrust Approved Condominium Project List to evidence project approval, the following requirements must be met:
    - The condominium project, including the subject's legal phase, must appear on the list with an expiration date extending beyond the loan closing date.
    - When financing a unit in a condominium project, the SunTrust Approved Condominium Project List should be reviewed prior to submitting any project information to the SunTrust Condominium Department.
    - Verification of adequate hazard, flood (if applicable), liability and fidelity bond insurance is required prior to closing.
    - If these items have been verified and meet the appropriate requirements, a copy of the page indicating SunTrust project approval with the project name/phase circled must be placed in the loan file.
    - The appropriate warranty type as indicated on the approved list (far right column) must be entered into the loan processing system.

Projects Not on an Approved List

For projects that do not have Fannie Mae PERS Final Approval or that do not already appear on the SunTrust Approved Condominium Project List, the project must be reviewed and approved by the SunTrust Condominium Department or by the Correspondent Lender with delegated projects underwriting authority for the project type in question.

Note: To contact the SunTrust Condominium Department, send an e-mail to mortgage.condodesk@suntrust.com or call the toll-free number (800) 382-2111.

Correspondent Delegated Projects Underwriting

- **Correspondent Lenders with Fannie Mae Seller-Servicer ID numbers** have delegated projects underwriting authority for both new and established condominium projects. Projects approved must meet the requirements specified in this document. The loan files must contain a warranty form: *Certification of Project Compliance: Condominium/PUD Lender Warranties – Agency and Non-Agency Loan Products* (COR 0212a) or equivalent signed by an authorized representative of the Correspondent Lender. The warranty form must specify the project review type/method utilized and indicate compliance with all applicable requirements for that review type/method. The loan file must also contain all supporting documentation required to support the project approval decision (questionnaire, appraisal, insurance information, budget, etc.).

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General Information on Condominium Review, continued

- **All Other Correspondent Lenders with Delegated Credit Underwriting Authority** have delegated projects underwriting authority for established condominium projects. Projects approved must meet the requirements specified in this document. The loan files must contain a warranty form: *Certification of Project Compliance: Condominium/PUD Lender Warranties – Agency and Non-Agency Loan Products or equivalent* (COR 0212a) or equivalent signed by an authorized representative of the Correspondent Lender. The warranty form must specify the project review type/method used and indicate compliance with all applicable requirements for that review type/method. The loan file must also contain all supporting documentation required to support the project approval decision (questionnaire, appraisal, insurance information, budget, etc.).

  Note: Correspondents with Delegated Projects Underwriting Authority can also submit projects for review to the SunTrust Condominium Department. See the "Workflow and Procedures for Obtaining Condominium Warranties via SunTrust Condominium Department" subtopic subsequently presented for additional information on the requirements.

General Information on PUD Reviews

- Correspondent Lenders with Fannie Mae Seller-Servicer ID numbers and Correspondent Lenders with Delegated Credit Underwriting Authority have delegated projects underwriting authority for PUDs.
- The Correspondent Lender is responsible for determining that the PUD is in compliance with the eligibility requirements outlined in this document.
- A PUD warranty form is not required for attached or detached PUDs.

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Project Risk Overview

Non-AUS

- The quality of mortgages secured by units in condo or planned unit development (PUD) projects can be influenced by certain characteristics of the project or by the project as a whole. Before delivering a loan secured by an individual unit in a project, the lender must determine that the project meets eligibility requirements.
- 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 utilize 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, but not limited to, 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. Project eligibility and underwriting requirements seek to mitigate project level risks and to ensure that projects are demonstrably well-managed.
- Lenders that sell mortgage loans secured by units in a condo or PUD project to Fannie Mae are expected to have staff that are knowledgeable about and qualified to evaluate the specific risks presented by these types of projects. The project review is in addition to the review the lender completes for underwriting the borrower, the transaction terms, and the individual unit appraisal.
- Project standards requirements are intended to address common project types across a broad geographic range. If a lender determines that a project does not meet all project eligibility criteria, but feels that the project has merit and warrants additional consideration, the lender may request an exception. See "Projects with Special Considerations and Project Eligibility Waivers" subsequently presented for additional information.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines.

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Project Risk Overview, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Freddie Mac requires a condominium project review to address certain project risks including, but not limited to, the marketability and condition of the project, the marketability of the units within the project, the financial stability and viability of the project, project-level litigation, restrictions on unit owners' rights to occupy the unit, ownership and use of the project common areas and amenities and the adequacy of insurance coverage to protect the project from damage and loss.
- Freddie Mac expects the lender to have staff that is experienced and knowledgeable about condominium project risks and to place as much emphasis on the adequacy of the property as collateral as it does on underwriting the borrower's creditworthiness. The quality of a mortgage secured by a unit in a condominium project can be impacted by the financial stability and viability of the particular project, among other project characteristics. The conclusion that a mortgage is acceptable to Freddie Mac must be based on the determination that the borrower is creditworthy and the mortgaged premises is adequate collateral for the mortgage transaction.

Project Documentation

Non-AUS

- The documentation needed to complete a project review may differ depending on the project and review type. Lenders are responsible for determining the documentation needed to ensure that the project meets all eligibility requirements. Project documentation may include, but is not limited to, the following:
  - legal and recorded documents including the covenants, conditions 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.
- Sources for project information include, but are not limited to, appraisers, HOAs, management companies, real estate brokers, insurance professionals, and project developers. Lenders are responsible for the accuracy of any information obtained from these sources.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA

Follow LPA requirements, which are the same as non-AUS and DU guidelines.

Document Retention for Project Eligibility

Non-AUS

Lenders must retain all of the project documentation needed to demonstrate that the project meets Fannie Mae's eligibility requirements. This documentation must be retained, and made available upon request, as long as lenders originate mortgages from the project, and until all mortgages sold to Fannie Mae have been liquidated.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA

Follow LPA requirements, which are the same as non-AUS and DU guidelines.

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Project Types

Non-AUS

- The scope of Fannie Mae's requirements and 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.

Project Type	Identification Criteria
Established condo project	A project for which all of the following are true: • at least 90% of the total units in the project have been conveyed to unit purchasers; • the project is 100% complete, including all units and common elements; • the project is not subject to additional phasing or annexation; and • control of the HOA has been turned over to the unit owners. A project may also be treated as an established project with less than 90% of the units sold to unit purchasers, provided the deficit is the result of the developer holding back units for rent. The following requirements must be met: • construction is 100% complete; • the project is not subject to any additional phasing or annexation, and the HOA has been turned over to the unit owners; • the developer's share of the units held back for rental is no more than 20% of the project's total units; • HOA fees are paid current in developer-held units; and • there are no active or pending special assessments in the project.
New condo project	A project for which one or more of the following is true: • fewer than 90% of the total units in the project have been conveyed to unit purchasers (or 80% if it meets the exception in the row above); • 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; • the project is newly converted; • the project is subject to additional phasing or annexation; or • HOA still in the developer's control
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 in which 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.
Manufactured home project	A project consisting partially or solely of manufactured homes **Note**: <u>Manufactured home condominiums are not eligible</u>.
Co-op Project	A project in which a corporation or trust holds title to the property and sells shares of stock representing the value of a single apartment unit to individuals who, in turn, receive a proprietary lease as evidence of title **Note**: Co-op projects are not eligible.
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. See "Eligibility Requirements for Units in PUD Projects" subsequently outlined in this document for additional detail used in determining whether a project is subject to Fannie Mae's PUD eligibility requirements.

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Project Types, continued

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

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

Project Type	Identification Criteria

Established condo project	A condominium project in which:
	• The condominium project (all condominium units, common elements and amenities) and related facilities owned by any master association are complete and not subject to any additional phasing
	• With respect to unit ownership:
	  • At least 90% of the total units in the project have been conveyed to the unit purchasers, or
	  • If the project is a two- to four-unit condominium project, all units in the project have been conveyed to the unit purchasers, and
	  • The unit owners control the homeowners association (HOA)

New condo project	A condominium project in which: • The condominium project (all condominium units, common elements and amenities) and related facilities owned by any master association are not complete or are subject to additional phasing, except that for two- to four-unit condominium projects, all condominium units, common elements, and amenities of the condominium project are complete and not subject to additional phasing • Fewer than 90% of the total number of units in the project must have been conveyed to the unit purchasers, except that for two- to four-unit condominium projects, all but one unit in the project must have been conveyed or must be under contract to the unit purchasers, or • The developer has not turned control of the homeowners association (HOA) over to the unit owners
Two-to four-unit condo project	A project that is comprised of at least two, but no more than four, 1-unit dwellings that are each separately owned with separate legal descriptions. The units may be attached, detached or semi detached or a mixture of attached, detached and/or semi detached units.
Detached condo project	A condominium project comprised solely of detached condominium units.
Detached condo unit	A condominium unit that is completely detached from any other unit in a condominium project. A detached condominium unit can be in a detached condominium project or in a condominium project that contains a mixture of attached, detached and/or a semi detached units.
Manufactured home project	A project consisting partially or solely of manufactured homes **Note**: Manufactured home condominiums are not eligible.

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Project Types, continued

Freddie Mac LPA, continued

Project Type	Identification Criteria
Co-op Project	A project in which a corporation or trust holds title to the property and sells shares of stock representing the value of a single apartment unit to individuals who, in turn, receive a proprietary lease as evidence of title **Note**: Co-op projects are not eligible.
Planned unit development (PUD) project	A real estate project in which each unit owner holds title to a lot and the improvements on the lot, and the homeowners association holds title to the common elements. The unit owners have a right to the use of the common elements, and pay a fee to the homeowners association to maintain the common elements for their benefit.

Project Review Methods

Non-AUS

- 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 number of units in the project (two- to -four or more than four);
  - 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.

Unit and Project Type	Project Review Methods
Attached condo unit in a new or newly converted project	• Full Review, or • Fannie Mae Review through the standard Project Eligibility Review Service (PERS) process

Attached condo unit in an established project	• Based on the LTV, TLTV, and HTLTV ratios, occupancy, and location (projects in Florida), these projects may be reviewed using a Limited Review.
	• Projects not meeting the Limited Review criteria must be reviewed using a:
	  ◦ Full Review,
	  ◦ FHA Project Approval (HUD Review and Approval Process only), or
	  ◦ Fannie Mae Review through the streamlined PERS process (for established condo projects)

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Project Review Methods, continued

Non-AUS, continued

Unit and Project Type	Project Review Methods
Unit in a new or established two- to four-unit condo project	Project review is waived, with the exception of some basic requirements that apply.
Detached unit in a new or established condo project	Project review is waived, with the exception of some basic requirements that may apply.
Unit in a co-op project	Not Eligible
Condo Project that contains manufactured homes	Not Eligible
PUD Project that contains single-wide manufactured homes	SunTrust does not lend on single-wide manufactured homes regardless of the project's Fannie Mae approval status
Newly-converted non-gut rehabilitation condo projects (with attached units) that contain more than four units	Fannie Mae Review through the standard PERS process
New or newly converted condo projects consisting of attached units located in Florida	Fannie Mae Review through the standard PERS process
Unit in a PUD Project	Project review is waived, with the exception of some basic requirements that apply. (See "Eligibility Requirements for Units in PUD Projects" for additional details.)
Unit in a condo project approved by the FHA	FHA Project Approval (see FHA-Approved Condo Review Eligibility for additional details)

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines.

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Project Review Methods, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- The condominium unit mortgage, the condominium unit and the condominium project comply with project eligibility requirements for ***one*** of the following project review types:
  - Streamlined reviews
  - Established Condominium Projects
  - New Condominium Projects
  - Detached Condominium Projects
  - Reciprocal project reviews

Note: For additional information on each project review type, see the applicable project review type subtopic subsequently presented in this document.

Waiver of Project Review

Non-AUS

- **Transactions Eligible for a Waiver of Project Review**
  - Fannie Mae does not require a thorough project review for the project types and transactions described in the following table.

Project or Transaction Type	Requirements
Detached condo unit	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 in which the unit owner owns the detached condo unit and the land upon which the unit is built are a type of detached condo. The waiver of project review applies for new and established projects.
Unit in a two- to four-unit condo project	Project review is waived for new and established condo projects that consist of no more than four units.
Unit in a PUD project	See "Eligibility Requirements for Units in PUD Projects" for the requirements that apply.
Fannie Mae to Fannie Mae limited cash-out refinance	Project review is waived for units in condo projects for Fannie Mae-owned loans that are refinanced as a limited cash-out refinance with a maximum loan-to-value ratio of 80% (TLTV or HTLTV ratios may be higher).

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Waiver of Project Review, continued

Non-AUS, continued

- **Requirements that Apply When the Project Review is Waived**
  - The following requirements apply, in addition to those noted above, when a project review is waived:
    - property eligibility requirements;
    - the project is not a condo hotel or motel, houseboat project, or a timeshare or segmented ownership project;
    - priority of common expense assessments;
    - when an appraisal of the property is obtained, it must meet all applicable appraisal requirements (described in the eligible first mortgage product description and Section 1.07: Appraisal Guidelines of the *Correspondent Seller Guide*); and
    - insurance requirements (described in Section 2.01: Agency Loan Programs of the *Correspondent Seller Guide*, as applicable.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines. The following additional guidelines apply:

- **Project Review Requirements for DU Refi Plus Loans**
  - Fannie Mae waives the project review requirements for DU Refi Plus loans secured by units in a condo project. See the "DU Refi Plus Specific Guidelines and Workflow" subtopic subsequently outlined in this document for additional guidance.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- For Freddie Mac-owned "no cash-out" refinance condominium unit mortgages, the lender does not need to determine compliance with the condominium project review and eligibility requirements set forth above if the condominium unit mortgage being refinanced is currently owned by Freddie Mac in whole or in part or securitized by Freddie Mac and the following requirements are met:
  - The maximum LTV)/TLTV/HTLTV ratio is 80%
  - The condominium project is not a condominium hotel, houseboat project, timeshare project or project with segmented ownership
  - The project must have insurance that complies with the applicable requirements. See Section 2.01: Agency Loan Programs of the *Correspondent Seller Guide* for additional information.
  - The condominium unit must be covered by a title insurance policy that complies with all applicable requirements. See Section 1.16: Title Insurance of the *Correspondent Seller Guide* for additional information.

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Requirements Applicable to All Properties in a Condo Project

Non-AUS

All mortgages secured by units in condo projects must comply with the following:

- requirements specific to the project review method used to determine that project's eligibility;
- property eligibility requirements;
- priority of common expense assessments (described below);
- when an appraisal of the property is obtained, it must meet all applicable appraisal requirements (described in the eligible first mortgage product description and Section 1.07: Appraisal Guidelines of the *Correspondent Seller Guide*); and
- insurance requirements (described in Section 2.01: Agency Loan Programs of the *Correspondent Seller Guide*, including all applicable provisions in the "Fidelity/Crime/Employee Dishonesty Insurance Coverage Requirements for Condominiums" subtopic.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA

See the applicable LPA project review method subtopic for guidance.

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Delivery Requirements

Non-AUS

- When delivering a loan for a unit located in a project, the lender must provide the Project Type Code and any applicable special feature codes as shown in the following table.

Project Type Code	Description
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 through PERS - Condo project that received a Final Project Approval through PERS using the standard or streamlined process
U	FHA-approved condo project
V	Condo project review waived - for certain project and transaction types
Special Feature Code	**Description**
588	Detached Condominium Unit Used to identify detached units in an attached or detached condominium project
296	Project Eligibility Waiver Used to identify loans for which Fannie Mae has provided a loan-level waiver for a specific project eligibility requirement

  See "Eligibility Requirements for Units in PUD Projects" for project type codes for PUD projects.

- Lenders are encouraged to include the condo HOA or Project IRS Federal Tax Identification Number (TIN) in the loan file. The SunTrust Condominium Department will provide an alternative tracking number when not provided on a project with more than four units.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines.

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Delivery Requirements, continued

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- When delivering a loan for a unit located in a project, the lender must provide the applicable Project Classification as shown below:
  - Streamlined Review
  - Established Project
  - New Project
  - 2- to 4-Unit Project
  - Detached Project
  - Reciprocal Review
- Lenders are encouraged to obtain the TIN(s) for the HOA and retain this information as part of the project review documentation. The SunTrust Condominium Department will provide an alternative tracking number when not provided on a project with more than four units.

Expiration for Project Reviews

Non-AUS
- Project reviews must meet the following timeline requirements.

Project Review Process Employed	Expiration of Project Review
• Limited Review • Full Review for Established Projects	Must have been completed within one year prior to the note date
Full Review for New Projects	Must have been completed within 180 days prior to the note date
Approved by Fannie Mae through PERS	PERS approval must be valid (unexpired) as of the note date
Approved by FHA	FHA approval must be valid (unexpired) as of the note date

- Loans must be delivered to Fannie Mae within 120 days following the note date. When the elapsed time between note date and delivery date exceeds this limit, the lender may deliver the loan only if the project continues to meet Fannie Mae project eligibility requirements at the time of delivery.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- The lender must review and determine that a condominium project complies with Freddie Mac's requirements within 180 days prior to the note date. The lender must deliver a condominium unit mortgage no later than 120 days after the note date. If the condominium unit mortgage is not delivered within 120 days after the note date, the lender must update the review and determination of the condominium project eligibility.

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Ineligible Projects

List of Ineligible Project Characteristics

Non-AUS

- Mortgage loans that are secured by units in certain condo projects are not eligible if those projects have characteristics that make the project ineligible. Such characteristics are described in the table below, with additional details provided in the sections that follow. All eligible projects must be created and remain in full compliance with state law and all other applicable laws and regulations of the jurisdiction in which the project is located.

  Note: If a lender determines that a project does not meet all project eligibility requirements but believes that the project has merit and warrants additional consideration, the lender may request an exception. See "Projects with Special Considerations and Project Eligibility Waivers" subsequently presented for additional information.

Ineligible Condo Project Characteristics
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, but are not limited to, builder/developer contributions, sales concessions, HOA assessments, or principal and 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 developer or builder). 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. (See section below for additional detail.)
Tenancy in Common Apartment Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize the property. (See section below for additional detail.)
Projects with property that is not real estate, such as houseboat projects. (See section below for additional detail.)
Any project that is owned or operated as a continuing care facility. (See section below for additional detail.) **SunTrust Note:** Also known as "Continuing Care Retirement Community" (CCRC) or "Life-Care Facilities"
Projects with non-incidental business operations owned or operated by the HOA including, but not limited to, a restaurant, spa, or health club. (See section below for additional detail and exceptions to this requirement.)

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Ineligible Projects, continued

Non-AUS, continued

Ineligible Condo Project Characteristics (continued)
Projects that do not meet the requirements for live-work projects. (See section below for additional detail.)
Projects in which the HOA is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project. (See section below for additional detail.)
Any project that permits a priority lien for unpaid common expenses in excess of Fannie Mae's priority lien limitations. (See "Priority of Common Expense Assessments" previously presented for additional detail.)
Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project: • projects with 5 to 20 units – 2 units • projects with 21 or more units – 20% (See section below for additional detail.) **Note**: The single-entity ownership limits above also apply to the number of units owned and rented by the HOA.
Multi-dwelling unit projects that permit an owner to hold title to more than one dwelling unit, with ownership of all of his or her owned units evidenced by a single deed and financed by a single mortgage (See section below for additional detail.)
Projects where the total space that is used for nonresidential or commercial purposes exceeds 35% (See section below for additional detail.)
<u>All Manufactured Condominium Units are ineligible.</u>

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines.

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Ineligible Projects, continued

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- Mortgages secured by units in any of the following types of projects are not eligible for sale to Freddie Mac, except for detached condominium units reviewed under the Detached Condominium Project review type.

Ineligible Condo Project Characteristics
• **Project required to be registered with the U.S. Securities and Exchange Commission or any State securities agency; investment deemed to be an investment security**   • Any project that is required to be registered with the U. S. Securities and Exchange Commission or any State securities agency, regardless of the project type. A project or investment in a project (including condominium unit ownership that is characterized or promoted as an investment opportunity) that could be deemed to be an investment security is also an ineligible project.

• **Condominium Hotel**
  • A condominium hotel is a project that is operated and managed as a commercial hotel or similar type of transient housing, even though the units are individually owned.
  • Projects that have one or more of the following characteristics are considered a condominium hotel or similar type of transient housing, and are ineligible projects:
    • Projects that include hotel type services and characteristics such as registration services, rentals of units on a daily basis, daily cleaning services, central telephone service, central key systems and restrictions on interior decorating
    • Condominium projects that are conversions of a hotel (or a conversion of a similar type of transient housing) unless the project was a gut rehabilitation and the resulting condominium units no longer have the characteristics of a hotel or similar type of transient housing
    • Projects with mandatory or voluntary rental-pooling and revenue-sharing agreements (or similar agreements that restrict the unit owner's ability to occupy the unit) to assure an inventory of units for rent on a frequent basis, such as daily, weekly, monthly or seasonally, and
    • Projects with names that include the words "hotel," "motel," "inn," "lodge" or a branded hotel chain or name unless the project does not have the characteristics of a hotel or similar type of transient housing
  • If owners of condominium units in projects in resort locations rent their units (either individually or through a rental management company) on a short-term basis, this alone does not indicate that the project is to be considered a condominium hotel. Lenders must fully analyze all the characteristics of the project and related information to determine if the project is a condominium hotel.
 	
Reference: See the “Projects that Operate as Hotels or Motels (Fannie Mae) / Condominium Hotel (Freddie Mac)” section in the “Additional Details on Ineligible Characteristics” subtopic for additional details on determining whether a project is a condominium hotel.

Continued on next page

Ineligible Projects, continued

Freddie Mac LPA, continued

Ineligible Condo Project Characteristics (continued)
• **Project with multi-dwelling units** • A project in which an owner may hold a single deed evidencing ownership of more than one dwelling unit.
• **Project with excessive commercial or non-residential space** • A project in which more than 35% of the total above and below grade square footage of the project (or more than 35% of the total above and below grade square footage of the building in which the project is located) is used as commercial or non-residential space. Reference: See the "Commercial Space and Mixed-Use Allocation (Fannie Mae) / Projects with Excessive Commercial or Non-Residential Space (Freddie Mac)" section in the "Additional Details on Ineligible Characteristics" subtopic for additional details on projects with excessive commercial or non-residential space.
• **Tenancy-in-Common apartment project** • A tenancy-in-common apartment project is owned by several owners as tenants-in-common or by a Homeowners Association (HOA). Individuals have an undivided interest in the residential apartment building (including the units) and land on which the building is located, and may or may not have the right of exclusive occupancy of a specific apartment unit in the building.
• **Timeshare project or project with segmented ownership** • A project in which there is an arrangement under which a purchaser receives an interest in real estate and the right to use a unit or amenities, or both, for a specified period and on a recurring basis such as the 15th week of the year, or ownership that is for a limited period such as for the subsequent five years.
• **Houseboat project** • A project comprised of boats that have been designed or modified to be used primarily as dwelling units
• **Project that is a legal nonconforming use** • A condominium project with legal non-conforming use and the jurisdiction in which the project is located does not allow the rebuilding of the improvements to current density in the event of their partial or full destruction. This restriction does not apply to detached condominium projects or if the jurisdiction in which the project is located allows the rebuilding of the improvements to their current density in the event of their partial or full destruction.
• **Project in litigation** • A project in which: (i) the HOA is named as a party to pending litigation, or (ii) the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, functional use or habitability of the project. • If the lender determines that the reason for the pending litigation involves minor matters that do not affect the safety, structural soundness, functional use or habitability of the project, the project is eligible if litigation is limited to one of the following: • The litigation amount is known, the insurance company has committed to provide the defense and the litigation amount is covered by the insurance policy

Continued on next page

Ineligible Projects, continued

Freddie Mac LPA, continued

Ineligible Condo Project Characteristics (continued)
• **Project in litigation**, continued ◦ The litigation amount is unknown, the lender has documented the mortgage file with a copy of the complaint, or the most recent amended complaint, and with an attorney letter that supports the lender's determination that the litigation involves minor matters. The attorney letter must state: (i) the reason for the litigation; (ii) that the insurance company has committed to provide the defense; and (iii) that any potential monetary judgment against the HOA, including punitive damages, will likely be covered by the HOA's insurance policy. If the attorney indicates the matter will not be likely be covered by the HOA's insurance policy, then the project is ineligible; or ◦ The matters involves: ▪ A non-monetary neighbor disputes or rights of quiet enjoyment, or ▪ The HOA is the plaintiff in a foreclosure action or action for past due assessments, or ▪ The HOA is the plaintiff in the litigation seeking reimbursement for expenditures made to repair the project's component(s) which may have included items that related to the safety, structural soundness, functional use or habitability of the project, the repair permanently resolved the defect or issue and the expenditures did not significantly impact the financial stability or future solvency of the HOA. ◦ The lender must retain documentation to support its analysis that the reason for the dispute meets Freddie Mac's requirements for minor matters as described above.
• **New Project sold with excessive Seller contributions** ◦ A New Condominium Project where the builder, developer or property seller is offering financing or sale arrangements for condominium unit mortgages. These individual mortgages have builder/developer contributions that do not comply with the requirements of the Purchase Documents, including maximum allowable interested party contributions. Examples include, but are not limited to: ▪ Rent-backs or leasebacks ▪ Payments of principal, interest, taxes and insurance (PITI) or ▪ HOA assessments that exceed maximum allowable interested party contributions, and ▪ Undisclosed contributions not disclosed on the Settlement/Closing Disclosure Statement.

Continued on next page

Ineligible Projects, continued

Freddie Mac LPA, continued

Ineligible Condo Project Characteristics (continued)
• **Project with excessive single investor concentration** ◦ Any project in which an individual or a single entity such as an investor group, partnership or corporation owns more than the following total number of units in the project:

Number of Units in the Project	Total number of units owned by individual or single entity
Two to Four	One
Five to 20	Two
21 or more	10%[1]

[1] For projects with 21 or more units, a Housing Finance Agency (HFA), or similar entity based on state or local law or regulation, can own no more than 25% of the total number of units in the project without that ownership being considered an excessive single investor concentration provided that:

- The units owned by the HFA, or similar entity based on state or local law or regulation, are used for low- or moderate-income rental purposes, and
- The HFA, or similar entity based on state or local law or regulation, that owns the units must be current in paying unit assessments and any other financial obligations to the HOA with no delinquencies on these payments within the past 12 months.

- Vacant units being actively marketed by the developer are not included in the calculation of the developer's percentage of ownership. Any units leased by the developer must be included in the calculation of the developer's percentage of ownership.
- For developer leased units used for low- or moderate-income rental purposes in accordance with state or local law or regulation, the calculation and requirements listed below for units owned by an HFA, or similar entity based on state or local law or regulation, apply. For all other developers leased units, the calculation and limits listed in the above table apply.

- **Continuing Care Retirement Community (CCRC)**
  - A CCRC is a residential project designed to meet the health and housing needs of seniors as their needs change over time. CCRCs are distinguished from age-restricted communities in that residents in CCRCs contract in advance for a lifetime commitment from the facility to care for them, regardless of the future health or housing needs. CCRCs may also be known as Life-Care Facilities.
- Projects containing manufactured housing

Continued on next page

Ineligible Projects, continued

Freddie Mac LPA, continued

Ineligible Condo Project Characteristics (continued)
• **New Condominium Projects in Florida** • Mortgages secured by attached units in new condominium projects in Florida, except when approved through the Fannie Mae Project Eligibility Service (PERS) process. See "Project Eligibility Review Service (PERS) and Reciprocal Project Reviews" and subsequently presented in this topic for additional information.
• **Project with mandatory dues or similar membership fees for use of Amenities such as clubhouses or recreational facilities** • Projects with mandatory dues or similar membership fees, including initiation or joining fees, which allow for the use of amenities such as clubhouses or recreational facilities are ineligible unless the HOA and/or Master Association solely own the amenities and condominium unit owners within the HOA or Master Association are the only persons or entities eligible for membership. Full rights and privileges to the use of these amenities are the primary benefit of membership.

Additional Details on Ineligible Characteristics

Projects that Operate as Hotels or Motels (Fannie Mae) / Condominium Hotel (Freddie Mac)
Non-AUS

- A project may not be operated or managed as a hotel, motel, or similar commercial entity as evidenced by meeting one or more of the following criteria:
  - The HOA is licensed as a hotel, motel, resort, or hospitality entity.
  - The HOA or project's legal documents restrict owners' ability to occupy the unit during any part of the year.
  - The HOA or project's legal documents require owners to make their unit available for rental pooling (daily or otherwise).
  - The HOA or the project's legal documents require unit owners to share profits from the rental of units with the HOA, management company, or resort, or hotel rental company.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines.

Continued on next page

Ineligible Projects, continued

Projects that Operate as Hotels or Motels (Fannie Mae) / Condominium Hotel (Freddie Mac), continued

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Reviews to determine whether a project is a Condominium Hotel**
    - The lender must have policies and procedures in place and must take appropriate steps to ensure that a project is not a condominium hotel.
    - To ensure that the project is not a condominium hotel, the lender can rely on sources of information such as the resources listed below as part of its due diligence to determine whether a mortgage is eligible for sale to Freddie Mac:
        - All project documents including but not limited to the by-laws, project budgets and financial statements
        - Any offering statements (or their equivalent) and marketing materials
        - Internet web sites, especially web sites for the project itself, the project developer, the entity marketing the project if other than the project developer, and press releases about the project
        - Contract for sale
        - Appraisal report

- **Characteristics of a Condominium Hotel**
    - Mandatory or voluntary rental-pooling arrangements (or unit leasing programs) and revenue-sharing agreements are generally between the individual unit owners, and/or the HOA, the developer, successor to the developer or a third party. These agreements may provide restrictions on the unit owner's use such as blackout dates and occupancy limits, thereby providing a ready supply of units for rent and a revenue share to the unit owners from the rental of the units.
    - If the underwriting of the project indicates that the project is operated and managed as a hotel or similar type of transient housing, the project is a condominium hotel and any mortgage secured by a unit in such project is not eligible for sale to Freddie Mac.

Continued on next page

Ineligible Projects, continued

Tenancy-in Common Apartment Projects Subject to Split Ownership Arrangements
Non-AUS

- Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize the property are not eligible for delivery to Fannie Mae. These types of properties include, but are not limited to, 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 in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building;
  - projects that restrict the owner's ability to occupy the unit, even if the project is not being operated as a motel or hotel; 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.

    Note: These are formal agreements between the developer, association, and/or the individual unit owners that 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.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines**.**

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- Mortgages secured by units in a tenancy-in-common apartment project are not eligible. These projects are owned by several owners as tenants-in-common or by a Homeowners Association (HOA). Individuals have an undivided interest in the residential apartment building (including the units) and land on which the building is located, and may or may not have the right of exclusive occupancy of a specific apartment unit in the building.

Continued on next page

Ineligible Projects, continued

Condominium Projects that Contain Multi-Dwelling Unit Condos
Non-AUS

- Condominium projects that contain multi-dwelling units are not permitted. These projects allow an owner to hold title to a single legal unit that is sub-divided 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 sub-divided units are not separate legal units. This restriction applies regardless if the unit owner maintains one or more of the sub-divided units as rental units or uses one or more of the sub-divided 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 for purchase and securitization by Fannie Mae provided all of the following requirements are met:
  - The unit securing the mortgage represents a single legal 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.
  - All structural renovation to physically combine the units must be completed.
- A condo unit with an accessory unit may be eligible on a case-by-case basis with a Fannie Mae PERS Project Approval or a loan-level project eligibility waiver. See "Projects with Special Considerations and Project Eligibility Waivers" subsequently presented for additional information on submitting an exception request.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines**.**

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- A condominium project in which an owner may hold a single deed evidencing ownership of more than one dwelling unit is not eligible.

Continued on next page

Ineligible Projects, continued

Projects with Property that is not Real Estate
Non-AUS

- Fannie Mae acquires mortgage loans secured by real estate. Houseboats, boat slips, cabanas, timeshares, and other forms of property that are not real estate are not eligible for delivery to Fannie Mae. The marketability and value of individual units in a project may be adversely impacted by the inclusion of non-real estate property such as houseboats, timeshares, and other forms and structures that are not real estate. As such, projects containing these other non-real estate forms of property are not eligible.
- Boat slips, cabanas, and other amenities are permitted when owned in common by the unit owners as part of the HOA.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines**.**

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- A project comprised of boats that have been designed or modified to be used primarily as dwelling units is not eligible.

Projects that Operate as a Continuing Care Community or Facility/Continuing Care Retirement Community (CCRC)
Non AUS

- Mortgages secured by units in a project that operates, either wholly or partially, as a continuing care community are ineligible for delivery to Fannie Mae. 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 residential unit owners are not obligated to purchase or utilize 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 as the residents age are eligible.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines**.**

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- A CCRC is a residential project designed to meet the health and housing needs of seniors as their needs change over time. CCRCs are distinguished from age-restricted communities in that residents in CCRCs contract in advance for a lifetime commitment from the facility to care for them, regardless of the future health or housing needs. CCRCs may also be known as Life-Care Facilities. A project with these characteristics is ineligible.

Continued on next page

Ineligible Projects, continued

Non-Incidental Business Arrangements
Non-AUS

- 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, but is not limited to, 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 (as noted below), or
  - income from the leasing of units in the project acquired by the HOA through foreclosure.

  Note: The single-entity ownership limits (described above) will apply to the number of units owned and rented by the HOA.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- There are no restrictions on non-incidental business arrangements.

Continued on next page

Ineligible Projects, continued

Commercial Space and Mixed-Use Allocation (Fannie Mae) / Projects with Excessive Commercial or Non-Residential Space (Freddie Mac)

Non AUS

- Fannie Mae requires that no more than 35% of a condo project or 35% of the building in which the project is located be commercial space or allocated to mixed-use. This includes commercial space that is above and below grade. Note that projects located in flood zones with commercial space greater than 25% of the project's square footage, including any commercial parking facilities, may need supplemental or private flood insurance policies to meet Fannie Mae's requirements for flood insurance. Coverage under the National Flood Insurance Program may provide inadequate coverage for projects with commercial space in excess of 25%. See "Flood Insurance Coverage Requirements" in the "Property and Flood Insurance" topic within Section 2.01: Agency Loan Programs of the *Correspondent Seller Guide* for additional information.
- Any commercial space in the project or in the building in which the residential project is located must be compatible with the overall residential nature of the project.

  Note: Rental apartments and hotels located within the project must be classified as commercial space even though these may be considered "residential" in nature. Commercial parking facilities can be excluded from the commercial space calculation.

- ***Calculation of Commercial Space:*** Commercial space allocation is calculated by dividing the total non-residential square footage by the total square footage of the project or building. Lenders 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, and
    - space that is non-residential in nature and owned by a private individual or entity outside of the HOA structure.

      Examples include, but are not limited to:
      - 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, but not limited to, a fitness facility, pool, community room, and laundry facility); and
    - owned by the unit owners or the HOA.

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Ineligible Projects, continued

Commercial Space and Mixed-Use Allocation (Fannie Mae) / Projects with Excessive Commercial or Non-Residential Space (Freddie Mac), continued

Non AUS, continued

- The following table shows which commercial or mixed-use space must be included in the calculation of the percentage of commercial space.

If the commercial or mixed-use space is…	Then its square footage is included in the calculation of commercial space percentage
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 **Example**: 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 **Example:** • floors 1 to 4 consist of hotel and retail, • floors 5 to 7 consist of privately-owned and managed rental apartments, and • the remaining floors consist of the condo project units.	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

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines.

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Ineligible Projects, continued

Commercial Space and Mixed-Use Allocation (Fannie Mae) / Projects with Excessive Commercial or Non-Residential Space (Freddie Mac), continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Determination of whether a project contains excessive commercial or non-residential space**
  - The lender must determine if the commercial or non-residential space in a project is more than 35% of the total above and below grade square footage of the project (or more than 35% of the total above and below grade square footage of the building in which the project is located).

- **Calculation of commercial or non-residential space**
  - The division of the total commercial or non-residential square footage by the total square footage of the project or building will determine the total amount of commercial or non-residential space.
  - In calculating the amount of commercial or non-residential space, lenders must determine:
    - The total square footage of the project (or the building in which the project is located)
    - The square footage of the commercial or non-residential space, and
    - The residential space square footage

      Note: Project Amenities and facilities that are residential in nature, owned by the HOA or unit owners, and allocated for the sole use of the residential unit owners are considered to be residential space.

    - The following must be included as commercial or non-residential space:
      - Retail and other commercial or non-residential space (for example, restaurants and stores)
      - Parking space that is not owned by or allocated to the residential unit owners (for example, public parking facilities that are either free or fee-based)
      - Residential rental apartments, hotels, motels and other similar types of space, although such space may have residential characteristics,
      - Non-residential space that the HOA does not own, but that is owned by a private individual or entity outside of the HOA structure (for example, private fitness facilities that are membership-based rather than owned by the HOA for the sole use of the residential unit owners), and
      - The total square footage of commercial or non-residential space even when the HOA representing the residential owners is different from the association representing the commercial owners

Continued on next page

Ineligible Projects, continued

Live-Work Projects
Non-AUS
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 for sale to Fannie Mae provided the project complies with all applicable local zoning, program, or statutory requirements for live-work projects and the nature of the project is primarily residential.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- Freddie Mac will purchase eligible condominium mortgages in condominium projects with live-work condominium units provided that:
    - the primary use of the live-work condominium unit is residential and the non-residential use of such condominium unit is secondary, and
    - the condominium mortgage complies with all other applicable Freddie Mac LPA requirements.

Continued on next page

Ineligible Projects, continued

Litigation
Non-AUS

- Projects in which the HOA is named as a party to pending litigation, or for which the project sponsor or 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 for sale to Fannie Mae.
- If the lender determines 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, but not limited to neighbor disputes or rights of quiet enjoyment;
  - litigation for which 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 lender 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 Fannie Mae's 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 in which the HOA is the plaintiff are not considered a minor matter unless the HOA is seeking recovery of funds for issues that have already been remediated, repaired, or replaced. In addition, there is no anticipated material adverse impact to the HOA if the funds are not recovered.
- The lender must obtain documentation to support its analysis that the litigation meets Fannie Mae's criteria for minor litigation as described above.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines.

Continued on next page

Ineligible Projects, continued

Litigation, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- A project in which: (i) the HOA is named as a party to pending litigation, or (ii) the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, functional use or habitability of the project.
- If the lender determines that the reason for the pending litigation involves minor matters that do not affect the safety, structural soundness, functional use or habitability of the project, the project is eligible if the litigation is limited to one of the following:
  - The litigation amount is known, the insurance company has committed to provide the defense and the litigation amount is covered by the insurance policy,
  - The litigation amount is unknown, the lender has documented the mortgage file with a copy of the complaint, or the most recent amended complaint, and with an attorney letter that supports the lender's determination that the litigation involves minor matters. The attorney letter must state: (i) the reason for the litigation; (ii) that the insurance company has committed to provide the defense; and (iii) that any potential monetary judgment against the HOA, or settlement with the HOA, including punitive damages, will likely be covered by the HOA's insurance policy. If the attorney indicates the matter will not likely be covered by the HOA's insurance policy, then the project is ineligible; or
  - The matters involves:
    - A non-monetary neighbor disputes or rights of quiet enjoyment, or
    - The HOA is the plaintiff in a foreclosure action or action for past HOA assessments, or
    - The HOA is the plaintiff in the litigation seeking reimbursement for expenditures made to repair the project's component(s) which may have included items that related to the safety, structural soundness, functional use or habitability of the project, the repair permanently resolved the defect or issue and the expenditures did not significantly impact the financial stability or future solvency of the HOA insignificant impact to the financial status of the project.
- The lender must retain documentation to support its analysis that the reason for the dispute meets Freddie Mac's requirements for minor matters as described above.

Continued on next page

Ineligible Projects, continued

Priority of Common Expense Assessments
Non-AUS

- Fannie Mae allows a limited amount of regular common expense assessments (typically known as HOA fees) to have priority over Fannie Mae's mortgage lien for mortgage loans secured by units in a condo or PUD 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 statue 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 for purchase by Fannie Mae.

If the condo or PUD project . . .	Then . . .
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 Fannie Mae's 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 Fannie Mae's 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 regular common expense assessments may have priority over Fannie Mae's mortgage lien.
is located in any other jurisdiction,	no more than six months of regular common expense assessments may have priority over Fannie Mae's mortgage lien, even if applicable law provides for a longer priority period.

- Notwithstanding any provisions to the contrary, which do not require the lender to represent or warrant compliance with Fannie Mae project legal document requirements, the condo or PUD project legal documents must evidence compliance with the above priority of common expense assessment requirements.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- Freddie Mac does not limit the amount of common expense assessments that are allowed to take priority, but does limit the amount that will be reimbursed.

Continued on next page

Ineligible Projects, continued

Single-Entity Ownership
Non-AUS

- A project meets the definition of single-entity ownership when a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project:
  - projects with 5 to 20 units - 2 units
  - projects with 21 or more units - 20%
- Units currently subject to any rental or lease arrangement must be included in the calculation. This includes lease arrangements containing provisions for the future purchase of units such as lease-purchase and rent-to-own arrangements.
- The following may be excluded from the single-entity ownership calculation:
  - units that are owned by the project sponsor or developer and are vacant and being actively marketed for sale; or
  - units that are controlled or owned by a non-profit entity for the purpose of providing affordable housing, units held in affordable housing programs (including units subject to non-eviction rent regulation codes), or units held by higher-education institutions for a workforce housing program.
- The single-entity ownership requirement may be waived when the transaction is a purchase transaction that will result in a reduction of the single-entity ownership concentration. In such instances, the following requirements must be met:
  - units owned by the single entity represent no more than 49% of the units;
  - evidence is required that the single entity is marketing units for sale to further reduce single-entity ownership, with the goal of reducing the concentration to 20% or less of the project units;
  - the single entity is current on all HOA assessments; and
  - there are no pending or active special assessments in the project.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA
See “Project with excessive single investor concentration” under the “List of Ineligible Project Characteristics” subsection previously presented for guidance.

Continued on next page

Environmental Hazard Assessments

Non-AUS

- **Overview**
  - An environmental hazard assessment is required for condo projects if an environmental problem is identified by the lender through performance of its project underwriting or due diligence. If environmental problems are identified, the problems must be determined to be acceptable. Lenders should keep a copy of this assessment in file.

- **Types of Environmental Hazard Assessments**
  - The table below describes two types of environmental hazard assessments.

Type	Performed by	Description
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 • Phase I assessment identifies problems or • Phase I assessment is inconclusive with regard to any particular hazard.

- **Acceptability of Consultants**
  - Fannie Mae reserves the right to notify lenders that a particular consultant is no longer acceptable. Fannie Mae also reserves the right to refuse to accept, at any time, any future environmental assessment, report, warranty, or certification from individual consultants, specific consulting firms, or specific branch offices of consulting firms.

- **Phase I Environmental Assessment**
  - A Phase I assessment enables lenders 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. Fannie Mae does not require a specific form for a Phase I assessment.
  - Any report that is thorough and professionally prepared will be acceptable.

- **Phase II Environmental Assessment Description**
  - A Phase II assessment provides a more detailed review of the site. It includes 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).

Continued on next page

Environmental Hazard Assessments, (continued)

Non-AUS, continued

- **Who Should Complete the Phase II Environmental Assessment**
  - The specialized nature of the investigations conducted under a Phase II assessment requires the knowledge and experience of a qualified consultant.
  - Lenders must use care in choosing firms to perform environmental hazard assessments.
  - Lenders should confirm that the consultant it plans to use is not affiliated with the buyer or seller of the property or a firm engaged in a business that might present a conflict of interest. Lenders should also evaluate whether the consulting firm's personnel have adequate and appropriate education and training to carry out the required duties.

- **Phase II Environmental Assessment Report Forms and Requirements**
  - Fannie Mae does not specify an exact 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.

✓	The consultant's report for a Phase II environmental assessment report must
	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: • the assessment was performed diligently and in accordance with all regulatory and good management standards; and • to the best of the consultant's knowledge, the results are complete and accurate
	include the signature of an officer of the consulting firm that conducted the work

- **Kinds of Testing or Sampling Under Phase II Environmental Assessments**
  - Examples of the kind of testing or sampling that occur under a Phase II assessment include but are not limited to 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;

Continued on next page

Environmental Hazard Assessments, (continued)

Non-AUS, continued

- sampling and analyzing the groundwater;
- testing soil or facilities that are suspected as being contaminated by polychlorinated biphenyls; and
- sampling and analyzing bulk asbestos and developing related abatement and maintenance programs, if necessary.

- **Unacceptable Environmental Conditions**
  - **Overview**
    - The existence of one or more unacceptable environmental conditions generally will result in a project being ineligible. However, if the lender believes that the relative risk is minimal or can be managed, the SunTrust Condominium Department or the Lender may contact the Fannie Mae Project Standards team.

  - **Unacceptable Environmental Conditions**
    - The table below describes examples of unacceptable environmental conditions; however, this list is not exhaustive.

✓	Examples of Unacceptable Environmental Conditions
	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)
	a property with soil sampling that has values for metal in excess of the following concentration limits in parts per million (ppm): • chromium: 100 ppm • arsenic: 20 ppm • zinc: 350 ppm • cadmium: 3 ppm • lead: 100 ppm • nickel: 100 ppm • copper: 170 ppm • selenium: 20 ppm

Continued on next page

Environmental Hazard Assessments, (continued)

Non-AUS, continued

✓	Examples of Unacceptable Environmental Conditions
	a property that is contaminated from polychlorinated biphenyls (PCBs)
	a property with soil sampling that has values for other organic materials in excess of the following concentration limits in parts per million (ppm): • total volatile organics: 1 ppm • total hydrocarbons: 100 ppm • total petroleum hydrocarbons: 100 ppm
	a property with groundwater sampling that has values for other organic materials in excess of the following concentration limits in parts per million: • total organics (volatiles and base neutrals): 0.10 ppm • total petroleum hydrocarbons: 1.00 ppm
	a property with groundwater sampling that has values for metals in excess of the following concentration limits in parts per million: • arsenic: 0.05 ppm • lead: 0.05 ppm • boron: 1.00 ppm • mercury: 0.002 ppm • cadmium: 0.01 ppm • selenium: 0.01 ppm • chromium: 0.05 ppm • silver: 0.05 ppm
	a property with high radon levels (e.g., above four picocuries per liter) that can be corrected only through large capital improvements or extensive ongoing maintenance programs that are beyond the financial or technical abilities of the HOA for the project
	a property that has conditions representing material violations 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 below Standards**
  - 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.
  - Typically, lenders must confirm the completion and effectiveness of remedial actions based on the following conditions:
    - A qualified environmental consultant states in writing that remedial work needed to make the property eligible under the environmental standards can be completed within 90 days.

Continued on next page

Environmental Hazard Assessments, (continued)

Non-AUS, continued

- The project's developer or sponsor signs a contract with a qualified firm to perform the remedial work within 90 days.
- The lender must warrant that the job has been satisfactorily completed and the property meets environmental eligibility standards.
- The project developer or sponsor must provide a performance escrow equal to 150% of the gross contract amount to ensure the completion of the remedial work.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- The appraiser must note the presence of detrimental conditions, such as expansive soils, underground mines or subsidence in the immediate area of the subject property. In addition, the appraiser must note any evidence of dampness, infestation or abnormal settlement observed in the subject property and call for correction of the observed condition or professional inspections to determine the seriousness of the condition. The appraiser must also consider the effect of such conditions in estimating the subject property's market value and/or any effect on marketability.
- For any appraisal that is made subject to inspections or conditions due to detrimental conditions, the lender must include in the mortgage file evidence of corrective action as called for by the inspector or appraiser. The evidence of the corrective action must meet Freddie Mac requirements.

Note: The appraisal must comply with all other requirements outlined in this document, the applicable first mortgage product description, and in Section 1.07: Appraisal Guidelines of the *Correspondent Seller Guide.*

Continued on next page

Limited Review Process (Fannie Mae) /Streamlined Reviews (Freddie Mac)

Non-AUS

- **Unit and Project Type Eligible for Limited Review**
  - To be eligible for a Limited Review, the unit securing the mortgage must be an attached unit in an established condo project.

- Transactions Eligible for a Limited Review
  - The following table describes the transactions that are eligible for a Limited Review.

Limited Review Eligible Transactions Attached Units in Established Condo Projects (For Projects Outside of Florida)	
Occupancy Type	**Maximum LTV, TLTV, and HTLTV Ratios**
Primary residence	90%
Second home	75%
Investment property	75%

Note: Attached units in established projects located in Florida are subject to more restrictive LTV ratio requirements under the Limited Review process. See the "Florida-Specific Condo Project Considerations" subtopic subsequently presented for additional information.

- **Limited Review Eligibility Requirements**
  - In completing a Limited Review, the lender must ensure that the project and subject unit meet the eligibility requirements described in the following table.

✓	**Limited Review Eligibility Requirements**
	The project meets the requirements applicable to all properties in a condo project described in the "Requirements Applicable to All Properties in a Condo Project" subsection previously presented.
	The project is not an ineligible project. See the "Ineligible Projects" section above for additional information.
	The project does not consist of manufactured homes

  - If the project and loan transaction are eligible for and meet all of the eligibility requirements of the Limited Review process, the lender is not required to validate that the project also meets the eligibility requirements of another project review type. However, if the LTV, TLTV, or HTLTV ratios exceed the limits above, or in the event the lender becomes aware of a circumstance that would cause the project or transaction to be ineligible under a Limited Review, the lender 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.

Continued on next page

Limited Review Process (Fannie Mae) / Streamlined Reviews (Freddie Mac), continued

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Condominium unit mortgages must comply with all of the following requirements to be eligible for the Streamlined Project Review type.
  - **(a) Ineligible Project**
    - The project must not be an ineligible project. See the "Ineligible Projects" section above for additional information.
  - **(b) Project Insurance**
    - The project must have insurance that complies with the applicable requirements (described in Section 2.01: Agency Loan Programs of the *Correspondent Seller Guide*).
  - **(c) Title Insurance**
    - The condominium unit must be covered by a title insurance policy that complies with all applicable requirements. See Section 1.16: Title Insurance of the *Correspondent Seller Guide* for additional information.
  - **(d) Project Ownership**
    - The unit owners must have either (i) an undivided ownership interest in the land on which the project is located or (ii) a leasehold interest in the land on which the project is located.
  - **(e) Ownership and use of the Common Elements**
    - The unit owners must be the sole owners of, and have the right to the use of, the common elements, including all buildings, roads, parking, facilities and amenities except as specified below.
    - A project with shared amenities is eligible if two or more HOAs share the amenities (such as recreational or fitness facilities, swimming pools and clubhouses) for the sole use of the unit owners, and the HOAs have an agreement specifying:
      - A description of the shared amenities and the terms of the unit owners' permitted use of the shared amenities
      - How the shared amenities will be funded, managed and maintained, and
      - The method for resolving disputes between the HOAs regarding the shared amenities
    - The developer must not retain any ownership interest in the common elements, facilities and amenities, except as unit owner. The common elements, including parking and amenities such as recreational facilities, must not be subject to a lease between the unit owners or the HOA (as lessee) and any other party (as lessor), with the exception of commercial leases for parking, or permit arrangements for parking, entered into with parties unrelated to the developer.

Continued on next page

Limited Review Process (Fannie Mae) / Streamlined Reviews (Freddie Mac), continued

Freddie Mac LPA, continued

Notes:

- The project's common elements, including amenities and limited common elements, must be consistent with the nature of the project and similar to competing condominium projects in the market area.
- **Financing of Limited Common Elements**
  - Limited common elements are portions of common elements reserved for use by one or more unit owners but not all unit owners. Limited common elements are defined in the project documents, and may include, but are not limited to, balconies or patios serving a single unit, assigned parking spaces or storage bins.
  - Limited common elements that are purchased as part of the condominium unit may be financed as part of the mortgage, and the cost of such limited common elements may be included when determining the sale price and loan-to-value (LTV) ratio.
  - Only limited common elements may be financed along with the condominium unit. Facilities serving the condominium unit which are made available to the condominium unit by a permit, license or lease (other than in a leasehold condominium), must not be financed as part of a mortgage, and the cost of the use of such facilities may not be included when determining the sale price and LTV ratio.

(f) Projects on Leasehold Estates

- If a condominium project is on a leasehold estate, the lease must comply with all lease requirements.

(g) The condominium unit must be located in an established condominium project, which is a condominium project in which:

- The condominium project (all condominium units, common elements and amenities) and related facilities owned by any master association are complete and not subject to any additional phasing
- With respect to unit ownership:
  - At least 90% of the total units in the project have been conveyed to the unit purchasers; or
  - If the project is a two- to four-unit condominium project, all units in the project have been conveyed to the unit purchasers; and
  - The unit owners control the homeowners association

(h) There are no manufactured homes in the condominium project

Continued on next page

Limited Review Process (Fannie Mae) / Streamlined Reviews (Freddie Mac), continued

Freddie Mac LPA, continued

(i) Maximum loan-to-value (LTV)/Total LTV (TLTV)/Home Equity Line of Credit TLTV (HTLTV) ratios

- The mortgage must not exceed the LTV/TLTV/HTLTV ratios for the occupancy type as indicated in the following chart:

Streamlined review for attached Condominium Units in Established Condominium Projects *NOT* Located in Florida	
Occupancy	**Maximum LTV/TLTV/HTLTV Ratios**
Primary Residence	90%
Second Home	75%
Investment Property	Not Eligible

Note: Attached units in established projects located in Florida are subject to more restrictive LTV ratio requirements under the Streamlined Review process. See the “Florida-Specific Condo Project Considerations” subtopic subsequently presented for additional information.

Notes:

- A condominium project containing a mix of attached and detached units is eligible for a streamlined review if it meets the requirements outlined in this section.
- If the requirements for streamlined reviews in this section are met, then the requirements for any of the other project review types are not applicable.

Continued on next page

Full Review Process (Fannie Mae) / Established Condominium Projects (Freddie Mac)

Non-AUS

- **Overview**
  The Full Review process is a method for the review of new and established condo projects. Lenders performing a Full Review must ensure that the project meets all applicable eligibility requirements.

- **Unit and Project Types Eligible for Full Review**
  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.

  Note: These projects may also be reviewed by Fannie Mae through the PERS process.

- **Full Review Eligibility Requirements**
  - When determining the eligibility of a condo project on the basis of a Full Review, lenders must ensure the condo project meets the eligibility requirements described in the following table.

✓	Full Review Eligibility Requirements
	The project meets the requirements applicable to all properties in a condo project described in the “Requirements Applicable to All Properties in a Condo Project” subsection previously presented.
	The project must not be an ineligible project. See the “Ineligible Projects” section above for additional information.
	The project must not be a manufactured housing project.
	No more than 15% of the total units in a project may be 60 days or more past due on common expense assessments (also known as HOA fees). For example, a 100–unit project may not have more than 15 units that are 60 days or more past due. This ratio is calculated by dividing the number of units with common expense assessments that are past due by 60 or more days by the total number of units in the project.

Continued on next page

Full Review Process (Fannie Mae) / Established Condominium Projects (Freddie Mac), continued

Non-AUS, continued

✓	Full Review Eligibility Requirements–
	Lenders must review the HOA projected budget to determine that it: • is adequate (i.e., it 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%, the lender must 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 on which the project does not rely for ongoing operations, 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. The lender may use a reserve study in lieu of calculating the replacement reserve of 10% provided the following conditions are met: • the lender obtains a copy of an acceptable reserve study and retains the study and the lender's analysis of the study in the project approval file, • the study demonstrates that the project has adequate funded reserves that provide financial protection for the project equivalent to Fannie Mae's 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 Fannie Mae's requirements for replacement reserve studies listed at the end of this section.
	For projects in which the units are not separately metered for utilities, the lender must: • determine that having multiple units on a single meter is common and customary in the local market where the project is located, and • confirm that the project budget includes adequate funding for utility payments.

Continued on next page

Full Review Process (Fannie Mae) / Established Condominium Projects (Freddie Mac), continued

Non-AUS, continued

✓	Full Review Eligibility Requirements
	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. 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: • a description of the shared amenities subject to the arrangement; • a description of the terms under which unit owners in the project may use the shared amenities; • provisions for the funding, management, and upkeep of the shared amenities; and • provisions to resolve conflicts between the associations over the amenities. Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools. 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.
	Fannie Mae permits the financing of a single or multiple parking space(s) with the mortgage provided that the parking space(s) and subject unit are included on one deed as evidenced on the legal description in the mortgage. In such cases, the LTV, TLTV, and HTLTV ratios are based on the combined value of the residential unit and the parking space(s).
	Phase I and II environmental hazard assessments are not required for condo projects unless the lender identifies an environmental problem through the performance of its project underwriting or due diligence. In the event that environmental problems are identified, the problems must be acceptable, as described in Fannie Mae's Exhibit E-2-02, Suggested Format for Phase I Environmental Hazard Assessments.

Continued on next page

Full Review Process (Fannie Mae) / Established Condominium Projects (Freddie Mac), continued

Non-AUS, continued

✓	Full Review Eligibility Requirements
	For investment property transactions in established projects, at least 50% of the total units in the project must be conveyed to primary residence or second home purchasers. This requirement does not apply if the subject mortgage is for a primary residence or second home. Financial institution-owned REO units that are for sale (not rented) are considered owner-occupied when calculating the 50% owner-occupancy ratio requirement.
	If the project was a gut rehabilitation project, all rehabilitation work involved in a condo conversion must have been completed in a professional manner. "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 are up to current code). For a conversion that was legally created during the past three years, the architect's or engineer's report (or functional equivalent), 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. **Note:** If the project is a newly converted non-gut rehabilitation project with more than four residential units, lenders must submit the project to Fannie Mae for review and approval. See "Project Eligibility Review Service (PERS)" for additional information.

- **Additional Requirements for Units in New and Newly Converted Condo Projects**
  - When performing a Full Review of new or newly converted condo projects, lenders must ensure compliance with the following additional requirements.

    Note: Projects consisting of units in new or newly converted projects in Florida must be reviewed by Fannie Mae through the PERS process.

Continued on next page

Full Review Process (Fannie Mae) / Established Condominium Projects (Freddie Mac), continued

Non-AUS, continued

✓	**Full Review Requirements – For Units in New or Newly Converted Condo Projects**
	The project, or the subject legal phase, must be "substantially complete" unless other completion arrangements have been approved by Fannie Mae through the PERS review process. There may not be more than one legal phase per building. "Substantially complete" means that: • a certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or subject phase; and • all the units and buildings in the legal phase in which the unit securing the mortgage is located are complete, subject to the installation of buyer selection items, such as appliances. **Note:** Fannie Mae does not require the installation of typical buyer selection items such as appliances, floor coverings, counter tops, or light fixtures that are common and customary for the market, although buyer selections that involve the modification of a unit floor plan must be complete. Lenders are expected to obtain appropriate documentation to verify that all buyer selection items for the unit being financed are properly installed prior to closing.
	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 primary 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 primary residence or second home purchasers. • For the purposes of this review process, 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.

Continued on next page

Full Review Process (Fannie Mae) / Established Condominium Projects (Freddie Mac), continued

Non-AUS, continued

✓	**Full Review Requirements – For Units in New or Newly Converted Condo 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, lenders must 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, lenders must determine that acceptable completion assurance 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 easily 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 or sponsor should provide for and promote the unit owners' early participation in the management of the project.
	The project must meet the condo project legal document requirements outlined in the "Condo Project Legal Document Review Requirements for Units in New or Newly Converted Projects" section subsequently presented in this document.

Continued on next page

Full Review Process (Fannie Mae) / Established Condominium Projects (Freddie Mac), continued

Non-AUS, continued

- **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. The lender may review the most current reserve study or a reserve study update provided it has been completed within three years of the date on which the lender 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.
  - While Fannie Mae does not require that a standard format be used for the reserve study, 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.

  Note: Individual states may have various statutes concerning the use and content of reserve studies. Fannie Mae requires that a reserve study used by the lender in its analysis meet or exceed requirements set forth in relevant state statutes.

Continued on next page

Full Review Process (Fannie Mae) / Established Condominium Projects (Freddie Mac), continued

Non-AUS, continued

- **Condo Project Legal Document Review Requirements for Units in New or Newly Converted Projects**
  - The table below provides Fannie Mae's requirements for the review of the condo project's legal documents for units in new and newly converted condo projects containing more than four residential units.

Condo Project Legal Document Review Requirements For Units in New or Newly Converted Condo Projects Containing More Than Four Residential Units	
Limitations on Ability to Sell/Right of First Refusal	Any right of first refusal in the condo project documents will not adversely impact the rights of a mortgagee or its assignee to: • foreclose or take title to a condo unit pursuant to the remedies in the mortgage, • accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor, or • sell or lease a unit acquired by the mortgagee or its assignee.
Rights of Condo Mortgagees and Guarantors	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: • any condemnation or casualty loss that affects either a material portion of the project or the unit securing its mortgage; • any 60-day delinquency in the payment of assessments or charges owed by the owner of any unit on which it holds the mortgage; • a lapse, cancellation, or material modification of any insurance policy maintained by the homeowners' association; and • any proposed action that requires the consent of a specified percentage of mortgagees.
First Mortgagee's Rights Confirmed	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.

Continued on next page

Full Review Process (Fannie Mae) / Established Condominium Projects (Freddie Mac), continued

Non-AUS, continued

Condo Project Legal Document Review Requirements For Units in New or Newly Converted Condo Projects Containing More Than Four Residential Units	
Amendments to Documents	Required provisions related to amendments to project documents are as follows: • 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. • 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. • 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.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- See the “Project Types” subtopic previously presented for the definition of an Established Condominium Project.

Continued on next page

Full Review Process (Fannie Mae) / Established Condominium Projects (Freddie Mac), continued

Freddie Mac LPA, continued

- If the mortgages secured by condominium units in Established Condominium Projects do not comply with the eligibility requirements for Streamlined Reviews, the mortgages must comply with all of the following requirements to be eligible for the Established Project Review type.

  (a) Ineligible Project
  - The project must not be an ineligible project. See the "Ineligible Projects" section above for additional information.

  (b) Project Insurance
  - The project must have insurance that complies with the applicable requirements (described in Section 2.01: Agency Loan Programs of the *Correspondent Seller Guide*).

  (c) Title Insurance
  - The condominium unit must be covered by a title insurance policy that complies with all applicable requirements. See Section 1.16: Title Insurance of the *Correspondent Seller Guide* for additional information.

  (d) Project Ownership
  - The unit owners must have either (i) an undivided ownership interest in the land on which the project is located or (ii) a leasehold interest in the land on which the project is located.

  (e) Ownership and use of the Common Elements
  - The unit owners must be the sole owners of, and have the right to the use of, the common elements, including all buildings, roads, parking, facilities and amenities except as specified below.
  - A project with shared amenities is eligible if two or more HOAs share the amenities (such as recreational or fitness facilities, swimming pools and clubhouses) for the sole use of the unit owners, and the HOAs have an agreement specifying:
    - A description of the shared amenities and the terms of the unit owners' permitted use of the shared amenities
    - How the shared amenities will be funded, managed and maintained, and
    - The method for resolving disputes between the HOAs regarding the shared amenities
  - The developer must not retain any ownership interest in the common elements, facilities and amenities, except as unit owner. The common elements, including parking and amenities such as recreational facilities, must not be subject to a lease between the unit owners or the HOA (as lessee) and any other party (as lessor), with the exception of commercial leases for parking, or permit arrangements for parking, entered into with parties unrelated to the developer.

Continued on next page

Full Review Process (Fannie Mae) / Established Condominium Projects (Freddie Mac), continued

Freddie Mac LPA, continued

Notes:

- The project's common elements, including amenities and limited common elements, must be consistent with the nature of the project and similar to competing condominium projects in the market area.
- **Financing of Limited Common Elements**
  - Limited common elements are portions of common elements reserved for use by one or more unit owners but not all unit owners. Limited common elements are defined in the project documents, and may include, but are not limited to, balconies or patios serving a single unit, assigned parking spaces or storage bins.
  - Limited common elements that are purchased as part of the condominium unit may be financed as part of the mortgage, and the cost of such limited common elements may be included when determining the sale price and loan-to-value (LTV) ratio.
  - Only limited common elements may be financed along with the condominium unit. Facilities serving the condominium unit which are made available to the condominium unit by a permit, license or lease (other than in a leasehold condominium), must not be financed as part of a mortgage, and the cost of the use of such facilities may not be included when determining the sale price and LTV ratio.

(f) Projects on Leasehold Estates

- If a condominium project is on a leasehold estate, the lease must comply with all lease requirements.

(g) Project completion requirements for Established Condominium Projects

- All units, common elements and amenities must be complete.

(h) There are no manufactured homes in the condominium project

(i) Owner-occupancy requirements for Established Condominium Projects

- If the property will be used as a primary residence or second home, there is no owner-occupancy requirement for the condominium project
- If the property will be used as an investment property:
  - at least 50% of the total number of condominium units in the condominium project (including two- to four-unit condominium projects comprised of two or four units) must have been conveyed to purchasers who occupy their units as a primary residence or second home
  - For two- to four unit condominium projects comprised of three units, all but one unit in the condominium project must have been conveyed to purchasers who occupy their units as a primary residence of second home

Continued on next page

Full Review Process (Fannie Mae) / Established Condominium Projects (Freddie Mac), continued

Freddie Mac LPA, continued

(j) Project budget requirements for Established Condominium Projects

- The project's budget must be consistent with the nature of the project and appropriate assessments must be established to manage the project
  - There must be appropriate allocations for line items pertinent to the type and status of the condominium project
  - There must be adequate funding for insurance deductible amounts
  - At least 10% of the budget must provide funding for replacement reserves for capital expenditures and deferred maintenance based on the project's age, estimated remaining life, and replacement cost of major common elements
    - The replacement reserve percentage is determined by dividing: (1) the annual budgeted replacement reserve allocation by (2) the HOA's annual budgeted assessment income (including regular common expense fees)
    - The calculation may exclude: (1) special assessment income, (2) income in reserve accounts, (3) incidental income not relied upon for maintenance operations or capital improvements and (4) amounts collected from unit owners (but usually paid individually by them) for items or utilities such as internet access
  - A lender may rely on a reserve study instead of the project budget providing a replacement reserve of at least 10%, provided the conditions in section (l) below are met
- Mortgages secured by condominium units in two- to four unit condominium projects are not required to comply with the requirements in this section.

(k) Delinquent assessments for Established Condominium Projects

- No more than 15% of the total number of units in a project are 60 or more days delinquent on the payment of their HOA assessments, or, if the project is a two- to four-unit condominium project, none of the units are 60 or more days delinquent in the payment of their HOA assessments.

(l) Requirements when a Lender relies on a project reserve study for Established Condominium Projects

- The reserve study must comply with the following requirements:
  - The reserve study generally must include:
    - An inventory of major components of the project
    - Financial analysis and evaluation of current reserve fund adequacy, and
    - Proposed annual reserve funding plan
  - A reserve study's financial analysis must validate that the project has appropriately allocated the recommended reserve funds to provide the condominium project with sufficient financial protection comparable to Freddie Mac's standard budget requirements for replacement reserves

Continued on next page

Full Review Process (Fannie Mae) / Established Condominium Projects (Freddie Mac), continued

Freddie Mac LPA, continued

- The reserve study's annual reserve funding plan, which details total costs identified for replacement components, must meet or exceed the study's recommendation and conclusion
  - The most current reserve study (or update) must be dated within 36 months of the lender's determination that a condominium project is eligible
- The reserve study must be prepared by an independent expert skilled in performing such studies (such as a reserve study professional, a construction engineer, a certified public accountant who specializes in reserve studies or any professional with demonstrated experience and knowledge in completing reserve studies)
- The reserve study must meet or exceed requirements set forth in any applicable state statutes
- The reserve study must comment favorably on the project's age, estimated remaining life, structural integrity and the replacement of major components

- If the lender relies on a reserve study that meets the requirements of this section, the project's budget must contain appropriate allocations to support the costs identified in the study.
- The lender must obtain and retain in the mortgage file a copy of the reserve study. The lender must also perform an analysis of the study and retain this analysis in the mortgage file.
- Mortgages secured by condominium units in two- to four unit condominium projects are not required to comply with the requirements in this section.

Note: If the requirements for Established Condominium Projects in this section are met, then the requirements for any of the other project review types are not applicable.

Continued on next page

New Condominium Projects

Non-AUS
See the following Fannie Mae project review methods previously presented for new condominium project requirements:
- Limited Review Process (Fannie Mae)
- Full Review Process (Fannie Mae)

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA
- See the “Project Types” subtopic previously presented for the definition of a New Condominium Project.
- Mortgages secured by condominium units in New Condominium Projects must comply with all of the following requirements.
  - **(a) Ineligible Project**
    - The project must not be an ineligible project. See the “Ineligible Projects” section above for additional information.
  - **(b) Project Insurance**
    - The project must have insurance that complies with the applicable requirements (described in Section 2.01: Agency Loan Programs of the *Correspondent Seller Guide*).
  - **(c) Title Insurance**
    - The condominium unit must be covered by a title insurance policy that complies with all applicable requirements. See Section 1.16: Title Insurance of the *Correspondent Seller Guide* for additional information.
  - **(d) Project Ownership**
    - When control of the homeowners association (HOA) will be turned over to the unit owners, the unit owners must have either (i) an undivided ownership interest in the land on which the project is located or (ii) a leasehold interest in the land on which the project is located.
  - **(e) Ownership and use of the Common Elements**
    - The unit owners must be the sole owners of, and have the right to the use of, the common elements, including all buildings, roads, parking, facilities and amenities except as specified below.
    - A project with shared amenities is eligible if two or more HOAs share the amenities (such as recreational or fitness facilities, swimming pools and clubhouses) for the sole use of the unit owners, and the HOAs have an agreement specifying:

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New Condominium Projects, continued

Freddie Mac LPA, continued

    - A description of the shared amenities and the terms of the unit owners' permitted use of the shared amenities
    - How the shared amenities will be funded, managed and maintained, and
    - The method for resolving disputes between the HOAs regarding the shared amenities
- The developer must not retain any ownership interest in the common elements, facilities and amenities, except as unit owner. The common elements, including parking and amenities such as recreational facilities, must not be subject to a lease between the unit owners or the HOA (as lessee) and any other party (as lessor), with the exception of commercial leases for parking, or permit arrangements for parking, entered into with parties unrelated to the developer.

Notes:
- The project's common elements, including amenities and limited common elements, must be consistent with the nature of the project and similar to competing condominium projects in the market area.
- **Financing of Limited Common Elements**
    - Limited common elements are portions of common elements reserved for use by one or more unit owners but not all unit owners. Limited common elements are defined in the project documents, and may include, but are not limited to, balconies or patios serving a single unit, assigned parking spaces or storage bins.
    - Limited common elements that are purchased as part of the condominium unit may be financed as part of the mortgage, and the cost of such limited common elements may be included when determining the sale price and loan-to-value (LTV) ratio.
    - Only limited common elements may be financed along with the condominium unit. Facilities serving the condominium unit which are made available to the condominium unit by a permit, license or lease (other than in a leasehold condominium), must not be financed as part of a mortgage, and the cost of the use of such facilities may not be included when determining the sale price and LTV ratio.

(f) Projects on Leasehold Estates
- If a condominium project is on a leasehold estate, the lease must comply with all lease requirements.

Continued on next page

New Condominium Projects, continued

Freddie Mac LPA, continued

(g) Project completion requirements

- The subject legal phase (or the subject building) and any prior legal phases in which units have been offered for sale are substantially complete, except as stated below for two- to four unit condominium projects. "Substantially complete" indicates that the common elements are complete and the units are complete subject to the selection of buyer preference items.
- For two- to four-unit condominium projects, all condominium units, common elements and amenities of the condominium project are complete and not subject to any additional phasing.

(h) No Manufactured Homes in the New Condominium Project

- There must not be any manufactured homes in the new condominium project.

(i) Owner-occupancy requirements for New Condominium Projects

- At least 50% of the total units in the project (or at least 50% of the sum of the subject legal phase and prior legal phases) must have been conveyed or must be under contract to purchasers who will occupy the units as their primary residences or second homes. For two- to four unit condominium projects, all condominium units, common elements and amenities of the condominium project are complete and not subject to any additional phasing.
- For the purpose of calculating owner-occupancy for this project review process, a single building can only have one legal phase regardless of whether the condominium project is comprised of that single building or multiple buildings. Legal phases are defined by the project documents. Construction phases developed for the convenience of the developer are not necessarily legal phases.

(j) Project budget requirement for New Condominium Projects

- The HOA assessments must begin once the developer has ceased to pay operating expenses attributable to the condominium project, whether or not all units have been sold. When any unit owner other than the developer pays assessments, the developer must pay the assessments attributable to the unsold units.
- The project's budget (or its projected budget if the project has not been turned over to the unit owners) must be consistent with the nature of the project and appropriate assessments must be established to manage the project.
  - There must be appropriate allocations for line items pertinent to the type and status of the condominium project
  - If the project was recently converted, the developer must have initially funded a working capital fund, through contributions made by the developer and/or purchasers of the condominium units, in an amount consistent with the estimated remaining life of the common elements
  - There must be adequate funding for insurance deductible amounts

Continued on next page

New Condominium Projects, continued

Freddie Mac LPA, continued

- At least 10% of the budget must provide funding for replacement reserves for capital expenditures and deferred maintenance based on the project's age, estimated remaining life and replacement cost of major common elements
    - The replacement reserve percentage is determined by dividing (1) the annual budgeted replacement reserve allocation by (2) the HOA's annual budgeted assessment income (including regular common expense fees)
    - The calculation may exclude: (1) special assessment income, (2) income in reserve accounts, (3) incidental income not relied upon for maintenance, operations or capital improvements and (4) amounts collected from unit owners (but usually paid individually by them) for items or utilities such as internet access
    - If the budget does not provide a replacement reserve of at least 10%, a lender may rely on either: (1) a reserve study, provided the condition of section (r) below are met; or (2) contributions to a working capital fund provided the conditions in section (s) below are met. These contributions can be in addition to or in lieu of any working capital fund contributions made by the developer in the case of a recent converted project.
- Mortgages secured by condominium units in two- to four unit condominium projects are not required to comply with the requirements in this section.

(k) Delinquent assessments for New Condominium Projects

- No more than 15% of the total number of units in a project are 60 or more days delinquent in the payment of their HOA assessments, or, if the project is a two- to four-unit condominium project, none of the units are 60 or more day delinquent in the payment of their HOA assessments.

(l) Compliance with laws

- The condominium project has been created and exists in full compliance with the applicable state law, the requirements of the jurisdiction in which the condominium project is located, and with all other applicable laws and regulations governing creation of the condominium project.

(m) Limitations on ability to sell/Right of first refusal

- Any right of first refusal in the project documents will not adversely impact the rights of a mortgagee or its assignee to:
    - Foreclose or take title to a condominium unit pursuant to the remedies in the mortgage
    - Accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor, or
    - Sell or lease a unit acquired by the mortgagee or its assignee
- Mortgages secured by condominium units in two- to four-unit condominium projects are not required to comply with the requirements in this section.

Continued on next page

New Condominium Projects, continued

Freddie Mac LPA, continued

(n) Conversions

- For a condominium project that was created by conversion of a building(s) with a prior use the following requirements must be met for the lender's review and determination of project eligibility:
  - For a conversion involving a non-gut rehabilitation of a prior use of the building that was legally created within the past five years, the engineer's report (or functionally equivalent documentation for jurisdictions that do not require an engineer's report) must state that the project is structurally sound, the condition and remaining useful life of the major project components are sufficient to meet the residential needs of the project, and that there is no evidence that any of these conditions have not been met. Major components include the roof, elevators and mechanical systems such as HVAC, plumbing and electricity.
  - All rehabilitation work involved in the conversion (Non-Gut Rehabilitation and Gut Rehabilitation) must be completed in a professional manner
  - A review of the engineer's report (or functionally equivalent document) is not required for conversions involving:
    - A Gut-Rehabilitation, and
    - A Non-Gut Rehabilitation if more than five years have elapsed since the legal creation of the project

Note: The definitions of a gut and non-Gut rehabilitation are as follows:

- **Gut Rehabilitation**: The rehabilitation of an existing building(s) to its shell. The rehabilitation involves all new mechanical equipment (such as heating, exhaust, insulation, roofing, plumbing and electrical). The renovations include new interiors, fixtures, appliances, and flooring for individual units and common areas.
- **Non-Gut Rehabilitation**: The rehabilitation of an existing building(s) that does not involve substantial rehabilitation of the building(s) or individual units or the substantial replacement of mechanical equipment

(o) Mortgagee consent

- The project documents or applicable state law must provide that amendments of a material adverse nature to first lien mortgagees be agreed to by mortgagees that represent at least 51% of the unit votes (based on one vote for each first mortgage owned) subject to first lien mortgages
- The project documents or applicable state law must provide that any action to terminate the legal status of the project or to use insurance proceeds for any purpose other than to rebuild, must be agreed to by first lien mortgagees that represent at least 51% of the unit votes (based on one vote for each first mortgage owned) that are subject to first lien mortgages

Continued on next page

New Condominium Projects, continued

Freddie Mac LPA, continued

- The project documents may allow implied approval to be assumed when the then current mortgagee of record fails to submit a response to any written proposal for an amendment within 60 days after the then current mortgagee of record actually receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a "return receipt" requested
- Mortgages secured by condominium units in two- to four-unit condominium projects are not required to comply with the requirements in this section.

(p) Rights of Condominium mortgagees and guarantors

- The project documents, applicable state law, or any applicable insurance policy must give the mortgagee and guarantor of the mortgage on any unit in a condominium project the right to timely written notice of:
  - Any condemnation or casualty loss that affects either a material portion of the condominium project or the unit securing its mortgage
  - Any 60-day delinquency in the payment of assessments or charges owed by the owner of any unit for which it holds the mortgage
  - A lapse, cancellation, or material reduction of any insurance policy maintained by the HOA
  - Any proposed action that requires the consent of a specified percentage of mortgagees
- Mortgages secured by condominium units in two- to four unit condominium projects are not required to comply with the requirements in this section.

(q) First mortgagee's rights confirmed

- The project documents must not give a condominium unit owner or any other party priority over any rights of the first mortgagee of the condominium unit pursuant to its mortgage in the case of payment to the unit owner of proceeds from termination, or insurance proceeds or condemnation awards for losses to or a taking of condominium units and/or common elements.
- Mortgages secured by condominium units in two- to four-unit condominium projects are not required to comply with the requirements in this section.

(r) Requirements when a Lender relies on a project reserve study for New Condominium Projects

- The reserve study must comply with the following requirements:
  - The reserve study generally must include:
    - An inventory of major components of the project
    - Financial analysis and evaluation of current reserve fund adequacy, and
    - Proposed annual reserve funding plan
  - A reserve study's financial analysis must validate that the project has appropriately allocated the recommended reserve funds to provide the condominium project with sufficient financial protection comparable to Freddie Mac's standard budget requirements for replacement reserves

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New Condominium Projects, continued

Freddie Mac LPA, continued

    - The reserve study's annual reserve funding plan, which details total costs identified for replacement components, must meet or exceed the study's recommendation and conclusion
    - The most current reserve study (or update) must be dated within 36 months of the lender's determination that a condominium project is eligible
    - The reserve study must be prepared by an independent expert skilled in performing such studies (such as a reserve study professional, a construction engineer, a certified public accountant who specializes in reserve studies, or any professional with demonstrated experience and knowledge in completing reserve studies)
    - The reserve study must meet or exceed requirements set forth in any applicable state statutes
    - The reserve study must comment favorably on the project's age, estimated remaining life, structural integrity and the replacement of major components
- If the lender relies on a reserve study that meets the requirements of this section, the project's budget must contain appropriate allocations to support the costs identified in the study.
- The lender must obtain and retain in the mortgage file a copy of the reserve study. The lender must also perform an analysis of the study and retain this analysis in the mortgage file.
- Mortgages secured by condominium units in two- to four-unit condominium projects are not required to comply with the requirements in this section.

(s) Requirements when a Lender relies on contributions to a working capital fund for New Condominium Projects

- The project documents require the purchaser of a condominium unit to pay a non-refundable and non-transferable assessment to a working capital fund which must be established for the periodic maintenance, repair and replacement of the common elements
- The assessment must be equal to a minimum of at least two months of the HOA fees attributable to the condominium unit and be due and payable at closing
- The developer is in control of the HOA

Note: If the requirements for New Condominium Projects in this section are met, then the requirements for any of the other project review types are not applicable.

Continued on next page

Detached Condos

Non-AUS
See "Waiver of Project Review" previously presented in this document for guidance.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- To be eligible for the Detached Condominium Project review type, a condominium unit mortgage must comply with the following eligibility requirements:
    - The condominium unit securing the condominium unit mortgage meets the definition of a detached condominium unit, which is a condominium unit that is completely detached from any other unit in a condominium project. A Detached Condominium Unit can be in a detached condominium project or in a condominium project that contains a mixture of attached, detached and/or semi detached units.
    - The condominium project must not include manufactured homes
    - If a condominium project is on a leasehold estate, the lease must comply with all lease requirements
    - The condominium project must have insurance that complies with the applicable requirements. See Section 2.01: Agency Loan Programs of the *Correspondent Seller Guide* for additional information.
    - The condominium unit must be covered by a title insurance policy that complies with all applicable requirements. See Section 1.16: Title Insurance of the *Correspondent Seller Guide* for additional information.
    - The Detached Condominium Project review type may not be used for a project review related to a mortgage secured by a condominium unit that is attached or semi detached regardless of whether the project also includes detached condominium units.

Note: If the requirements for Detached Condominium Projects in this section are met, then the requirements for any of the other project review types are not applicable.

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Florida-Specific Condo Project Considerations

Non-AUS

- **Florida - Attached Units in New and Newly Converted Condo Projects**
  PERS is required for new and newly converted condo projects consisting of attached units located in Florida. See the "Project Eligibility Review Service (PERS)" subtopic subsequently presented for additional information.

- **Florida - Project Review Maximum LTV Requirements for Attached Units in Established Projects**
  - The following table describes the maximum LTV ratios that are permitted for the specific project review type for loans secured by units in condo projects located in Florida. Unless noted otherwise, these requirements are based on the LTV ratio of the mortgage loan.

Florida — Attached Units in Established Condo Projects			
	Maximum LTV Ratios[1]		Maximum LTV, TLTV, and HTLTV Ratios[2]
	PERS Approved	Full Review	Limited Review
Primary Residence	95%	95%	75%/90%/90%
Second Home	90%	90%	70%/75%/75%
Investor	85%	85%	70%/75%/75%

[1] Refer to the Loan Terms section of the applicable first mortgage product description for the maximum allowable TLTV and HTLTV ratios.
[2] The TLTV and HTLTV ratios in this column align with the maximum TLTV and HTLTV ratios that are permitted for projects outside of Florida, as described in the Limited Review Process (Fannie Mae) section.

- **Special Approval Designation for Established Florida Condominium Projects**

Special Approval Designation Process for Established Condo Projects in Florida	
How it Works	Fannie Mae identifies an established project that met its eligibility requirements in the past, but now may not.
Types of Projects Eligible	Established condo projects in Florida that do not meet one or more of Fannie Mae's current eligibility requirements.
Eligible Transactions	Newly originated purchase transactions are permitted. Refinances are permitted for existing Fannie Mae-owned or -securitized mortgages under Fannie Mae's standard mortgage eligibility requirements.

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Florida Specific Condo Project Considerations, continued

Non-AUS, continued

- **Special Approval Designation for Established Florida Condominium Projects,** continued

Special Approval Designation Process for Established Condo Projects in Florida	
Length of Approval	Approvals are valid for periods ranging from 9 to 18 months. Lenders must confirm the project's Special Approval designation on the date of loan application in order for loans secured by units in the project to be eligible for delivery to Fannie Mae. The Special Approval designation expiration date can be adjusted, or the designation can be discontinued by Fannie Mae at any time.
Project Approval Availability	Approved projects are posted on Condo, Co-Op, and PUD Eligibility page on Fannie Mae's website in the Special Approval Designation section.
Project Type Code	Lenders must use project review code Type T–Fannie Mae Review.
Special Feature code	Special Feature Code 156 is required at delivery for mortgage loans that are secured by individual units in condominium projects with a Special Approval designation.

- **Waiver of Project Review Requirements**
  The above requirements do not apply if the transaction is eligible for a project review waiver. See "Waiver of Project Review" previously presented for additional information.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines, except as follows:

- The following table describes the maximum LTV ratios that are permitted for the specific project review type for loans secured by units in condo projects in Florida. Unless noted otherwise, these requirements are based on the LTV ratio of the mortgage loan.

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Florida Specific Condo Project Considerations, continued

Fannie Mae DU, continued

Florida — Attached Units in Established Condo Projects			
	Maximum LTV Ratios[1]		Maximum LTV, TLTV, and HTLTV Ratios[2]
	PERS Approved	Full Review	Limited Review
Primary Residence	97%	97%	75%/90%/90%
Second Home	90%	90%	70%/75%/75%
Investor	85%	85%	70%/75%/75%

[1] Refer to the Loan Terms section of the applicable first mortgage product description for the maximum allowable TLTV and HTLTV ratios.
[2] The TLTV and HTLTV ratios in this column align with the maximum TLTV and HTLTV ratios that are permitted for projects outside of Florida, as described in the Limited Review Process (Fannie Mae) section.

Freddie Mac LPA

- The following tables provide the maximum LTV requirements for established and new condominium projects, as well as, the review requirements:

Florida Condominium Units in Established Condominium Projects		
	Maximum LTV/TLTV/HTLTV	
	Streamlined Review	Full Review
Primary Residence	75%/90%/90%	No additional restrictions
Second Home	70%/75%/75%	No additional restrictions
Investment Property	Not Eligible	No additional restrictions

Florida Condominium Units in New Condominium Projects Maximum LTV Ratios			
	PERS Approved	Full Review	Limited Review
Primary Residence	95%	Not Eligible	
Second Home	85%		
Investment Property	85%		

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FHA-Approved Condo Review Eligibility

Non-AUS

- **Overview**
    - For conventional mortgage loans, Fannie Mae will accept delivery of mortgages in established projects on the FHA-approved list provided the approval was completed by FHA HUD Review and Approval Process (HRAP) rather than through an FHA Direct Endorsement Lender Review and Approval Process (DELRAP). FHA condo project approval is not acceptable for conventional mortgage loans secured by units in new or newly converted condo projects.
    - Lenders may search for FHA-approved condo projects by location, name, or project status online at HUD.gov.
    - Lenders must maintain copies of the FHA approval documentation in the loan file.

- **Project Requirements**
  For conventional mortgage loans, lenders must ensure that:
    - the project meets Fannie Mae's criteria to be considered an established project;
    - the project is not comprised of manufactured homes;
    - the project meets the requirements applicable to all properties in a condo project described in the "Requirements Applicable to All Properties in a Condo Project" subsection previously presented;
    - the project is not an ineligible project; and
    - any additional conditions noted by FHA have been met.

- **Document Retention**
  When lenders deliver mortgage loans secured by condo units in an FHA-approved project, lenders must retain the documentation as set forth in "Document Retention for Project Eligibility" previously presented.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Condominium project eligibility may not be determined on the basis of FHA project approval.

Continued on next page

Project Eligibility Review Service (PERS)

Non-AUS

- **Overview**
  - PERS is a review method available to lenders to submit new, newly converted, and established projects to Fannie Mae to determine eligibility. Some projects must be submitted to PERS while a PERS submission is optional for other projects, as shown in the following table:

Standard PERS Process	Streamlined PERS Process
Required for: • newly converted non-gut rehabilitation condo projects with attached units that contain more than four units, and • new and newly converted condo projects consisting of attached units located in Florida **Optional for:** all other new or newly converted condo projects, not listed above	**Optional for:** • established condo projects

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Project Eligibility Review Service (PERS), continued

Non-AUS, continued

- **Standard PERS Submission Process**
  The standard PERS submission process is as follows:

Step	Action
1.	The lender performs a review to determine if the project satisfies all applicable Fannie Mae project eligibility and underwriting requirements of the Full Review process prior to submission to PERS. See below for additional lender pre-PERS submission review requirements for newly converted non-gut rehabilitation condo projects.
2.	The lender completes a project submission package, that includes: • *Project Eligibility Review Service Document Checklist* (Form 1030), and • *Application for Project Approval* (Form 1026). See below for additional forms that may be required.
3.	The condo project's legal documents must comply with Fannie Mae's requirements. (See the "Condo Project Legal Document Review Requirements for Units in New or Newly Converted Projects" section above) • A qualified attorney engaged by the lender must review the condo project legal documents and determine that the documents are in compliance with Fannie Mae's requirements. • This determination must be documented by the attorney in writing but need not rise to the level of a formal, written legal opinion. The attorney may be the same person who prepared the legal documents or an attorney employed by the lender, but he or she cannot be an employee, principal, or officer of the developer or sponsor of the project. The lender must complete the *Warranty of Condominium Project Legal Documents* (Form 1054) and attach the attorney review as part of the PERS submission process.
4.	The lender submits the complete project package, including all relevant supporting documentation, via email using the PERS Project Submission mailbox.
5.	A member of the Project Standards team reviews the package to determine if the project is eligible for approval.
6.	Upon completion of the review, Fannie Mae issues its decision to the lender via email and posts approved projects on its website.
7.	Fannie Mae informs the lender of the specific review fee assessed for each PERS submission. Lenders are billed for PERS review fees in their "Monthly Technology Invoice." For fees, see the *Project Eligibility Review Service (PERS) Overview* on Fannie Mae's website.

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Project Eligibility Review Service (PERS), continued

Non-AUS, continued

- **Required Forms for Standard PERS Submission**
  - The Fannie Mae forms shown below are required for a standard PERS submission.

Form	Title	Description
1026	*Application for Project Approval*	Requires certification that the lender has "underwritten" the project; includes nonresidential space, common areas, sales plan, construction warranty, budget, builder/developer information, status of construction, environmental issues, resale restrictions, phasing, project management.
1029	*Warranty of Project Presales*	Requires lender certification of sales and presales information
1030	*Project Eligibility Review Service Document Checklist*	Checklist confirming all required documents have been provided (see below).
1051	*Project Development/Master Association Plan*	Requires lender certification of submitted information; includes master association and sub-association description and structure, common areas, title policy, master association budget, "as-built" survey or master plan.
1054	*Warranty of Condominium Project Legal Documents*	Requires lender certification of compliance with laws and Fannie Mae legal requirements.
1071	*Statement of Insurance and Fidelity Coverage*	Requires lender certification of all insurance requirements; addresses specific insurance types and clauses, and requires the lender to obtain and review all policies.
1073	*Individual Condominium Unit Appraisal*	Individual condominium appraisal report.
1073A	*Analysis of Annual Income and Expenses – Operating Budget*	Requires lender certification that the operating budget has been analyzed; detailed operating budget information to be completed by HOA and lender.
1081	*Final Certification of Substantial Project Completion*	Lender certification that project is substantially complete; lender to document any exceptions or uncompleted.

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Project Eligibility Review Service (PERS), continued

Non-AUS, continued

- The Form 1030 also requires that the lender submit the following project documentation to Fannie Mae with the PERS application:

✓	Project Documentation Required by Form 1030
	Prospectus, Public Offering Statement, or equivalent document
	Sample contract of sale
	Sample unit appraisal
	Phase 1 and/or Phase 2 Environmental Hazard Assessment (if underwriting analysis indicates any environmental concerns)
	Development plan, including marketing materials, unit floor plans, and pricing analysis
	Engineer's survey/property condition assessment with reserve analysis and developer's Schedule of Improvements (if the project is a conversion)
	Recorded plat map/site plan
	Budget prepared for the project
	Sales strategy from developer
	Letter from construction lender indicating loan is in good standing
	Photographs of subject project (include the site, improvements, recreation facilities, parking, and amenities) and comparable projects

- Fannie Mae reserves the right to request additional documentation it deems necessary to conduct a full review of the project.

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Project Eligibility Review Service (PERS), continued

Non-AUS, continued

- **Additional Requirements for Newly Converted Non-Gut Rehabilitation Condo Projects**
  - A non-gut rehabilitation refers to the renovation of a property that does not involve structural or functional changes, such as the replacement of all HVAC and electrical components. Rather, the rehabilitation might include, for example, the replacement of appliances and carpeting.
  - In order for a newly converted non-gut rehabilitation condo project to receive project approval through the standard PERS process, the project must comply with the following requirements:

✓	Lender Pre-PERS Submission Review Requirements – For Newly Converted Non-Gut Rehabilitation Condo Projects
	The project cannot be an ineligible project (as defined in the Ineligible Projects section above)
	The project must comply with all requirements of the Full Review and Full Review: Additional Eligibility Requirements for Units in New and Newly Converted Condo Projects
	All rehabilitation work involved in the condo conversion must have been completed in a professional manner.
	A current reserve study prepared by a qualified, independent professional company, accompanied by an engineer's report, or functional equivalent, must comment favorably on the structural integrity of the project and the remaining useful life of the major project components.
	The project budget must contain line items for: • reserves to adequately support the costs identified in the reserve study, and • a utility contingency of at least 10% of the previous year's utility costs if the utilities are not separately metered.
	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 reserve account of the HOA, in addition to the amount stated immediately above.
	The developer must provide a detailed description of the work proposed or already completed in order for the project units to be ready for sale.
	Generally, at least 50% of the total condo units in the project or subject legal phase must have been conveyed or be under contract for purchase to primary residence or second home purchasers.
	Up to 30% of the units in projects that are subject to rent regulations, which protect tenants from eviction (if they have chosen not to purchase their unit), will be permitted.
	Phasing of projects (single building or multiple buildings) will be considered on a project basis.
	The project sponsor or developer must provide a comprehensive sales and marketing strategy.
	All projects are subject to a site inspection.

Continued on next page

Project Eligibility Review Service (PERS), continued

Non-AUS, continued

- **Streamlined PERS Submission Process – For Established Projects**
  - The streamlined PERS submission process for established condo projects is as follows:

Step	Action
1.	The lender performs a basic review to determine if the project satisfies all applicable Fannie Mae project eligibility and underwriting requirements prior to submission to PERS.
2.	The lender completes a project submission package, which includes: • *Application for Approval of Established Project* (Form 1091). • Condominium homeowners' association questionnaire completed within the past 180 days. • An appraisal report for a representative unit in the project. This report must be prepared within 120 days of the PERS application, and include photographs of the project, private streets, recreational amenities, parking, commercial space, and common areas. • Current fiscal year's approved operating budget that reflects homeowners' association income and expenses. • Reserve study completed within the past 24 months (only required for projects that are not funding a minimum of a 10% dedicated expense allocation in the budget to a replacement reserve for the future repair/replacement of the project's major components).
3.	The lender submits the complete project package, including all relevant supporting documentation, via email using the PERS Project Submission mailbox.
4.	A member of the Project Standards team reviews the package to determine if the project is eligible for approval.
5.	Upon completion of the review, Fannie Mae issues its decision to the lender via email and posts approved projects on its website.
6.	Fannie Mae informs the lender of the specific review fee assessed for each PERS submission. Lenders are billed for PERS review fees in their "Monthly Technology Invoice." For fees, see the *Project Eligibility Review Service (PERS) Overview* on Fannie Mae's website.

  - Fannie Mae reserves the right to request additional documentation it deems necessary to conduct a full review of the project.

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Project Eligibility Review Service (PERS), continued

Non-AUS, continued

- **Approval Designations**
  - Upon completion of its review, Fannie Mae will issue one of the following project approval designations:
    - Conditional Project Approval,
    - Final Project Approval,
    - Ineligible, or
    - Suspension of the Application.
  - Loans delivered with a PERS review must have a valid Fannie Mae Final Project Approval prior to delivery. Loans may not be delivered under the Conditional Project Approval, Ineligible, or Suspension of the Application designations.
- **Availability of Project Information**
  Lenders submitting projects to PERS must ensure that the developer, builder, management company, and/or HOA will provide project information to Fannie Mae as and when requested without charge. In the event the requested information is not provided, Fannie Mae reserves the right to withdraw the PERS approval.

- **Decision Expiration Dates**
  - Conditional Project Approval: expires 9 months from the date of issue.
  - Final Project Approval: expires 18 months from the date of issue.

    Note: Fannie Mae, in some instances and in its sole discretion, may set a shorter or longer expiration term.

  - For information on requesting an extension, see the *Project Eligibility Review Service (PERS) Overview* on Fannie Mae's website.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines.

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Project Eligibility Review Service (PERS), continued

Freddie Mac LPA

Follow LP requirements, which are as the same as non-AUS and DU guidelines. The following additional requirements apply:

- With the exception of mortgages secured by units in condominium projects that receive Fannie Mae Project Eligibility Review Service (PERS) Conditional Approval designations, mortgages secured by 1-unit residential dwellings in condominium projects that Fannie Mae has approved through a Final Project Approval through PERS are acceptable if:
  - As of the Settlement Date:
    - The project complies with all applicable Fannie Mae eligibility requirements and lender warranties
    - Any terms and conditions set forth in the acceptance have not expired, and have not been rescinded or modified in any way
    - The mortgage file contains documentation of Fannie Mae's approval (e.g. a copy of the appropriate web page showing that the condominium project has received a Fannie Mae PERS Final Project Approval (1028/PERS)
    - The condominium project complies with the project eligibility requirements below:

      (a) Ineligible Project
      - The project must not be an ineligible project. See the "Ineligible Projects" section above for additional information.

      (b) Project Insurance
      - The project must have insurance that complies with the applicable requirements (described in Section 2.01: Agency Loan Programs of the *Correspondent Seller Guide*).

      (c) Title Insurance
      - The Condominium Unit must be covered by a title insurance policy that complies with all applicable requirements. See Section 1.16: Title Insurance of the *Correspondent Seller Guide* for additional information.

      (d) Project Ownership
      - When control of the homeowners association (HOA) has been or will be turned over to the unit owners, the unit owners must have either (i) an undivided ownership interest in the land on which the project is located or (ii) a leasehold interest in the land on which the project is located.

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Project Eligibility Review Service (PERS), continued

Freddie Mac LPA, continued

(e) Ownership and use of the Common Elements

- The unit owners must be the sole owners of, and have the right to the use of, the common elements, including all buildings, roads, parking, facilities and amenities except as specified below.
- A project with shared amenities is eligible if two or more HOAs share the amenities (such as recreational or fitness facilities, swimming pools and clubhouses) for the sole use of the unit owners, and the HOAs have an agreement specifying:
    - A description of the shared amenities and the terms of the unit owners' permitted use of the shared amenities
    - How the shared amenities will be funded, managed and maintained, and
    - The method for resolving disputes between the HOAs regarding the shared amenities
- The developer must not retain any ownership interest in the common elements, facilities and amenities, except as unit owner. The common elements, including parking and amenities such as recreational facilities, must not be subject to a lease between the unit owners or the HOA (as lessee) and any other party (as lessor), with the exception of commercial leases for parking, or permit arrangements for parking, entered into with parties unrelated to the developer.

Notes:

- The project's common elements, including amenities and limited common elements, must be consistent with the nature of the project and similar to competing condominium projects in the market area.
- **Financing of Limited Common Elements**
    - Limited common elements are portions of common elements reserved for use by one or more unit owners but not all unit owners. Limited common elements are defined in the project documents, and may include, but are not limited to, balconies or patios serving a single unit, assigned parking spaces or storage bins.
    - Limited common elements that are purchased as part of the condominium unit may be financed as part of the mortgage, and the cost of such limited common elements may be included when determining the sale price and loan-to-value (LTV) ratio.
    - Only limited common elements may be financed along with the condominium unit. Facilities serving the condominium unit which are made available to the condominium unit by a permit, license or lease (other than in a leasehold condominium), must not be financed as part of a mortgage, and the cost of the use of such facilities may not be included when determining the sale price and LTV ratio.

(f) Projects on Leasehold Estates

- If a condominium project is on a leasehold estate, the lease must comply with all lease requirements.

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Projects with Special Considerations and Project Eligibility Waivers (Fannie Mae ONLY)

- **Projects with Special Considerations**
  - Lenders may identify projects that merit special consideration even though the project characteristics do not meet all of the Fannie Mae eligibility requirements. In these instances, the SunTrust Condominium Department or the Lenders can contact the Fannie Mae Project Standards team to discuss the possibility of accepting such projects. Exceptions to Fannie Mae eligibility and underwriting requirements are considered on a project-by-project basis.
- **Project Eligibility Waivers**
  - Fannie Mae's Project Standards team will determine if a single loan project eligibility waiver is warranted. Fannie Mae charges a nonrefundable $200 review fee for each waiver request. A higher review fee may be charged based on the complexity of the waiver review.

    Note: Project eligibility waivers are typically issued only for established projects, though Fannie Mae at its sole discretion reserves the right to allow this type of waiver for a unit in a new project on a case-by-case basis. New or newly converted projects must be reviewed for eligibility through an eligible lender review process or by Fannie Mae through the PERS submission process. Lenders must not request a project eligibility waiver for a unit in a new project to circumvent the required review for new projects.

Reciprocal Project Reviews (Freddie Mac)

Freddie Mac will purchase mortgages secured by 1-unit residential dwellings in condominium projects that Fannie Mae has approved through Final Project Approval through PERS. See the "Project Eligibility Review Service (PERS") subtopic previously presented in this document for requirements that apply.

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Eligibility Requirements for Units in PUD Projects

Non-AUS

- **PUD Project Definition**
  - 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 for the purposes of these guidelines, 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.
  - Fannie Mae classifies PUD projects as either:
    - Type E—established PUD projects in which the developer has turned over voting control of the HOA to the unit purchasers.
    - Type F—new PUD projects in which the developer has not turned over voting control of the HOA to the unit purchasers.
  - When delivering a loan for a unit located in a project, the lender must provide the Project Type Code shown in the following table.

Project Type Code	Description
E	Established PUD project
F	New PUD project

  - PUD projects are not eligible for review using the PERS process.
  - **PUD Project the contains single-wide manufactured homes**: SunTrust does not lend on single-wide manufactured homes regardless of the project's Fannie Mae approval status.

- **Eligibility Requirements for Units in PUD Projects**
  - Lenders must determine that the PUD project and subject unit meet the requirements described below for all properties in a PUD project.

- **Requirements Applicable to All Properties in a PUD Project**
  - All mortgages secured by units in PUD projects must comply with the following:
    - property eligibility requirements;
    - priority of common expense assessments (See the "Priority of Common Expense Assessments" guidance previously presented in this document for additional guidance);

Continued on next page

Eligibility Requirements for Units in PUD Projects, continued

Non-AUS, continued

- when an appraisal of the property is obtained, it must meet all applicable appraisal requirements (described in the eligible first mortgage product description and Section 1.07: Appraisal Guidelines of the *Correspondent Seller Guide*); and
- insurance requirements (described in Section 2.01: Agency Loan Programs of the *Correspondent Seller Guide)*.

Note: Any unit located in a condo project within a larger PUD project or master association must meet the applicable requirements for condo projects.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS guidelines. The following additional guidance applies:

- **Project Review Requirements for DU Refi Plus Loans**
  - Project review requirements are waived for DU Refi Plus ST to ST loans secured by units in a PUD project. For non ST to ST transactions, a PUD review/warranty is required on attached PUDs. See the "DU Refi Plus Specific Guidelines and Workflow" subtopic subsequently outlined in this document for additional guidance.
  - For established PUD projects, Project Type Code E must be delivered on all DU Refi Plus mortgage loans secured by a property in a PUD project (regardless of review).

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **PUD Definition**
  - A Planned Unit Development is a real estate project in which each unit owner holds title to a lot and the improvements on the lot, and the homeowners association holds title to the Common Elements. The unit owners have a right to the use of the Common Elements, and pay a fee to the homeowners association to maintain the Common Elements for their benefit.
- **PUD and Homeowners Association**
  - When reviewing a PUD to determine if it meets the requirements in this section, lenders must consider all units and spaces that the Homeowners Association holds title to or has insured. A Homeowners Association is comprised of unit owners that maintain the Common Elements in a PUD for the benefit of the unit owners. In PUDs, the Homeowners Association owns the Common Elements, and maintains them for the benefit of the unit owners.
- **Condominium Units in PUDs**
  - If a condominium unit is located in a PUD, the lender must comply with the condominium requirements and warranties presented in this document and the PUD requirements and warranties outlined in this section.
- **Leasehold Estates**
  - If the PUD unit or any PUD Common Element is on a leasehold estate, the lender must comply with the leasehold estate requirements in Section 2.01 Agency Loan Programs of the *Correspondent Seller Guide*.
- **Insurance**
  - PUDs must meet the insurance requirements as detailed in the project insurance guidelines presented in Section 2.01 Agency Loan Programs of the *Correspondent Seller Guide*.

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Insurance Requirements

Reference: See the "Property and Flood Insurance" topic outlined in Section 2.01 Agency Loan Programs of the *Correspondent Seller Guide* for hazard and flood insurance for Agency loan programs.

Workflow and Procedures for Obtaining Condominium Warranties via the SunTrust Condominium Department

Condominium

- Submit your request to the address below (Loans must be registered prior to submission):

  SunTrust Central Condominium Department
  7818 E. Parham Road – 2nd Floor
  Henrico, VA 23294

  E-mail submissions: mortgage.condodesk@suntrust.com

- The submission package must contain a completed Submission Request Form *SunTrust Condominium/PUD Approval Request* (COR 0215) along with appropriate documentation.

  Notes:
  - Condominium conversions and new construction projects may require additional documentation upon review.
  - SunTrust will NOT accept documents on disks due to virus risks.

- The turn time for condominium project reviews is five (5) business days from the time ALL required documents are received at the above address.
  - Incomplete full condominium project review requests will not be processed. Upon receipt of an incomplete submission, the lender will be notified via email of the receipt of the submission and will be provided with a listing of missing or unacceptable documentation.
  - The lender will have ten (10) business days from the date of the email to provide the requested documentation.
  - If all requested documentation is not provided within ten (10) business days, the submission will be considered voluntarily withdrawn.
  - Rush requests due to incomplete submissions will not be considered.
  - The executed version of the *Certification of Project Compliance: Condominium Lender Warranties – Agency and Non-Agency Loan Products* (COR 0212a) will be returned to Lender. A copy must be placed in the loan file.

  Note: To contact the SunTrust Condominium Department, send an email to mortgage.condodesk@suntrust.com or call the toll free number (800) 382-2111.

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Workflow and Procedures for Obtaining Condominium Warranties via the SunTrust Condominium Department, continued

PERS Review

- Submit your request to the address below (Loans must be registered prior to submission):

  SunTrust Central Condominium Department
  7818 E. Parham Road – 2nd Floor
  Henrico, VA 23294

  E-mail submissions: mortgage.condodesk@suntrust.com

- The submission package must include:
  - A completed Submission Request Form *SunTrust Condominium PERS Approval Request* (COR 1433), along with appropriate documentation.
  - A check from the Builder/Developer made payable to SunTrust.
  - A non-refundable review fee of $2500 plus thirty dollars ($30) per condominium unit in the project (or legal phase) will be required upfront in order to complete the PERS review.
    - The required fee does not guarantee project approval and will be charged regardless of the final decision.
    - PERS submissions for new and newly converted (gut and non-gut) condominium projects consisting of attached units located in the State of Florida may be completed on a phase basis and fees will be assessed accordingly on a per unit basis within the phase being submitted for approval. Additional fees will be charged accordingly.
- Allow sufficient time for the SunTrust Condominium Department to work with the Builder/Developer in order to ensure accuracy and completeness prior to submission to Fannie Mae.

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Workflow and Procedures for Obtaining Condominium Warranties via the SunTrust Condominium Department, continued

DU Refi Plus Specific Guidelines and Workflow

- SunTrust requires an abbreviated project review by the delegated lender or by the SunTrust Condominium Department (if we underwrite the DU Refi Plus loan) to ensure that the property is not a condotel, not in a houseboat project or in a timeshare or segmented ownership project, and that all required insurance is in place. The scope of the condominium project review is limited to these items only. No additional project review (including review of original project approval decision) will be required.
- Reviews are not required for DU Refi Plus™ ST to ST Transactions on attached PUDs.
- Confirmation of Fidelity Insurance is not required.
- Submit your request to the address below (Loans must be registered prior to submission):

  SunTrust Central Condominium Department
  7818 E. Parham Road – 2nd Floor
  Henrico, VA 23294

  E-mail submissions: mortgage.condodesk@suntrust.com

  OR via email to mortgage.condodesk@suntrust.com*(include DU Refi Plus Review request in the subject line).

- The submission package must contain a completed Submission Request Form *SunTrust Condominium/PUD Approval Request* (COR 0215) along with appropriate documentation,
- Requests will be responded to within 24-48 hours of receipt of the complete submission.
- The Correspondent lender will receive a completed *Certification of Project Compliance: Condominium/PUD Lender Warranties-Agency and Non-Agency Loan Products Warranty Form* (COR 0212a) signed by an authorized Condo Analyst (marked DU Refi Plus Certified), which must be placed in your file on top of the appraisal.

FHA Condominium Project Approval Requirements

General Information

Direct Endorsement Lenders are required to meet HUD requirements for condominium project approval as outlined in the 4000.1 Handbook, the Condominium Project Approval Processing Guide, and any applicable CFR regulations.

Reference: See Section 2.22 FHA 203(b) Loan Program for additional guidance on condominium project approval requirements.

Key

Condominium

- When applicable, warranties must be approved by the SunTrust Condominium Department after a thorough review of all project documentation.
  - Gut condominium conversions must be submitted to the SunTrust Condominium Department in Richmond for a centralized review.
- The required minimum square footage for condominiums is 600 square feet.

  Note: Condominium units less than the 600 square foot minimum will be considered on a case by case basis in urban areas where similar units are readily marketable. The appraisal must include comparables supporting market acceptance. Units less than 600, should be reviewed in detail to ensure that the project is a condominium versus a condotel.

- FHA approved condominium projects that do not meet our standard Portfolio (Key) condominium requirements are not eligible transactions.
- To contact the SunTrust Condominium Department, send an e-mail to mortgage.condodesk@suntrust.com or call the toll-free number (800) 382-2111.
- Definition of a Condominium:
  - A condominium is a real estate project in which each unit owner has title to a unit in a building, an undivided interest in the common areas of the project, and sometimes the exclusive use of certain limited common areas.
  - A condominium unit is a one (1) unit dwelling located in a condominium project.
- Definition of a Condotel:
  - A project with any one or more of the following characteristics is considered to be a condotel:
    - rental pooling agreements, either mandatory or voluntary, that allow or require the unit owners to either rent their units or to give a management firm control over the occupancy of the units,
    - maid service,
    - room service,
    - shared revenue,

      Note: Shared revenue equals total income from rental of all the units in the condominium (condotel) the total amount of expenses then divided by percentage interest. In short, units are rented by the management company on site, money collected on site and expenses subtracted including the HOA fee, then at the end of the year all money is divided. If shared revenue exists, then the property is considered a condotel. The revenues are produced from the rental pool, some are mandatory rentals others are voluntary.

    - units that do not contain full-sized kitchen appliances,
    - nightly/daily occupancy units (in conjunction with one of the other characteristics outlined in this section),
    - marketed as a hotel including, but not limited to, projects with units that are available to be rented on a daily basis or projects with names that include the words “hotel,” “resort,” “motel,” “inn,” or “lodge,”

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Condominium, continued

- advertising of rental rates,
- zoned commercial/residential,
- reservation services desk, if not part of commercial space,
- declarant control of the condotel exceeds 10 years,
- central key systems,
- franchise agreements,
- units that are marketed for sale based on the availability of short term rental rates,
- a significant level of hotel-type services,
- may restrict the owner's ability to occupy the unit,
- restrictions on interior decorating,
- non-incidental business operations owned or operated by the owner's association such as, but not limited to, a restaurant, and
- interconnecting phone system.
- The appraisal report may identify project characteristics that do not definitively determine whether or not the project is a condominium hotel or condotel; however, it may provide evidence that would require additional research to be performed. These project characteristics include, but are not limited to:
  - location of the project in a resort area,
  - project converted from a hotel or motel, and
  - the occupancy of the project (the project may have few or even no owner occupants).

Note: SunTrust does not currently offer financing for condominium hotel or condotel properties.

- **Non-Warrantable Condominium**
  SunTrust does not offer financing for non-warrantable condominiums.

- **Warrantable Condominium**
  - A warrantable condominium meets standard Agency (Fannie Mae and Freddie Mac) guidelines) and is therefore eligible.
  - Guidelines for warrantable condominiums are subsequently outlined in this document.

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Condominium and PUD Insurance Requirements

- Fidelity insurance is not required on PUD projects.
- SunTrust requires Fidelity Insurance for condominium projects containing 21 or more units.
- In those states that have statutory fidelity insurance requirements, SunTrust will accept the state fidelity insurance requirements in lieu of the coverage required by SunTrust.
- The owners' association must have blanket fidelity insurance coverage for anyone who either handles (or is responsible for) funds that it holds or administers, whether or not that individual receives compensation for services.
- The insurance policy should name the owners' association as the insured and the premiums should be paid as a common expense by the association.
- The policy for a condominium project must include a provision that calls for ten days' written notice to the owners' association before the policy can be cancelled or substantially modified for any reason. A management agent that handles funds for the owners' association should be covered by its own fidelity insurance policy, which must provide the same coverage required by the owners' association.
- The fidelity insurance policy should cover the maximum funds that will be in the custody of the owners' association or its management agent at any time while the policy is in force. A lesser amount of fidelity insurance coverage is acceptable for a project if the project's legal documents require the owners' association and any management company to adhere to certain financial controls. Even then, the fidelity insurance coverage must at least equal the sum of three months of assessments on all units in the project.
- Reduced fidelity insurance coverage based on greater financial controls may be accepted only when the financial controls take one or more of the following forms:
    - the owners' association or the management company maintains separate bank accounts for the working account and the reserve account, each with appropriate access controls, and the bank in which funds are deposited sends copies of the monthly bank statements directly to the owner's association,
    - the management company maintains separate records and bank accounts for each owners' association that uses its services and the management company does not have the authority to draw checks on (or to transfer funds from) the owners' association's reserve account, or
    - two members of the Board of Directors must sign any checks written on the reserve account.
- **HO-6 Insurance Coverage**
    - When all of the unit components, including any betterments and improvements, are not already covered by the association's master insurance policy, the borrower must obtain an individual HO-6 policy that provides coverage sufficient to repair the condo unit to its condition prior to a loss claim event. The insurer, an appraiser, architect, engineer, or a licensed contractor, determines in writing the amount of required coverage.
    - The establishment of an escrow for the condominium HO-6 insurance is preferred but not mandatory. Escrows may be waived under the standard escrow waiver procedures.

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Condominium and PUD Insurance Requirements, continued

- **Liability Insurance**
  - Verification of liability insurance coverage is required for all condominium projects and attached units in PUD projects.
  - The owner's association must maintain a commercial general liability insurance policy for the entire project, including all common areas and elements, public ways, and any other areas that are under its supervision. This insurance should also cover commercial spaces that are owned by the owners' association, even if they are leased to others. The commercial general liability insurance policy should provide coverage for bodily injury and property damage that results from the operation, maintenance, or use of the project's common areas and elements
  - The amount of coverage should be at least $1 million for bodily injury and property damage for any single occurrence and the owners' association must be the named insured.
  - If the policy does not include "severability of interest" in its terms, a specific endorsement is required to preclude the insurer's denial of a unit owner's claim because of negligent acts of the owners' association or of other unit owners.
  - The policy should provide for at least ten days' written notice to the owners' association before the insurer can cancel or substantially modify it. For condominium projects, similar notice must also be given to each holder of a first mortgage on an individual unit in the project.
- **Master Insurance**
  - The following insurance is not permitted for transactions secured by condominium units:
    - A blanket master insurance policy that covers multiple unaffiliated condominiums or associations of projects, or
    - A master insurance policy that is a self-insurance arrangement whereby the owners' association is self-insured or has banded together with other unaffiliated associations to self-insure all of the general and limited common areas.
- **Title Insurance**
  See Correspondent Section 1.16: Title Insurance.

CPM Expedited Review and Condominium Project Manager (CPM)

SunTrust will accept condominium projects approved through Fannie Mae's Condominium Project Manager (CPM). All CPM approvals must be obtained through the SunTrust Condominium Department. A full review of all relevant project documentation is required.

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Ineligible Projects

- Ineligible projects include the following:
  - condominium hotels (i.e., condotels),

    Note: The appraiser must provide certification in the appraisal report that the condominium project is not a condotel.

  - hotel or motel conversions (or conversions of other similar transient properties),
  - new condominium projects that contain one or more units with less than 400 square feet of space must have received Fannie Mae approval through their Project Eligibility Review Service (PERS).
  - cooperative projects,
  - timeshare or segmented ownership projects,
  - houseboat projects,
  - multi-dwelling unit condominiums,
  - condominium projects that represent a legal, but 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,
  - any project for which the homeowners' association is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project.

    Notes:
    - Projects for which the lender determines that pending litigation involves minor matters are not considered ineligible projects, provided the lender concludes that the pending litigation has no impact on the safety, structural soundness, habitability, or functional use of the project. The following are defined to be minor matters:
      - non-monetary litigation involving neighbor disputes or rights of quiet enjoyment,
      - litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the association's insurance, or
      - the homeowners' association is named as the plaintiff in a foreclosure action, or as **a plaintiff in an action for past due homeowners' association dues.**
    - Additional documentation to substantiate that pending litigation is minor in nature could be required by the SunTrust Condominium Department.

  - condominium projects with recreational leases,
  - investment securities,
  - common interest apartments or community apartment projects,

Continued on next page

Ineligible Projects, continued

- New projects where the seller is offering sales/financing structures in excess SunTrust's eligibility policies.
  - This includes but is not limited to special incentives to purchase (i.e., paid HOA fess, Club memberships, automobiles, principal and interest abatements and/or builder/developer contributions not disclosed on the settlement statement.)
- Projects that utilize more than twenty percent (20%) of total space for non-residential purposes.
- Projects where a single entity (the same individual, investor group, partnership, or corporation) owns more than ten percent (10%) of the total number of units in the project.
- Condominium projects located in states where more than six months of unpaid regular association common expense assessments may have priority over the mortgage lien, unless the applicable law providing for greater than six months priority was enacted on or before January 14, 2014.
- The following types of projects are ineligible unless the project has current Fannie Mae approval through their PERS process:
  - Newly converted, non-gut rehabilitation condominium projects

Limited Project Reviews

- A loan secured by a condominium unit may qualify for a Limited Project Review based on the LTV and occupancy characteristics of the loan.

  Note: All condominiums which are eligible to be warranted to the Limited Project Review Process must be submitted to the SunTrust Condominium Department for approval. Use Submission form (COR 0215).

- The Limited Project Review Process is intended to be used as a "spot loan" basis and must not be used to deliver multiple mortgages within the same condominium project.

  Note: Attached units in new condominium projects and investment properties are not eligible for the Limited Project Review Process.

- Limited Project Review eligibility criteria differ depending on the following:
  - whether the loan is secured by an attached condominium unit, and
  - whether the loan is secured by a detached condominium unit.
- As a result of the eligibility criteria outlined above, the following two (2) Limited Project Review processes exist:
  - Limited Project Review for Attached Condominium Units, and
  - Limited Project Review for Detached Condominium Units.

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Limited Project Reviews, continued

- **Limited Project Review for Attached Condominium Units**
  - Eligibility criteria for attached condominium units warranted under the Limited Project Review process are outlined in the table below.
  - For all attached condominium units, the *Certification of Project Compliance: Condominium/PUD Lender Warranties – Agency and Non-Agency Loan Products* (COR 0212a) must be completed by the SunTrust Condominium Department and placed in the loan file certifying that the eligibility criteria for the Limited Project Review process have been met.

<table>
<tr><th>Item</th><th>Eligibility Criteria</th></tr>
<tr><td>1</td><td>The maximum LTV/TLTV ratios are as follows:
<table><tr><th>Occupancy</th><th>DU “Approve/Eligible” Transactions</th><th>Traditionally Underwritten Transactions</th></tr><tr><td>Primary Residence</td><td>N/A</td><td>75%</td></tr><tr><td>Second Home</td><td>N/A</td><td>70%</td></tr><tr><td>Investment Property</td><td>N/A</td><td>N/A</td></tr></table></td></tr>
<tr><td>2</td><td>The project is not an ineligible project.

Reference: See Ineligible Projects subtopic previously presented in this topic for a listing of ineligible projects.</td></tr>
<tr><td>3</td><td>The mortgage is not secured by a manufactured home.</td></tr>
<tr><td>4</td><td>The units, common areas, and facilities must be 100% complete.

Note: The project must meet the definition of an established project.

Reference: See the General Information subtopic previously presented for the definition of an established project.</td></tr>
<tr><td>5</td><td>The project is covered by the required hazard, flood (if applicable), liability and fidelity insurance.

Reference: See the Condo and PUD Insurance Requirements topic previously presented for additional information.</td></tr>
</table>

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Limited Project Reviews, continued

- **Limited Project Review for Detached Condominium Units**
  - Eligibility criteria for detached condominium units warranted under the Limited Project Review process are outlined in the table below.
  - For all detached condominium units, the *Certification of Project Compliance: Condominium/PUD Lender Warranties – Agency and Non-Agency Loan Products* (COR 212a) must be completed by the SunTrust Condominium Department and placed in the loan file certifying that the eligibility criteria for the Limited Project Review process have been met.

Item	Eligibility Criteria
1	The project is not an ineligible project.
2	The mortgage is secured by a single-family detached unit in the condominium project and is not a manufactured home.
3	The subject condominium unit is occupied as the owner's primary residence or second home.
4	The appraiser commented on, and reflected in the appraisal report, any effect that buyer resistance to the condominium form of ownership has on the market value of the unit and, if the project is new, the appraiser used as a comparable sale at least one detached condominium unit (which may be located either in a competing project or in the subject project, if it is offered by a builder other than the one that built the subject unit). **Notes**: • Condominium projects that consist **solely** of detached dwellings may utilize the *Uniform Residential Appraisal Report* (Fannie Mae Form 1004 / Freddie Mac Form 70) in lieu of the *Individual Condominium Unit Appraisal Report* (Fannie Mae Form 1073 / Freddie Mac Form 465). • When the *Uniform Residential Appraisal Report* (Fannie Mae form 1004 / Freddie Mac form 70) is utilized for a condominium project that consists solely of detached dwellings, the appraiser must include an adequate description of the project and information about the homeowners' association fees and the quality of the project maintenance.
5	The mortgage title insurance policy satisfies the special title insurance requirements that SunTrust Mortgage has for units in condominium projects.
6	The property is either covered by the type of hazard and flood insurance coverage SunTrust requires for single-family detached dwellings (if the condominium unit consists of the entire structure as well as the site and air space) or is covered by the project's master hazard and flood insurance policies (if the condominium unit consists only of the air space for the unit and the improvements and site are considered to be common areas or limited common areas). In addition, verification of liability and fidelity insurance (if the project consists of greater than 20 units) is required.

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Project Approval

- Condominium units in projects that have been issued Final Project Approval (PERS) by Fannie Mae are eligible in accordance with the guidelines outlined below.
- A condominium project in which Fannie Mae has issued a Final Project Approval (PERS) or a Conditional Project Approval will appear on Fannie Mae's Accepted Projects List. Projects with Final Project Approval (PERS) are classified as "Type T" condominium projects.
- Projects that have only received Conditional Approval are not eligible for financing unless they qualify under one of the other project approval methods covered in these SunTrust Condominium and PUD Approval Requirements.
- When financing a unit in a condominium project, the Fannie Mae accepted condominium projects list should be reviewed prior to requesting a warranty on the condominium. Click here to access Fannie Mae's accepted condominium projects list.
- Once at the site, users should click on the state where the property is located.
- If the condominium project is on the list, the following items must be verified:
  - the date of the list (must be a current date, typically within 30 days prior to underwriting),
  - the phase or building number to which the acceptance applies,
  - verification that the subject property is in the phase or building that has received Final Project Approval (PERS) as indicated by the last two columns on the right of the state-specific list (verification should be provided by the appraiser on the appraisal report),
  - verification that the expiration date of the Final Project Approval (PERS) is after the scheduled date of closing on the subject property mortgage loan, terms and conditions have not been rescinded and all requirements of the Final Project Approval (PERS) have been satisfied, and
  - verification that the project is covered by the required hazard, flood (if applicable), liability and fidelity insurance.
- If these items have been verified and meet the appropriate requirements, a copy of the accepted condominium project list from Fannie Mae's website with the project and phase circled must be placed in the loan file.
- **SunTrust Project Approval Requirements**
  - SunTrust will not purchase or securitize mortgages secured by units in certain types of condominium projects, regardless of the characteristics of the unit mortgage.
  - A new project is defined as a project in which less than 90% of the total units have been conveyed to the unit purchasers. New projects also include projects that are not fully complete, (such as proposed construction, new construction, or the proposed, incomplete, conversion of an existing building to a condominium), projects that are newly converted, projects that are subject to additional phasing or annexation and projects in which the control of the homeowners' association has not been turned over to the unit owners.

Continued on next page

Project Approval, continued

Notes:
- For full reviews **only,** the pre-sale requirement for new and newly converted condominium projects is fifty percent (50%).
- Fifty percent (50%) must be conveyed or under ratified contract to owner occupied or second home purchasers. Non-owner occupied units may not be included towards pre-sale.
- An established project is a project in which 90% or more of the total units have been conveyed to the unit purchasers, the project is complete (including all units and common elements), the project is not subject to additional phasing or annexation and the control of the homeowners' association has been turned over to the unit owners.
- For 2-4 unit condominium projects, all but one unit in the project must have been conveyed to owner-occupant principal residence purchasers or second home purchasers. This pre-sale requirement can include the subject unit.
- Any commercial space in a condominium project should be compatible with the overall residential nature of the project. Generally, no more than 20% of the total space should be used for non-residential purposes.

- Loans secured by a condominium unit are acceptable if one of the following criteria is met:
  - the condominium unit is located in a Fannie Mae approved (PERS) project,
  - the condominium project appears on the SunTrust Approved Condominium Project List, or

    Note: The *SunTrust Approved Condominium Project List* includes projects which have been fully reviewed in accordance with Fannie Mae's Condominium Project Warranty Guidelines.

  - the condominium project is warrantable in accordance with the eligibility criteria under one of the following project review processes:
    - Limited Project Review,
    - CPM Expedited Review, or

      Note: The CPM Expedited Review process is supported by Fannie Mae's Condo Project Manager™ (CPM™).

  - The appraiser must provide certification in the appraisal report that the condominium project is not a condotel.

Notes:
- Condominium projects that consist **solely** of detached dwellings may utilize the *Uniform Residential Appraisal Report* (Fannie Mae Form 1004 / Freddie Mac Form 70) in lieu of the *Individual Condominium Unit Appraisal Report* (Fannie Mae Form 1073 / Freddie Mac Form 465).
- When the *Uniform Residential Appraisal Report* (Fannie Mae form 1004 / Freddie Mac form 70) is utilized for a condominium project that consists solely of detached dwellings, the appraiser must include an adequate description of the project and information about the homeowners' association fees and the quality of the project maintenance.

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Project Approval, continued

- The documents (in addition to the appraisal report) which will assist in appropriately warranting a condominium project (or phase) include, but are not limited to, the following:
  - Submission form (COR 0215),
  - Arbitration Agreement,
  - Budget,
  - Certification from the Builder or Developer regarding current or pending litigation,
  - Recorded Condominium Docs (Articles of Incorporation, By-Laws, Declarations), and
  - *SunTrust Condominium Questionnaire* (COR 0216),

    Note: The *Questionnaire* may be no older than 120 days from the date of the application.

  - Engineer's Report,
  - Legal requirements for established condominium project reviews are as follows:
    - There must be no provision in the documents that give a unit owner or any other party priority over the lender when distributing insurance proceeds.
    - Any right of first refusal in the condominium documents must not adversely impact the rights of a lender or its assignee to foreclose or take title to the unit, accept a deed or assignment in lieu of foreclosure in the event of a default, or sell or lease a unit acquired via foreclosure.
  - Final Certification of Substantial Completion Form 1081,

    Note: The *Appraisal Update and/or Completion Report* (Fannie Mae Form 1004D) completed by the appraiser is acceptable in lieu of Fannie Mae Form 1081 provided the appraiser specifically comments on completion of the common areas.

  - Hazard, Flood (if applicable), Liability, and Fidelity bond (if applicable) Insurance information for the project, and
  - Phase I Environmental Report.

    Notes:
    - The documentation outlined above may not be applicable for each project type and review process.
    - The *Certification of Project Compliance: Condominium/PUD Lender Warranties – Agency and Non-Agency Loan Products* (COR 0212a) must be completed by the SunTrust Condominium Department and placed in every file for condominiums.
    - Condominiums are ineligible for construction-permanent one and two time closing transactions.

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SunTrust Approved Condominium List

- The SunTrust Approved Condominium Project List includes projects which have been fully reviewed in accordance with SunTrust's Condominium Project Warranty Guidelines.
- The SunTrust Approved Condominium Project List is updated on a regular basis to provide the most comprehensive information available based on ongoing project reviews by the SunTrust Condominium Department.
- The list provides the condominium project name, project or phase certified, city, state, zip code, expiration date and warranty type (Type R, Type S, etc.).

  Notes:
  - This list does not include projects which are already approved by Fannie Mae.
  - The expiration date and whether or not the approval is phase specific or only approved for owner occupied or second homes must be checked to be certain that the project in question is approved.

- Click here to access the SunTrust Approved Condominium Project List.

Continued on next page

Planned Unit Developments (PUDs)

- A Planned Unit Development (PUD) is a real estate project in which each unit owner holds title to a lot and the improvements on the lot. All common facilities within the project are owned by the master homeowners‟ association. In exchange for the rights to use the common facilities, unit owners in the project must pay mandatory assessment fees to the homeowners association to maintain the Common Elements for their benefit. This differs from the condominium ownership in that the owner holds title to the unit along with an undivided ownership interest in the project's Common Elements.
- The following key indicators may be useful in identifying a PUD:
  - the legal description on the appraisal or title reports includes ownership of a lot number and or reference to a "Planned Unit Development",
  - the appraiser identifies the subject as part of a PUD, and
  - the appraisal shows a low to minimal monthly dues amount on page one.
- An established PUD project is one in which control of the owners‟ association has been turned over to the unit purchasers. There is no specific length of time that the unit purchases must have been in control.
- A new PUD project is a development that is still under the control of the developer, regardless of the construction status (proposed construction, under construction, or completed construction).

Attached PUD Warranty Requirements

- Except as outlined below, SunTrust only requires a PUD project review and approval by the SunTrust Condominium Department if the underwriter or appraisal analyst identifies a potential project eligibility issue in the course of underwriting or appraisal review. This discretionary review may be required on Portfolio transactions secured by attached PUDs at the discretion of the underwriter or appraisal analyst.
- Project conversions (gut or non-gut) located in which the developer is either still in control of the homeowners' association or the homeowners' association has not been turned over to the unit owners for at least twelve (12) months, must be submitted to the SunTrust Condominium Department in Richmond for a centralized review.

- **PUD Reviews are NOT required for**
  - Detached PUDs regardless of product
  - Eligible ST Portfolio to ST Portfolio Rate/Term Refinance transactions

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Planned Unit Developments (PUDs), continued

- **Considerations for Determining Attached PUD Warrantability**
  - The project must not be one of the Ineligible PUD Project types described subsequently within this section (Attached PUD Warranty Requirements).

    Note: Attached PUDs with litigation will have the option of being submitted to the SunTrust Condominium Department for an exception. Exceptions are considered on a case by case basis only. Additional documentation may be required.

  - Borrower must qualify with monthly payments for special assessments (if applicable).
  - All required insurance MUST comply with existing guidelines.
  - PUD must show accurate coding in the loan system.
  - The individual unit securing the mortgage must be 100% complete.

- **Documentation Required for Warranty Determination**
  - For projects appearing on the SunTrust Approved Attached PUD list that are not expired, a copy of the approved list placed in the file along with current insurance as outlined above is sufficient for warranty purposes.

    Click here to access the *SunTrust Approved Attached PUD List*.

  - When project approval by the SunTrust Condominium Department is required by the underwriter or appraisal analyst, the documentation listed below is required for submission:
    - Submission form (COR 0215)
    - Appraisal (1004 if required for the transaction)
    - Current preliminary title report
    - Insurance certificate including:
      - Hazard
      - General Liability
      - Flood (if applicable)
      - HO6 (if applicable)
    - Completed *SunTrust PUD Questionnaire* (COR 1438) </= 90 days old.

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Planned Unit Developments (PUDs), continued

- The PUD project and the subject unit must meet all applicable insurance requirements as outlined in the table below:

Type of Insurance	Requirements
Hazard Insurance	• Subject dwelling must be covered per the requirements for 1-4 unit single family dwellings outlined in Section 1.14: Hazard and Flood Insurance. • The HOA must maintain a property insurance policy with premiums being paid as a common expense to cover common areas. • If the subject is insured under a master policy, the master policy must insure the common area and property for 100% of the replacement cost under a commercial package policy.
HO6 (Interior Unit Coverage)	When all of the unit components, including any betterments and improvements, are not already covered by the association's master insurance policy, the borrower must obtain an individual HO-6 policy that provides coverage sufficient to repair the unit to its condition prior to a loss claim event. The insurer, an appraiser, architect, engineer, or a licensed contractor, determines in writing the amount of required coverage.. Refer to Section 1.14: Hazard and Flood Insurance for additional information.
Flood Insurance	If in a flood zone, the subject and all common areas must be covered.
Liability Insurance	Project must maintain commercial general liability insurance covering ALL common areas, common elements, commercial spaces and public ways in the PUD. Minimum required coverage is $1 Million and the Association of Owners of the PUD must be the named insured.

Upon review and approval, an executed *Certificate of Project Compliance: Condominium/PUD Lender Warranties – Agency and Non-Agency Loan Products* (COR0212a) will be issued by SunTrust Condo Team as evidence of compliance with PUD guidelines. This signed form is to be placed in the loan file prior to closing.

Notes:
- Recorded PUD declarations may be requested at SunTrust's discretion in cases where additional due diligence is necessary.
- Approvals will be good for up to six (6) months from the initial review. An updated approval submission request must be presented to the SunTrust Condominium Department to be considered for re-approval once expired.

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Planned Unit Developments (PUDs), continued

Ineligible PUD Projects

- Ineligible PUD projects include the following:
  - projects that are managed, operated and/or have the characteristics of a hotel or motel including, but not, limited to advertising of rental rates; online booking and/or registration service; central telephone or key system, mandatory rental pooling agreements, etc.
  - cooperative projects,
  - timeshare, fragmented or segmented ownership projects,
  - houseboat projects,
  - any project for which the homeowners' association is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project.

    Notes:
    - Projects for which the lender determines that pending litigation involves minor matters are not considered ineligible projects, provided the lender concludes that the pending litigation has no impact on the safety, structural soundness, habitability, or functional use of the project. The following are defined to be minor matters:
      - non-monetary litigation involving neighbor disputes or rights of quiet enjoyment,
      - litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the association's insurance, or
      - the homeowners" association is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due homeowners" association dues.
  - projects with recreational leases,
  - investment securities,
  - common interest apartments or community apartment projects,
  - PUD projects located in states where more than six months of unpaid regular association common expense assessments may have priority over the mortgage lien, unless the applicable law providing for greater than six months priority was enacted on or before January 14, 2014.