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## CONDOMINIUM AND PUD GUIDELINES

### Introduction

A warrantable condominium is a condominium project that meets Agency eligibility standards. The Underwriter must warrant condominium and PUD projects as compliant with Agency guidelines. All condominium loans must contain the following:

- Conventional Loan
  - Transmittal Summary (1008) with the acceptable Type indicated on the form
    - PUD Types: E or F
    - Condominium Types: P, Q, R, S, T or V
  - A completed Conventional Condo and PUD Warranty Form
- FHA Loan
  - FHA Condo Approval from FHA Connection website
  - DE Underwriter must complete and sign FHA Lender Condo Certification
- VA Loan
  - VA Condo/PUD approval from VA Condo/PUD Builder
- All documentation that supports the warranty of the project such as, but not limited to:
  - CC&Rs
  - Bylaws
  - Articles of Incorporation
  - Project legal documents
  - Attorney opinion letter
  - Budget
  - HOA Certification

### Condominium Hotel / Condotel Evaluation

Condominium Hotels and Condotels are ineligible for any Reunion Mortgage product including FHA and VA loans. Refer to the Conventional Ineligible Projects section for descriptions of Condotel/Hotel characteristics that may be used to identify such properties. The underwriter must perform the following when evaluating all condominium and attached PUD projects:

- Thoroughly review all documentation required to warrant the project including the Home Owners Association (HOA) certification, budget, appraisal report, and legal documents to adequately determine if condotel-like features are evident; and
- Perform an Internet search of the condominium project to determine if short-term or seasonal rentals are marketed by the HOA or individual unit owners.

### Mixed use Condominiums

A mixed-use condominium project (usually a high-rise) is located in an urban area where commercial space is on the ground level or sometimes on the penthouse level.

The following guidelines apply to mixed-use condos:

- The commercial area is limited to 20% of the gross square footage and the commercial use of the property must operate separately from the residential use.
- The appraisal must support that mixed-use condos are common for the area.
- **If the commercial space is on the top floor, the business must have a separate elevator only for commercial use.**



## CONDOMINIUM AND PUD GUIDELINES

### Type E PUD

#### Existing PUD

##### Project Status

- Established
- Unit is 100% complete
- Verify not an Ineligible Project (refer to the Ineligible Projects section)

##### Presale Requirements

- No requirements

##### Insurance Requirements

- Insured on 100% replacement cost basis
- Attached
  - \$1,000,000 liability coverage minimum per occurrence

##### Documentation Requirements

- Appraisal
- Attached
  - Dec page of Master Insurance

##### Control of HOA

- Homeowners Association turned over to unit owners

##### Attorney Legal Review

- Not required



## CONDOMINIUM AND PUD GUIDELINES

### Type F PUD

#### New PUD

##### Project Status

- New or Proposed (conversions are ineligible)
- Individual unit securing the mortgage must be 100% complete
- Verify not an Ineligible Project (refer to the Ineligible Projects section)

##### Presale Requirements

- No requirements

##### Insurance Requirements

- Insured on 100% replacement cost basis
- Attached
  - \$1,000,000 liability coverage minimum per occurrence

##### Documentation Requirements

- Appraisal
- Attached
  - Dec page of Master Insurance

##### Control of HOA

- No requirements

##### Attorney Legal Review

- Not required



## CONDOMINIUM AND PUD GUIDELINES

### **Type P New and Type Q Existing Site Condominium**

#### **Limited Review Site Condo (Detached Condo)**

##### **Project Status**

- New and Established
- Subject must be 100% complete detached single family dwelling
- Verify not an Ineligible Project (refer to the Ineligible Projects section)

##### **Control of HOA**

- No determination required

##### **Presale Requirements**

- No determination required

##### **Percentage of Commercial Use**

- No more than 20% of the project can be commercial space

##### **Insurance Requirements**

- Insured on 100% replacement cost basis
- If the unit consists of the entire structure as well as the site and air space: The borrower must carry appropriate hazard and flood insurance required for a single-family detached dwelling; or
- If the unit only consists of the air space for the unit, and the improvements and site are considered common areas: The homeowners association must provide evidence of a master insurance policy with \$1,000,000 liability coverage minimum per occurrence

##### **Documentation Requirements**

- Appraisal
- Master insurance policy for project

##### **Special Requirements**

- Appraisal requirements
  - The appraiser must address the impact buyer resistance may have on market value as it relates to this form of ownership.
  - The appraiser must have at least 1 comparable sale that is a detached condo unit. The unit may be located in a competing project or in the same project as the subject. However, if the unit is in the same project, the same builder as the subject may not have built it.

##### **Attorney Legal Review**

- Not required



## CONDOMINIUM AND PUD GUIDELINES

### Type Q Condominium

#### Limited Review Attached Condos

##### Project Status

- Established
- The units, common elements, and facilities must be 100% complete.
- No additional phasing or annexation.
- Verify not an Ineligible Project (refer to the Ineligible Projects section)
- **NOTE:** If the lender has targeted the project with specific marketing efforts or is named as a preferred lender by either the developer or the applicable Homeowner's Association, the project is ineligible for Limited Review and the lender must use one of the other project review processes.

##### Control of HOA

- Homeowners Association turned over to unit owners

##### Presale Requirements

- **5+ Units:** 90% sold and conveyed
- **2-4 units:** 100% sold and conveyed. The subject unit must be a resale or refinance.

##### Investor Concentration

- **2-4 unit Project:**
  - All but one unit in the project must have been conveyed or under bona-fide contract to principal residence or second home purchaser

##### Single Entity Ownership

- **5+ units:** No single entity may own more than 10% of the total units in the project.  
**Note:** Projects with less than 10 units, no single entity may own more than one unit in the project.
- **2 - 4 units:** No single entity may own more than one unit in the project.

##### Percentage of Commercial Use

- No more than 20% of the project can be commercial space.

##### Insurance Requirements

- \$1,000,000 liability coverage minimum per occurrence
- Insured on 100% replacement cost basis
- A "walls-in" coverage policy (commonly known as HO-6 policy) is required unless the lender can document that the master policy provides the same interior unit coverage. The master policy must include replacement of improvements and betterment coverage to cover any improvements that the borrower may have made to the unit. The HO-6 insurance policy must provide coverage in an amount that is no less than 20 percent of the condominium unit's appraised value. The standard requirement for a 5 percent deductible applies.
- Fidelity Bond Insurance required for all projects over 20 units. Coverage  $\geq$  no less than the maximum amount of funds in custody of HOA or management company at any one time OR an amount equal to 3 months HOA assessments, if financial controls are in place (separate accounts for reserves and operating budget, depository sends separate statements to HOA, etc.)

##### Documentation Requirements

- Appraisal
- Master insurance policy for project
- **Conventional HOA Certification –Limited Review Projects**



## CONDOMINIUM AND PUD GUIDELINES

### Attorney Legal Review

- Not required

### Special Requirements

- DU Approve/Eligible with Recommendation for Limited Review
  - Primary Residence:  $\leq 90\%$  LTV/CLTV
  - Second Home:  $\leq 75\%$  LTV/CLTV
  - Investment homes: not eligible – CPM required



## CONDOMINIUM AND PUD GUIDELINES

### Type R Condominium

#### CPM Expedited Review

- New Construction / New Conversion Projects

#### Project Status

- New project or recent conversions including 2-4 unit projects
- All units, common elements and facilities, within the project or subject's legal phase, must be "substantially complete"
  - A certificate of occupancy (or other substantially similar document) has been issued by the applicable governmental agency for the project or subject phase and that all the units in the building in which the unit securing the mortgage is located are complete, subject to the installation of "buyer selection items" such as appliances..
- Verify not an Ineligible Project (refer to the Ineligible Projects section)
- May be subject to additional phasing or annexation

#### Control of HOA

- No requirements

#### Presale Requirements

- 70% sold or under bona-fide contract in the project or subject legal phase.
- 70% of the total units in the subject legal phase, considered together with all other prior legal phases, must be sold or under bona-fide contract as principal residence or 2<sup>nd</sup> home.

#### Investor Concentration

- **2-4 Unit Project:** All but one unit in the project must have been conveyed or under bona-fide contract to principal residence or second home purchaser

#### Single Entity Ownership

- **5+ units:** No single entity may own more than 10% of the total units in the project.
- **2-4 Unit Project:** No single entity (the same individual, investor group, partnership, or corporation) may own more than one unit within the project.

#### Percentage of Commercial Use

- < 20% of the total square footage of the project can be used for non-residential purposes

#### Budget Review

**Underwriter must review the HOA budget to determine:**

- It is consistent with the nature of the project.
- It is adequate and allocates a portion of the income (at least 10%) for replacement reserves, capital expenditures, and deferred maintenance.
- It adequately funds insurance deductible amounts.
- No more than 15% of the units within the project can be more than one month delinquent on Homeowners Association fees, dues or assessment payments

#### Insurance Requirements

- \$1,000,000 liability coverage minimum per occurrence
- Insured on 100% replacement cost basis
- A "walls-in" coverage policy (commonly known as HO-6 policy) is required unless the lender can document that the master policy provides the same interior unit coverage. The master policy must include replacement of improvements and betterment coverage to cover any improvements that the borrower may have made to the unit. The HO-6 insurance policy must provide coverage in an amount that is no less than



## CONDOMINIUM AND PUD GUIDELINES

20 percent of the condominium unit's appraised value. The standard requirement for a 5 percent deductible applies.

- Fidelity Bond Insurance required for all projects over 20 units. Coverage  $\geq$  no less than the maximum amount of funds in custody of HOA or management company at any one time OR an amount equal to 3 months HOA assessments, if financial controls are in place (separate accounts for reserves and operating budget, depository sends separate statements to HOA, etc.)

### Documentation Requirements

- Appraisal
- **Conventional HOA Certification – CPM Projects**
- Master insurance policy for project
- Recorded Legal Documents
  - Articles of Incorporation
  - Master Deed/ Declaration
  - By-Laws
- The minutes of its organizational meeting, the minutes from the first meeting of the executive board of the homeowners' association
- Projected Budget
- Conversions created in the last three (3) years require an acceptable Engineers Report

### Attorney Legal Review

- Acceptable Attorney Review verifying project complies with Fannie Mae



### Type S Condominium

#### CPM Expedited Review– Established Projects

##### Project Status

- Established
- All units, common areas and facilities must be 100% complete.
- Conversions: All rehabilitation work must be completed in a professional manner.
- No additional phasing or annexation.
- Verify not an Ineligible Project (refer to the Ineligible Projects section)

##### Control of HOA

- Homeowners association turned over to unit owners (not required for 2-4 unit project)
- HOA must be the sole owner of and have rights to the use of the projects facilities, common elements, and limited common areas.

##### Presale Requirements

- **5+ Units:** At least 90% of the units must be sold and closed.
- **2 – 4 Units:** All but one unit in the project must have been conveyed to owner occupied principal residence or second home purchasers.

##### Investor Concentration

- If the subject property is an investment property, at least 51% of the units must be owner occupied (principal residence or second home). **Projects that do not meet the owner occupancy ratio of 51% are ineligible unless the project has Fannie Mae PERS approval.**
- No restrictions when the subject property is owner occupied (principal residence or second home).

##### Single Entity Ownership

- **5+ Units:** No single entity (the same individual, investor group, partnership or corporation) may own >10% of the total units in the project
- **2-4 Unit Project::** No single entity (the same individual, investor group, partnership, or corporation) may own more than one unit within the project.

##### Percentage of Commercial Use

- No more than 20% of the project can be commercial space.

##### Budget Review

**Underwriter must review the HOA budget to determine:**

- **It is consistent with the nature of the project.**
- **It is adequate and allocates a portion of the income (at least 10%) for replacement reserves, capital expenditures, and deferred maintenance.**
- **It adequately funds insurance deductible amounts.**
- No more than 15% of the units within the project can be more than one month delinquent on Homeowners Association fees, dues or assessment payments

##### Insurance Requirements

- \$1,000,000 liability coverage minimum per occurrence
- Insured on 100% replacement cost basis
- A “walls-in” coverage policy (commonly known as HO-6 policy) is required unless the lender can document that the master policy provides the same interior unit coverage. The master policy must include replacement of improvements and betterment coverage to cover any improvements that the borrower may have made to the unit. The HO-6 insurance policy must provide coverage in an amount that is no less than



## CONDOMINIUM AND PUD GUIDELINES

20 percent of the condominium unit's appraised value. The standard requirement for a 5 percent deductible applies.

- Fidelity Bond Insurance required for all projects over 20 units. Coverage  $\geq$  no less than the maximum amount of funds in custody of HOA or management company at any one time OR an amount equal to 3 months HOA assessments, if financial controls are in place (separate accounts for reserves and operating budget, depository sends separate statements to HOA, etc.)

### Documentation Requirements

- Appraisal
- **Conventional HOA Certification – CPM Projects**
- Master insurance policy for project
- Recorded Legal Documents
  - Articles of Incorporation
  - Master Deed/ Declaration
  - By-Laws
- The minutes from the last two Homeowner Association meetings
- Current Budget
- Conversions created in the last three (3) years require an acceptable Engineers Report

### Attorney Legal Review

- Not required



## CONDOMINIUM AND PUD GUIDELINES

### Type T Condominium

#### New Projects

- PERS Projects
- Final Project Acceptance from Fannie Mae

Fannie Mae reintroduced their project review function under the name of Project Eligibility Review Services (PERS). PERS is optional in all states Reunion Mortgage participates. There is a fee charged in connection with this review. Reunion Mortgage does not submit Condominium projects to PERS for approval.

PERS Approved projects are posted on eFannieMae.com. Conditional Project Approvals will not be accepted. Project must be marked as Final Project Approval. Final project approval will expire one year after issuance.

Refer to Fannie Mae's Announcement 08-31 for additional PERS information.

#### Project Status

- New project
- Verify not an Ineligible Project (refer to the Ineligible Projects section)

#### Presale Requirements

- Per Fannie Mae PERS or 1028

#### Insurance Requirements

- \$1,000,000 liability coverage minimum
- Insured on 100% replacement cost basis
- A "walls-in" coverage policy (commonly known as HO-6 policy) is required unless the lender can document that the master policy provides the same interior unit coverage. The master policy must include replacement of improvements and betterment coverage to cover any improvements that the borrower may have made to the unit. The HO-6 insurance policy must provide coverage in an amount that is no less than 20 percent of the condominium unit's appraised value. The standard requirement for a 5 percent deductible applies.
- Fidelity Bond Insurance required for all projects over 20 units. Coverage  $\geq$  no less than the maximum amount of funds in custody of HOA or management company at any one time OR an amount equal to 3 months HOA assessments, if financial controls are in place (separate accounts for reserves and operating budget, depository sends separate statements to HOA, etc.)

#### Documentation Requirements

- Appraisal
- Un-expired Fannie Mae Project Approval
- Documentation to satisfy all required conditions
- Master insurance policy for project

#### Control of HOA

- Per Fannie Mae

#### Attorney Legal Review

- Already completed by Fannie Mae



### Type V Condominium

#### DU Refi Plus / HomePath Mortgage

##### Project Status

- Underwriter must make inquiries, including internet searches on the project, which include:
  - Looking at project name to determine whether it contains "hotel", "motel", "inn" or "lodge"
  - Researching project address to see if it has the same address as a hotel
  - Reviewing the advertised project features to see if there is evidence that the project is a condominium hotel (such as daily cleaning service, nightly rentals, etc.)
- If any of those inquiries confirm, or suggest, that the project may be a condominium hotel project, then the property is ineligible

##### Insurance Requirements

- Insured on 100% replacement cost basis
- \$1,000,000 liability coverage minimum per occurrence
- A "walls-in" coverage policy (commonly known as HO-6 policy) is required unless the lender can document that the master policy provides the same interior unit coverage. The master policy must include replacement of improvements and betterment coverage to cover any improvements that the borrower may have made to the unit. The HO-6 insurance policy must provide coverage in an amount that is no less than 20 percent of the condominium unit's appraised value. The standard requirement for a 5 percent deductible applies.

##### Documentation Requirements

- Appraisal
- Master insurance policy for project

##### Special Requirements

- Refinance: DU Refi Plus only
- Purchase: HomePath Mortgage only
  - Check project status in CPM:
    - If anything other than "unavailable", then no more research in CPM is required
    - If "unavailable", then contact Credit Risk Manager to determine eligibility (Fannie Mae's Project Standards Team must be contacted to determine if the project is acceptable)



## CONDOMINIUM AND PUD GUIDELINES

### FHA Condominium

Condominium Project must be approved and file documented with printout from FHA Connection.

NOTE: Reunion Mortgage does not participate in DELRAP (Direct Endorsement Lender Review and Approval Process)

#### Project Status

- Site Condos do not require condominium project approval – NOTE: Property must be completely detached from any other structure to be considered a Site Condo
- Project is not a Condotel
- **Spot Approvals** are not allowed

#### Investor Concentration

- 51% Owner Occupancy must be verified with a completed FHA HOA Certification

#### Budget Review

Underwriter must review the HOA budget or FHA HOA Certification to determine:

- No more than 15% of the units within the project can be more than one month delinquent on Homeowners Association fees, dues or assessment payments

#### Insurance Requirements

- \$1,000,000 liability coverage minimum
- Insured on 100% replacement cost basis
- A “walls-in” coverage policy (commonly known as HO-6 policy) is required unless the lender can document that the master policy provides the same interior unit coverage. The master policy must include replacement of improvements and betterment coverage to cover any improvements that the borrower may have made to the unit. The HO-6 insurance policy must provide coverage in an amount that is no less than 20 percent of the condominium unit’s appraised value. The standard requirement for a 5 percent deductible applies.
- Fidelity Bond Insurance required for all projects over 20 units. Coverage  $\geq$  no less than the maximum amount of funds in custody of HOA or management company at any one time OR an amount equal to 3 months HOA assessments, if financial controls are in place (separate accounts for reserves and operating budget, depository sends separate statements to HOA, etc.)

#### Documentation Requirements

- FHA Project Approval printed from FHA Connection
  - All conditions listed on approval must be documented
- Appraisal
- Master insurance policy for project
- FHA HOA Certification



### VA Condominium

Condominium projects must be approved by the VA before a single unit is eligible for a VA Loan Guaranty. NOTE: VA will no longer accept FHA condominium approvals that are approved through the new HRAP or DELRAP process. VA previously recognized HUD/FHA project approvals since the guidelines and procedures for condominium approval were similar between the two agencies. Recent guideline and procedural changes for FHA condominium project approvals have been amended to such an extent that they no longer conform to the VA condominium statutes, regulations or policy requirements and therefore can no longer be used in lieu of the VA project review.

#### Project Status

- Condominium Project must be approved and file documented with printout from VA.
- A list of VA approved Condominiums and their VA ID# can be found at:  
<http://condopudbuilder.vba.va/2.2/frames.html>

#### Insurance Requirements

- \$1,000,000 liability coverage minimum
- Insured on 100% replacement cost basis
- A “walls-in” coverage policy (commonly known as HO-6 policy) is required unless the lender can document that the master policy provides the same interior unit coverage. The master policy must include replacement of improvements and betterment coverage to cover any improvements that the borrower may have made to the unit. The HO-6 insurance policy must provide coverage in an amount that is no less than 20 percent of the condominium unit’s appraised value. The standard requirement for a 5 percent deductible applies.
- Fidelity Bond Insurance required for all projects over 20 units. Coverage  $\geq$  no less than the maximum amount of funds in custody of HOA or management company at any one time OR an amount equal to 3 months HOA assessments, if financial controls are in place (separate accounts for reserves and operating budget, depository sends separate statements to HOA, etc.)

#### Documentation Requirements

- VA Project Approval printed from VA website
  - All conditions listed on approval must be documented
- Appraisal
- Master insurance policy for project



## CONDOMINIUM AND PUD GUIDELINES

### Ineligible Projects

- Projects where the Homeowners' Association is named as a party in a current litigation or any project that has not been turned over to the Homeowners' Association for which the project sponsor or developer is named as a party to current litigation that relates to the project. Projects where the Homeowners' Association is named as a plaintiff in a foreclosure action or as a plaintiff in an action for past due Homeowners' Association dues are not considered ineligible projects.
- Timeshare or segmented ownership projects
- Houseboat projects
- Multi-family projects that permit an owner to hold title to more than one unit (i.e. duplex, triplex, etc), with ownership of all his or her units evidenced by a single deed and mortgage. Projects that permit lockout units are considered multi-family
- PUD/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 its full or partial destruction.
- Manufactured Home projects
- Projects with Recreational Leases
- Common Interest Apartments AKA community apartment project or own your own. A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific unit in the building. The project or building is often owned by several owners as tenants in common or by a Homeowners' Association.
- Projects with non-incident business operations owned or operated by the Homeowners' Association such as, but not limited to, a restaurant, spa, health club, etc.
- Investment Securities project that have documents on file with the Securities and Exchange Commission or projects where unit ownership is characterized or promoted as an investment opportunity.
- Any project or building that is owned by several owners as tenants in common or by a Homeowners' 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.
- New or proposed PUD projects created by conversion
- Condo-Hotel projects that are managed and operated as a hotel or motel, even though the units are owned individually. Fannie Mae and Freddie Mac consider projects with any of the following characteristics to be nonresidential, hotel-type projects and "second home" residential projects in resort locations and therefore are ineligible as follows:
  - Projects that include registration services and offer rentals of units on a daily basis
  - Projects that restrict the owner's ability to occupy the unit
  - Projects with names that include the words "hotel" or "motel"
  - Projects with mandatory rental pooling agreements that require the unit owners to either rent their units or give a management firm control over the occupancy of the unit. These formal agreements between the developer, Homeowners' Association and/or the individual unit owners, obligate the unit owner to rent the property on a seasonal, monthly, weekly, or daily basis. In many cases, the agreements include blackout dates, continuous occupancy limitation, and other such use restrictions. In return, the unit owner receives a share of the revenue generated from the rental of the unit
- New projects where the seller is offering sale/financing structures in excess of Fannie Mae's eligibility policies for individual mortgage loans. These excessive structures include, but shall not be limited to, builder/developer contributions, sales concessions, HOA or principal and interest payment abatements, and/or contributions not disclosed on the HUD-1 Settlement Statement.
- Projects where more than 20 percent of the total space is used for non-residential purposes
- Projects where a single entity (the same individual, investor group, partnership, or corporation) owns more than 10 percent of the total units in the project **or projects with less than 10 units where a single entity (the same individual, investor group, partnership, or corporation) owns more than one unit within the project**