

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



TABLE OF CONTENTS

1. Project Standards Overview – Fannie Mae and Freddie Mac.....	2
2. Condo Project Types –Fannie Mae and Freddie Mac.....	2
3. Ineligible Projects – Fannie Mae and Freddie Mac.....	3
4. Live-Work Condominiums.....	10
5. Fannie Mae Project Review Methods.....	11
6. Fannie Mae Project Documentation.....	11
7. Fannie Mae Project Type Codes.....	12
8. Expiration for Project Reviews.....	12
9. Fannie Mae Limited Review Process.....	13
10. Fannie Mae Limited Review Eligibility Requirements.....	13
11. Fannie Mae Full Review Process.....	14
12. Fannie Mae Replacement Reserve Study.....	18
13. Fannie Mae Full Review – New and Newly Converted.....	18
14. Fannie Mae Project Eligibility Review Service (PERS).....	21
15. Freddie Mac Project Review Methods.....	25
16. Freddie Mac Replacement Reserve Study.....	29
17. Fannie Mae Insurance Requirements for Condo and PUD projects.....	30
18. Fannie Mae Liability Insurance.....	32
19. Freddie Mac Insurance Requirements for Condo and PUD Projects.....	33
20. Freddie Mac Liability Insurance.....	35
21. Fannie Mae PUD Projects.....	37
21. Freddie Mac PUD Projects.....	38
23. Project Eligibility Waivers (Fannie Mae)	39
24. Reciprocal Project Reviews (Freddie Mac).....	39

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



PROJECT STANDARDS OVERVIEW	<p>FANNIE MAE: The quality of mortgages secured by units in Condo and Planned Unit Development (PUD) projects can be influenced by certain characteristics of the project or by the project as a whole. Before approving a loan secured by an individual unit in a project, the underwriter must determine that the project meets Fannie Mae’s eligibility requirements.</p> <p>FREDDIE MAC: 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.</p>											
CONDO PROJECT TYPES FANNIE MAE AND FREDDIE MAC	<p>The characteristics that define each project type are described in the following table:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #e0e0e0;"> <th style="text-align: left;">Project Type</th> <th style="text-align: left;">Identification Criteria</th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;">Established condo project</td> <td style="vertical-align: top;"> <p>A project for which all of the following are true:</p> <ul style="list-style-type: none"> at least 90% of the total units in the project have been conveyed to the 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. There are no Manufactured Homes in the Condominium Project (Freddie Mac) </td> </tr> <tr> <td style="vertical-align: top;">New Condo Project</td> <td style="vertical-align: top;"> <p>A project for which one or more of the following is true:</p> <ul style="list-style-type: none"> fewer than 90% of the total units in the project have been conveyed to the unit purchasers; 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; or the project is subject to additional phasing or annexation There are no manufactured homes in the condominium project (Freddie Mac) </td> </tr> <tr> <td style="vertical-align: top;">Two-four-unit condo Project</td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> A project comprised of two, three, or four residential units in which each unit is evidenced by its own title and deed (separately owned with separate legal descriptions) All units and common elements in the project and in any Master Association must be complete. A two- to four-unit condo project may be either a new or an established project and may be comprised of attached and/or detached units. (FANNIE MAE ONLY) All but one unit in the Condominium Project must have been conveyed to purchasers (other than the developer) who occupy their units as Primary Residences or second homes The Condominium Project must not include Manufactured Homes (Freddie Mac) </td> </tr> <tr> <td style="vertical-align: top;">Detached Condo Project (FANNIE MAE ONLY)</td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> 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. </td> </tr> </tbody> </table>		Project Type	Identification Criteria	Established condo project	<p>A project for which all of the following are true:</p> <ul style="list-style-type: none"> at least 90% of the total units in the project have been conveyed to the 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. There are no Manufactured Homes in the Condominium Project (Freddie Mac) 	New Condo Project	<p>A project for which one or more of the following is true:</p> <ul style="list-style-type: none"> fewer than 90% of the total units in the project have been conveyed to the unit purchasers; 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; or the project is subject to additional phasing or annexation There are no manufactured homes in the condominium project (Freddie Mac) 	Two-four-unit condo Project	<ul style="list-style-type: none"> A project comprised of two, three, or four residential units in which each unit is evidenced by its own title and deed (separately owned with separate legal descriptions) All units and common elements in the project and in any Master Association must be complete. A two- to four-unit condo project may be either a new or an established project and may be comprised of attached and/or detached units. (FANNIE MAE ONLY) All but one unit in the Condominium Project must have been conveyed to purchasers (other than the developer) who occupy their units as Primary Residences or second homes The Condominium Project must not include Manufactured Homes (Freddie Mac) 	Detached Condo Project (FANNIE MAE ONLY)	<ul style="list-style-type: none"> 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.
Project Type	Identification Criteria											
Established condo project	<p>A project for which all of the following are true:</p> <ul style="list-style-type: none"> at least 90% of the total units in the project have been conveyed to the 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. There are no Manufactured Homes in the Condominium Project (Freddie Mac) 											
New Condo Project	<p>A project for which one or more of the following is true:</p> <ul style="list-style-type: none"> fewer than 90% of the total units in the project have been conveyed to the unit purchasers; 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; or the project is subject to additional phasing or annexation There are no manufactured homes in the condominium project (Freddie Mac) 											
Two-four-unit condo Project	<ul style="list-style-type: none"> A project comprised of two, three, or four residential units in which each unit is evidenced by its own title and deed (separately owned with separate legal descriptions) All units and common elements in the project and in any Master Association must be complete. A two- to four-unit condo project may be either a new or an established project and may be comprised of attached and/or detached units. (FANNIE MAE ONLY) All but one unit in the Condominium Project must have been conveyed to purchasers (other than the developer) who occupy their units as Primary Residences or second homes The Condominium Project must not include Manufactured Homes (Freddie Mac) 											
Detached Condo Project (FANNIE MAE ONLY)	<ul style="list-style-type: none"> 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. 											

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



CONDO PROJECT TYPES FANNIE MAE AND FREDDIE MAC CONTINUED	Detached Condominium Projects (FREDDIE MAC ONLY)	<ul style="list-style-type: none"> The Condominium Project must comply with the definition of a Detached Condominium Project, which is a Condominium Project comprised solely of detached, 1 unit-dwellings The Condominium Project must not include Manufactured Homes If the Condominium Project is on a leasehold estate, the lease must comply with the requirements of Chapter 5704 The Condominium Project must have insurance that complies with the applicable requirements in Chapter 8202. Master HOA insurance policy coverage for Liability and Fidelity insurance is no longer required. The Condominium Unit must be covered by a title insurance policy that complies with the requirements of Chapter 4702. 																											
INELIGIBLE PROJECTS FANNIE MAE AND FREDDIE MAC	<p>List of Ineligible Project Characteristics</p> <p>Fannie Mae and Freddie Mac will not purchase or securitize mortgage loans that are secured by units in certain condo projects 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.</p> <p>Note: If an underwriter determines that a project does not meet all of Fannie Mae or Freddie Mac's project eligibility requirements but believes that the project has merit and warrants additional consideration, the underwriter may request an exception.</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #f2f2f2;"> <th style="width: 70%;"></th> <th colspan="2" style="text-align: center;">Agency</th> </tr> <tr> <th style="text-align: left;">Ineligible Project Characteristics</th> <th style="text-align: center;">Fannie Mae</th> <th style="text-align: center;">Freddie Mac</th> </tr> </thead> <tbody> <tr> <td>Investment securities (i.e., projects that have documents on file with the Securities and Exchange Commission (SEC) or projects where unit ownership is characterized or promoted as an investment opportunity);</td> <td style="text-align: center;">✓</td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Timeshare, fractional or segmented ownership projects.</td> <td style="text-align: center;">✓</td> <td style="text-align: center;">✓</td> </tr> <tr> <td>New projects where the seller is offering sale or financing structures in excess of Fannie Mae and Freddie Mac'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.</td> <td style="text-align: center;">✓</td> <td style="text-align: center;">✓</td> </tr> <tr> <td>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.</td> <td style="text-align: center;">✓</td> <td></td> </tr> <tr> <td>Projects that are managed and operated as a hotel or motel, even though the units are individually owned. (See section below for additional detail.)</td> <td style="text-align: center;">✓</td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize the property (Also referred to as Tenancy-in common).</td> <td style="text-align: center;">✓</td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Projects with property that is not real estate, such as houseboat projects</td> <td style="text-align: center;">✓</td> <td style="text-align: center;">✓</td> </tr> </tbody> </table>			Agency		Ineligible Project Characteristics	Fannie Mae	Freddie Mac	Investment securities (i.e., projects that have documents on file with the Securities and Exchange Commission (SEC) or projects where unit ownership is characterized or promoted as an investment opportunity);	✓	✓	Timeshare, fractional or segmented ownership projects.	✓	✓	New projects where the seller is offering sale or financing structures in excess of Fannie Mae and Freddie Mac'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.)	✓	✓	Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize the property (Also referred to as Tenancy-in common).	✓	✓	Projects with property that is not real estate, such as houseboat projects	✓	✓
	Agency																												
Ineligible Project Characteristics	Fannie Mae	Freddie Mac																											
Investment securities (i.e., projects that have documents on file with the Securities and Exchange Commission (SEC) or projects where unit ownership is characterized or promoted as an investment opportunity);	✓	✓																											
Timeshare, fractional or segmented ownership projects.	✓	✓																											
New projects where the seller is offering sale or financing structures in excess of Fannie Mae and Freddie Mac'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.)	✓	✓																											
Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize the property (Also referred to as Tenancy-in common).	✓	✓																											
Projects with property that is not real estate, such as houseboat projects	✓	✓																											

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



INELIGIBLE PROJECTS FANNIE MAE AND FREDDIE MAC, CONTINUED	Any project that is owned or operated as a continuing care facility.	✓	✓
	Projects with non-incident business operations owned or operated by the HOA including, but not limited to, a restaurant, spa, or health club.	✓	✓
	Projects that do not meet the requirements for live-work projects.	✓	✓
	Projects in which the HOA corporation 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.	✓	✓
	Any project that permits a priority lien for unpaid common expenses in excess of Fannie Mae's priority lien limitations. (See section below 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: <ul style="list-style-type: none"> • projects with 2 to 4 units – 1 unit • projects with 5 to 20 units – 2 units • projects with 21 or more units – 10% <p>Units currently subject to any lease arrangement must be included in the calculation. This includes lease arrangements containing provisions for the future purchase of the units such as lease-purchase and lease-to-own arrangements.</p> <p>Units are not included in the calculation if they are owned by the developer/sponsor and are vacant and being actively marketed for sale.</p>	✓	✓
	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	✓	✓
	The total space that is used for nonresidential or commercial purposes may not exceed 25%	✓	✓
	Projects containing manufactured housing that have not been approved by Fannie Mae through the PERS process, as required.	✓	✓
	Newly converted non-gut rehabilitation projects with more than four attached units that have not been approved by Fannie Mae through the PERS process, as required.	✓	✓
	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.	✓	✓
	<p>Project required to be registered with a federal or State securities agency 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, is ineligible.</p> <p>Projects that Operate as Hotels or Motels/Condominium Hotel 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:</p> <ul style="list-style-type: none"> • 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 		

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



INELIGIBLE PROJECTS FANNIE MAE AND FREDDIE MAC, CONTINUED

- 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 agreement (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. Underwriters must fully analyze all the characteristics of the project and related information to determine if the project is a Condominium Hotel.

Projects Subject to Split Ownership Arrangements

Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize the property are not eligible.

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.
- 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.

Projects that Contain Multi-Dwelling Unit Condos

Projects that contain multi-dwelling units are not permitted. These projects allow an owner to hold title (or share ownership and the accompanying occupancy rights) to a single legal unit that is sub-divided into multiple residential dwellings within the single legal unit, with ownership of the unit (or shares) evidenced by a single deed and financed by a single mortgage (or share loan). 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 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.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



**INELIGIBLE
PROJECTS
FANNIE MAE
AND FREDDIE
MAC,
CONTINUED**

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.

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.

Projects with Property that is not Real Estate
Fannie Mae and Freddie Mac acquire mortgage loans secured by real estate. Houseboats, boat slips, cabanas, timeshares, and other forms of property that are not real estate are not eligible. 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.

Projects that Operate as a Continuing Care Community or Facility

- Mortgages secured by units in a project that operates, either wholly or partially, as a continuing care community are ineligible. 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.

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.

Non-Incidental Business Arrangements
A 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
- income from agreements between the HOA and telephone, cable, and Internet companies for the purpose of providing communication or media services (for example, income related to a cell tower located on the roof of the project); or

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



**INELIGIBLE
PROJECTS
FANNIE MAE
AND FREDDIE
MAC,
CONTINUED**

- income from the leasing of units in the project acquired by the HOA through foreclosure.

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

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. Examples of builder/developer contributions that do not comply include, but are not limited to:

- Rent-backs or leasebacks
- Payments of principal, interest, taxes and insurance (PITI), or
- HOA assessments that exceed limitations in Section 5501.5, and
- Undisclosed contributions not disclosed on the Settlement/Closing Disclosure Statement

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%*

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 ownership.

*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 15% 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.

Commercial Space and Mixed-Use Allocation

Fannie Mae and Freddie Mac require that no more than 25% of a condo project or 25% of the building in which the condo project is located be commercial space or allocated to mixed-use. This includes commercial space that is above and below grade.

Any commercial space in the project or in the building 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.

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. Underwriters are responsible for determining the total square footage of the project, the square footage of the non-residential space, and the residential space square footage. This calculation includes the total square footage of commercial space even if the residential and commercial owners are represented by separate associations.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



**INELIGIBLE
PROJECTS
FANNIE MAE
AND FREDDIE
MAC,
CONTINUED**

Non-residential square footage includes:

- retail and commercial space,
- parking space that is separate from parking allocated to residential unit owners, and
- space that is non-residential in nature and owned by a private individual or entity outside of the HOA structure.

Examples include, but are not limited to:

- public parking facilities (fee-based or free),
- rental apartments,
- hotels,
- restaurants, and
- private membership-based fitness facilities.

Non-residential square footage excludes amenities that are:

- residential in nature;
- designated for the exclusive use of the residential unit owners (such as, but not limited to, a fitness facility, pool, community room, and laundry facility); and
- owned by the unit owners or the HOA.

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

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: <ul style="list-style-type: none"> • 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 legal documents	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

Project in Litigation – Freddie Mac

A project in which: (1) the HOA is named as a party to pending litigation, or (2) 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.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



INELIGIBLE PROJECTS FANNIE MAE AND FREDDIE MAC, CONTINUED

If the underwriter determines that the reason for the pending litigation involves minor matters with that do not affect the safety, structural soundness, functional use or habitability of the project, the project is eligible as long as 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 Underwriter 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 Underwriter's determination that the litigation involves minor matters. The attorney letter must state the reason for the litigation and that the insurance company has committed to provide the defense. The letter must also include the upper and lower limits of any potential monetary judgment against the HOA, or settlement with the HOA, and the likelihood that the amount of the judgment or settlement, including punitive damages, will not be covered by the HOA's insurance policy. If the attorney indicates the matter may not be fully covered by the HOA's insurance policy, then the project is ineligible
- The matters involve non-monetary neighbor disputes or rights of quiet enjoyment, or
- The HOA is the plaintiff in the litigation and the matter is minor with insignificant impact to the financial status of the project. For example, the HOA seeks 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. Provident Bank Mortgage must retain documentation to support its analysis that the reason for the dispute meets Freddie Mac's requirements for minor matters as described above.

Projects in Litigation -Fannie Mae (DU) loans:

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 underwriter 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 is limited to one of the following categories:

- 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 underwriter has reasonably determined the matter is minor and will result in an insignificant impact to the financial stability of the project;
- The reasonably anticipated or known damages and legal expenses are not expected to exceed 10% of the project's funded reserves;
- The HOA is seeking recovery of funds for issues that have already been remediated, repaired, or replaced and there is no anticipated material adverse impact to the HOA if funds are not recovered;
- Litigation concerning localized damage to a unit in the project that does not impact the overall safety, structural soundness, habitability, or functional use of the project; or
- The HOA is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA assessments.

Litigation that involves personal injury or death does not meet 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.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



INELIGIBLE PROJECTS FANNIE MAE AND FREDDIE MAC, CONTINUED	<p>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.</p> <p>The underwriter must obtain documentation to support his/her analysis that the litigation meets Fannie Mae's criteria for minor litigation as described above.</p> <ul style="list-style-type: none"> If the underwriter is aware of pending litigation and is unable to determine whether the litigation may be deemed a minor matter, the underwriter may contact Fannie Mae's Project Standards team to determine whether Fannie Mae will accept delivery of mortgages secured by units in the project.
LIVE-WORK CONDOMINIUM UNITS	<p>Fannie Mae Live-Work Projects Live-work projects are projects that permit individual residential unit owners to operate and run a small business from their residential unit. Units in projects that permit live-work arrangements are eligible provided the following additional requirements are met:</p> <ul style="list-style-type: none"> The overall character of the project is residential. Live-work units must be limited to residential units that are occupied as primary residences in which the unit owner is the owner and operator of the small business. The live-work unit must be primarily residential in character with minimal space designated to or modifications made to accommodate the unit owner's commercial activity. The commercial use must be consistent with the residential nature of the project. The project documents must permit commercial use and state what types of commercial use are acceptable. The project must conform to any applicable local ordinances governing the structure and operation of live-work projects including limitations on the number of live-work units or the percentage of live-work unit space permitted. <p>The underwriter must confirm that the live-work component of the project is considered and adequately addressed in the appraiser's assessment of the property. All of the following requirements must be met:</p> <ul style="list-style-type: none"> The appraisal must include an adequate description of the live-work characteristics of the project and the unit. The market value of the unit is primarily a function of its residential characteristics, rather than of the business use or any special business-use modifications that were made. The future marketability of the unit will not be negatively impacted by the business use or any special business-use modifications that have been made. <p>Freddie Mac Live-Work Projects Mortgages in Condominium Projects with live-work units are acceptable provided that:</p> <ul style="list-style-type: none"> The Condominium Mortgages complies with all applicable Freddie Mac Condominium requirements The primary use of the live-work Condominium Unit is residential and the non-residential use of such Condominium unit is secondary 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.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FANNIE MAE PROJECT REVIEW METHODS	Unit and Project Type	Project Review Methods
	Attached condo unit in a new or newly converted project,	<ul style="list-style-type: none"> • Full Review (completed with or without using Condo Project Manager (CPM), or • Fannie Mae Review through the standard Project Eligibility Review Service (PERS) process
	Attached condo unit in an established project,	<p>Based on the LTV, CLTV, and HCLTV ratios and Occupancy, these projects may be reviewed using a Limited Review.</p> <p>Projects not meeting the Limited Review criteria must be reviewed using a</p> <ul style="list-style-type: none"> • Full Review (with or without CPM), or • Fannie Mae review through the streamlined PERS process (for established condo projects)
	Attached condo unit in a new or established two-to four-unit condo project	<p>Based on the mortgage transaction and project characteristics, two-to four-unit condo projects may be reviewed using a Limited Review.</p> <p>Projects not meeting the Limited Review criteria must be reviewed using a</p> <ul style="list-style-type: none"> • Full Review (with or without CPM), or • Fannie Mae Review through the streamlined PERS process (for established condo projects)
	Detached condo unit in a new or established project	<ul style="list-style-type: none"> • No project review required. See <u>Requirements for Review of Detached Condos</u>
	<ul style="list-style-type: none"> • Condo project that contains manufactured homes • PUD project that contains single-wide manufactured homes • Newly-converted non-gut rehabilitation condo projects (projects with attached units only) that contain more than four residential units 	Fannie Mae Review through the standard PERS process.
FANNIE MAE PROJECT DOCUMENTATION	<p>The documentation needed to complete a project review may differ depending on the project and review type. Underwriters are responsible for determining the documentation needed to ensure that the project meets all of Fannie Mae's eligibility requirements. Project documentation may include, but is not limited to, the following:</p> <ul style="list-style-type: none"> • 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 	

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FANNIE MAE PROJECT DOCUMENTATION CONTINUED	<p>Sources for project information include, but are not limited to, appraisers, HOAs, management companies, real estate brokers, insurance professionals, and project developers. Underwriters are responsible for the accuracy of any information obtained from these sources.</p> <p>Condominium Project Questionnaires (FANNIE MAE) Fannie Mae provides two <i>Condominium Project Questionnaires</i> that will help underwriters collect data to determine condo project eligibility. The forms are posted on Fannie Mae’s website:</p> <ul style="list-style-type: none"> • <i>Condominium Project Questionnaire – Full Form</i> (Form 1076) contains a list of eligibility questions to support a Full Review, and • <i>Condominium Project Questionnaire – Short Form</i> (Form 1077) contains a shorter list of questions to facilitate a Limited Review. <p>The use of these forms is optional. However, underwriters are encouraged to use and retain the applicable questionnaire.</p>																						
FANNIE MAE PROJECT TYPE CODES	<p>When delivering a loan for a unit located in a project, the underwriter must provide the Project Type Code and any applicable special feature codes as shown in the following table. (Select appropriate code for the 1008):</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Project Type Code</th> <th style="text-align: left;">Description</th> </tr> </thead> <tbody> <tr> <td>P</td> <td>Limited Review – New Condo Project</td> </tr> <tr> <td>Q</td> <td>Limited Review – Established condo project</td> </tr> <tr> <td>R</td> <td>Full Review (with or without CPM) New Condo Project</td> </tr> <tr> <td>S</td> <td>Full Review (with or without CPM) Established condo project</td> </tr> <tr> <td>T</td> <td>Fannie Mae Review – Condo project that received a Final Project Approval through PERS using the standard or streamline process</td> </tr> <tr> <td>V</td> <td> <ul style="list-style-type: none"> • DU Refi Plus loans secured by a property in a condo project • Detached condo loans delivered without a condo project review • Fannie Mae to Fannie Mae limited cash-out refinances without a condo project review. </td> </tr> <tr> <th style="text-align: left;">Special Feature Code</th> <th style="text-align: left;">Description</th> </tr> <tr> <td>588</td> <td>Detached Condominium – used to identify detached units in a condo project</td> </tr> <tr> <td>296</td> <td>Project Eligibility Waiver</td> </tr> <tr> <td></td> <td>Used to identify loans for which Fannie Mae has provided a project eligibility waiver</td> </tr> </tbody> </table>	Project Type Code	Description	P	Limited Review – New Condo Project	Q	Limited Review – Established condo project	R	Full Review (with or without CPM) New Condo Project	S	Full Review (with or without CPM) Established condo project	T	Fannie Mae Review – Condo project that received a Final Project Approval through PERS using the standard or streamline process	V	<ul style="list-style-type: none"> • DU Refi Plus loans secured by a property in a condo project • Detached condo loans delivered without a condo project review • Fannie Mae to Fannie Mae limited cash-out refinances without a condo project review. 	Special Feature Code	Description	588	Detached Condominium – used to identify detached units in a condo project	296	Project Eligibility Waiver		Used to identify loans for which Fannie Mae has provided a project eligibility waiver
Project Type Code	Description																						
P	Limited Review – New Condo Project																						
Q	Limited Review – Established condo project																						
R	Full Review (with or without CPM) New Condo Project																						
S	Full Review (with or without CPM) Established condo project																						
T	Fannie Mae Review – Condo project that received a Final Project Approval through PERS using the standard or streamline process																						
V	<ul style="list-style-type: none"> • DU Refi Plus loans secured by a property in a condo project • Detached condo loans delivered without a condo project review • Fannie Mae to Fannie Mae limited cash-out refinances without a condo project review. 																						
Special Feature Code	Description																						
588	Detached Condominium – used to identify detached units in a condo project																						
296	Project Eligibility Waiver																						
	Used to identify loans for which Fannie Mae has provided a project eligibility waiver																						
EXPIRATION FOR PROJECT REVIEWS	<p>Project reviews must meet the following timeline requirements:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Project Review Process Employed</th> <th style="text-align: left;">Expiration of Project Review</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> • Limited Review • Full Review (with or without CPM) <p>Note: if CPM is used to approve the project, a copy of the unexpired CPM certification must be included in the loan file.</p> </td> <td>Must have been completed within 180 days prior to the note date</td> </tr> <tr> <td>Approved by Fannie Mae through PERS</td> <td>PERS approval must be valid (unexpired) as of the note date</td> </tr> </tbody> </table> <p>Note: The underwriter is not required to perform a review of condo projects or PUDs for DU Refi Plus loans.</p>	Project Review Process Employed	Expiration of Project Review	<ul style="list-style-type: none"> • Limited Review • Full Review (with or without CPM) <p>Note: if CPM is used to approve the project, a copy of the unexpired CPM certification must be included in the loan file.</p>	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																
Project Review Process Employed	Expiration of Project Review																						
<ul style="list-style-type: none"> • Limited Review • Full Review (with or without CPM) <p>Note: if CPM is used to approve the project, a copy of the unexpired CPM certification must be included in the loan file.</p>	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																						

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



<p style="text-align: center;">FANNIE MAE LIMITED REVIEW PROCESS</p>	<p>Unit and Project Types Eligible for Limited Review Underwriters conduct the Limited Review. To be eligible for a Limited Review, the unit securing the mortgage must be located in one of the following project types and meet the other criteria described below:</p> <ul style="list-style-type: none"> • an attached unit in an established condo project, or • a detached unit in a new or established condo project (including those projects with a mixture of attached and detached units). <p>Eligible Transaction for Limited Review of Attached Units in Established Condo Projects</p> <p>An attached unit in an established condo project, including a two- to four-unit condo project, is eligible for a Limited Review if it meets the transaction requirements in the following table:</p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Eligible Transactions-</th> </tr> <tr> <th colspan="2" style="text-align: center;">For Limited Review Attached Units in Established Condo Projects Including 2-to 4-unit Condo Projects</th> </tr> <tr> <th style="text-align: left;">Occupancy Type</th> <th style="text-align: left;">Maximum LTV, CLTV, and HCLTV Ratios</th> </tr> </thead> <tbody> <tr> <td>Principal residence</td> <td>90%</td> </tr> <tr> <td>Second home</td> <td>75%</td> </tr> <tr> <td>Investment Property</td> <td>Ineligible for Limited Review</td> </tr> </tbody> </table>	Eligible Transactions-		For Limited Review Attached Units in Established Condo Projects Including 2-to 4-unit Condo Projects		Occupancy Type	Maximum LTV, CLTV, and HCLTV Ratios	Principal residence	90%	Second home	75%	Investment Property	Ineligible for Limited Review
Eligible Transactions-													
For Limited Review Attached Units in Established Condo Projects Including 2-to 4-unit Condo Projects													
Occupancy Type	Maximum LTV, CLTV, and HCLTV Ratios												
Principal residence	90%												
Second home	75%												
Investment Property	Ineligible for Limited Review												
<p style="text-align: center;">FANNIE MAE LIMITED REVIEW ELIGIBILITY REQUIREMENTS</p>	<p>In completing a Limited Review, the underwriter must ensure that the project and subject unit meet all of the eligibility requirements described in the following table.</p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%; text-align: center;">✓</th> <th style="text-align: center;">Limited Review Eligibility Requirements</th> </tr> </thead> <tbody> <tr> <td></td> <td>The project is not an ineligible project (see ineligible project list)</td> </tr> <tr> <td></td> <td>The project does not consist of manufactured homes</td> </tr> <tr> <td></td> <td>The subject unit is a detached unit; the unit securing the mortgage must be 100% complete.</td> </tr> <tr> <td></td> <td>The appraisal of the subject unit meets all applicable Appraisal Requirements</td> </tr> <tr> <td></td> <td>The unit securing the mortgage satisfies all insurance requirements</td> </tr> </tbody> </table> <p>These requirements apply to both DU loan casefiles and manually-underwritten loans.</p> <p>Provided the project and loan transaction are eligible for and meet all of the eligibility requirements of the Limited Review process, the underwriter is not required to validate that the project also meets the eligibility requirements of another project review type.</p> <p>However, in the event the underwriter becomes aware of a circumstance that would cause the project or transaction to be ineligible under a Limited Review, the underwriter 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.</p> <p>Requirements of Review for Site Condos Site condos are a subset of detached condos. Site condos that meet the site condo definition and the additional site condo requirements below are eligible for delivery to Fannie Mae without a project review. However, it may be necessary to consult the project’s recorded legal documents to determine that the condo project meets the criteria listed below.</p>	✓	Limited Review Eligibility Requirements		The project is not an ineligible project (see ineligible project list)		The project does not consist of manufactured homes		The subject unit is a detached unit; the unit securing the mortgage must be 100% complete.		The appraisal of the subject unit meets all applicable Appraisal Requirements		The unit securing the mortgage satisfies all insurance requirements
✓	Limited Review Eligibility Requirements												
	The project is not an ineligible project (see ineligible project list)												
	The project does not consist of manufactured homes												
	The subject unit is a detached unit; the unit securing the mortgage must be 100% complete.												
	The appraisal of the subject unit meets all applicable Appraisal Requirements												
	The unit securing the mortgage satisfies all insurance requirements												

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FANNIE MAE LIMITED REVIEW ELIGIBILITY REQUIREMENTS CONTINUED	<p><u>Site Condo Definition</u></p> <p>A site condo is a detached condo unit in a condo project that meets all of the following:</p> <ul style="list-style-type: none"> • Project consists of all single-family detached units where the unit owners own the land and the improvements on the land • Project has minimal common elements, which may include project signage and limited undeveloped green space • Project does not own any common amenities including, but not limited to, swimming pool, fitness or recreational facility, playground, laundry facility, or clubhouse • Project does not own or have responsibility for maintaining its own infrastructure such as roads, street signage, electricity, water and sewage, snow removal, or garbage disposal • Project has minimal or no involvement with a homeowner’s association, including no or little dues; no special assessments; and no road, amenity, or common element maintenance. • Unit owners are required, per the condo legal documents, to carry their own individual hazard and other applicable insurance coverage, which may include flood and liability insurance.
FANNIE MAE FULL REVIEW PROCESS	<p><u>Overview</u></p> <p>The Full Review process is another method for the review of new and established condo projects. Underwriters performing a Full Review must ensure that the project meets all applicable Eligibility Requirements.</p> <p><u>Unit and Project Types Requiring Full Review</u></p> <p>The Full Review may be performed when the unit securing the mortgage is an attached unit located in one of the following project types:</p> <ul style="list-style-type: none"> • an established condo project, or • a new or newly converted condo project. <p>Detached condo units located in projects containing a mixture of attached and detached units are Eligible for review using the Limited Review process (see Limited Review Process).</p> <p>Two- to four-unit condo projects reviewed using the Full Review process must comply with all Requirements of the Full Review, unless specifically stated otherwise.</p> <p><u>Waiver of Project Eligibility Review for Fannie Mae to Fannie Mae Limited Cash-Out Refinances</u></p> <p>The project eligibility review is waived for all Fannie Mae- owned loans that are being refinanced as a limited cash-out refinance with the following conditions. Underwriters must confirm</p> <ul style="list-style-type: none"> • the loan to value is no higher than 80% (CLTV or HCLTV ratios may be higher); • the project has the required project-related property and flood insurance coverage, and • the project is not a condo hotel or motel, houseboat project, or a timeshare or segmented ownership project <p>Corporate review required – please submit the following:</p> <ul style="list-style-type: none"> • 1008 that reflects Fannie Mae Project Type “V” • DU findings • Fannie Mae Loan Lookup tool printout to confirm loan is currently owned by Fannie Mae: https://www.knowyouroptions.com/loanlookup <p><u>Full Review Eligibility Requirements for Attached Units in Condo Projects</u></p> <p>When determining the eligibility of a condo project on the basis of a Full Review, underwriters must ensure the condo project meets the eligibility requirements described in the following table.</p> <p>Note: All condos requiring Fannie Mae Full Project Review must be entered into CPM.</p>

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FANNIE MAE FULL REVIEW PROCESS, CONTINUED	✓	Full Review Eligibility Requirements – For Attached Units in New, Established, or Two- to Four-Unit Condo Projects
		The project must not be an ineligible project. (see Ineligible projects)
		The project must not be a manufactured housing project.
		The unit securing the mortgage satisfies all Fannie Mae's insurance requirements.
		The appraisal of the subject unit must meet all applicable appraisal requirements, as stated in Subpart B4-1, Appraisal Requirements.
		<p>No more than 15% of the total units in a project may be 60 days or more past due on their common expense assessments (also known as HOA dues). For example, a 100–unit project may not have more than 15 units that are 60 days or more past due.</p> <p>Note: In a two- to four-unit project, no unit owners may be 60 or more days past due on their HOA common expense assessments.</p> <p>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.</p>
	<p>Underwriters must review the HOA projected budget to determine that it;</p> <ul style="list-style-type: none"> • 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. <p>To determine whether the association has a minimum annual budgeted replacement reserve allocation of 10%, the underwriter must divide the annual budgeted replacement reserve allocation by the association’s annual budgeted assessment income (which includes regular common expense fees).</p> <p>The following types of income may be excluded from the reserve calculation:</p> <ul style="list-style-type: none"> • 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. <p>The underwriter may use a reserve study in lieu of calculating the replacement reserve of 10% provided the following conditions are met:</p> <ul style="list-style-type: none"> • the underwriter obtains a copy of an acceptable reserve study and retains the study and the 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. <p>Note: These requirements for a budget review, replacement reserves, and reserve study are not applicable to two- to four-unit projects.</p>	

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FANNIE MAE FULL REVIEW PROCESS, CONTINUED	<p>For projects in which the units are not separately metered for utilities, the underwriter must</p> <ul style="list-style-type: none"> • 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. <p>Note: These requirements are not applicable to two- to four-unit projects.</p>
	<p>The project must be located on contiguous parcels of land. It is acceptable for a project to be divided by public or private streets.</p>
	<p>The structures within the project must be within a reasonable distance from each other</p>
	<p>Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.</p>
	<p>Unit owners in the project must have the sole ownership interest in, and rights to the use of the project’s facilities, common elements, and limited common elements, except as noted below.</p> <p>Shared amenities are permitted only when two or more HOAs share amenities for the exclusive use of the unit owners. The associations must have an agreement in place governing the arrangement for shared amenities that includes the following:</p> <ul style="list-style-type: none"> • 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. <p>Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools.</p> <p>The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities—including parking and recreational facilities—may not be subject to a lease between the unit owners or the HOA and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.</p>
	<p>Fannie Mae permits the financing of a single or multiple parking space(s) with the mortgage provided that the parking space(s) and residential unit are included on one deed as evidenced on the legal description in the mortgage. In such cases, the LTV, CLTV, and HCLTV ratios are based on the combined value of the residential unit and the parking space(s).</p>
	<p>Phase I and II environmental hazard assessments are not required for condo projects unless the underwriter identifies an environmental problem through the performance of their project underwriting or due diligence.</p>
	<p>In the event that environmental problems are identified, the problems must be acceptable, as described in E-2-02, Suggested Format for Phase I Environmental Hazard Assessments</p>
	<p>For investment property transactions on attached units in established projects (including two- to four-unit projects), at least 50% of the total units in the project must be conveyed to principal residence or second home purchasers. This requirement does not apply if the subject mortgage is for a principal residence or second home.</p> <p>Financial institution-owned REO units that are for sale (not rented) are considered owner-occupied when calculating the 50% owner-occupancy ratio requirement.</p>

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FANNIE MAE FULL REVIEW PROCESS, CONTINUED	<p>When the project does not meet the owner-occupied ratio of 50%, an investment property transaction will only be eligible if the underwriter submits the project to Fannie Mae.</p> <ul style="list-style-type: none"> • for review under PERS and the project is approved (see <u>B4-2.2-06, Project Eligibility Review Service (PERS)</u>, for additional information), or • for a single-loan project eligibility waiver and the waiver is approved (see <u>B4-2.2-08, Projects with Special considerations and Project Eligibility Waivers</u>, for additional information.
	<p>If the project was a gut rehabilitation project, all rehabilitation work involved in a condo conversion must have been completed in a professional manner.</p> <p>“Gut rehabilitation” refers to the renovation of a property down to the shell of the structure, including the replacement of all HVAC and electrical components (unless the HVAC and electrical components are up to current code).</p> <p>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.</p> <p style="text-align: center;">Note: If the project is a newly converted non-gut rehabilitation project with more than four residential units, underwriter must submit the project to Fannie Mae for review and approval.</p> <p>For newly converted two- to four-unit non-gut rehabilitation projects, the following requirements apply:</p> <ul style="list-style-type: none"> • All rehabilitation work involved in a 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 the following: <ul style="list-style-type: none"> ○ reserves that adequately support the costs identified in the reserve study, even if the study recommends budgeting reserves greater than 10% of the project’s income; ○ funds to cover the total cost of any items identified in the reserve study or engineer’s report that need to be replaced within 5 years from the date of the study must be deposited in the HOA’s reserve account, in addition to the amount stated immediately above; and ○ a utility contingency of at least 10% of the previous year’s utility costs if the utilities are not separately metered. <p>Note: Newly converted gut rehabilitation projects must follow the standard gut rehabilitation requirements listed under the eligibility requirements above.</p>

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FANNIE MAE REPLACEMENT RESERVE STUDY REQUIREMENT	<p><u>Replacement Reserve Studies</u> 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 underwriter 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 underwriter approves the project.</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>While Fannie Mae does not require that a standard format be used for the reserve study, the following items must be addressed:</p> <ul style="list-style-type: none"> • 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. 				
FANNIE MAE FULL REVIEW: ADDITIONAL ELIGIBILITY REQUIREMENTS FOR ATTACHED UNITS IN NEW AND NEWLY CONVERTED CONDO PROJECTS	<p>When performing a Full Review of attached units in new or newly converted condo projects, Underwriters must ensure compliance with the following additional requirements.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #e0e0e0;"> <th style="width: 10%; text-align: center;">✓</th> <th style="text-align: center;">Full Review Requirements- For Attached Units in New or Newly Converted Condo Projects</th> </tr> </thead> <tbody> <tr> <td style="width: 10%;"></td> <td> <p>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.</p> <p>“Substantially complete” means that</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>Underwriters are expected to obtain appropriate documentation to verify that all buyer selection items for the unit being financed are properly installed prior to closing.</p> </td> </tr> </tbody> </table>	✓	Full Review Requirements- For Attached Units in New or Newly Converted Condo Projects		<p>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.</p> <p>“Substantially complete” means that</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>Underwriters are expected to obtain appropriate documentation to verify that all buyer selection items for the unit being financed are properly installed prior to closing.</p>
✓	Full Review Requirements- For Attached Units in New or Newly Converted Condo Projects				
	<p>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.</p> <p>“Substantially complete” means that</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>Underwriters are expected to obtain appropriate documentation to verify that all buyer selection items for the unit being financed are properly installed prior to closing.</p>				

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FANNIE MAE FULL REVIEW: ADDITIONAL ELIGIBILITY REQUIREMENTS FOR ATTACHED UNITS IN NEW AND NEWLY CONVERTED CONDO PROJECTS, CONTINUED		<p>Two- to four-unit projects: All units, common elements, and facilities within the project must be 100% complete and not subject to additional phasing even when the project is a new or newly converted project.</p>
		<p>At least 50% of the total units in the project or subject legal phase must have been conveyed or be under contract for sale to principal residence or second home purchasers.</p> <ul style="list-style-type: none"> • For a specific legal phase or phases in a new project, at least 50% of the total units in the subject legal phase(s), considered together with all prior legal phases, must have been conveyed or be under contract for sale to principal residence or second home purchasers. • For the purposes of this review process, a project consisting of one building cannot have more than one legal phase
	✓	<p>Two- to four-unit project: All but one unit in the project must have been conveyed or be under contract for sale to a principal residence or second home purchaser.</p>
		<p>Individual units in new condo projects must be available for immediate occupancy at the time of loan closing.</p>
	<p>Not Applicable to Two-to Four-Unit Condo Projects</p>	
		<p>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, underwriters must review the overall development plan for the master association to evaluate the acceptability of the project.</p>
		<p>The overall development plan of the project must be reviewed and the following must be acceptable:</p> <ul style="list-style-type: none"> • consistency of future and existing improvements, • time limitations for expansion, and • reciprocal easements between legal phases.
		<p>For projects (or the subject legal phase) that are only substantially complete rather than 100% complete, underwriters 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:</p> <ul style="list-style-type: none"> • cash deposits, • letters of credit, • assignments of certificates of deposit, or • assignments of other assets that can be easily converted to cash. <p>similar arrangements must be provided to support assurances against construction and structural defects. The assurances must</p> <ul style="list-style-type: none"> • 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
		<p>The developer or sponsor should provide for and promote the unit owners' early participation in the management of the project.</p>
		<p>The project must meet the condo project legal document requirements in the following section.</p>

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



**FANNIE MAE
FULL REVIEW:
ADDITIONAL
ELIGIBILITY
REQUIREMENTS
FOR ATTACHED
UNITS IN NEW
AND NEWLY
CONVERTED
CONDO
PROJECTS,
CONTINUED**

Condo Project Legal Documents Review Requirements for Attached 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 attached units in new and newly converted condo projects containing more than four residential units.

Condo Project Legal Documents Review Requirements- For Attached Units in New or Newly Converted Condo Projects	
Limitations on Ability to Sell/ Right of First Refusal	<p>Any right of first refusal in the condo project documents will not adversely impact the rights of a mortgagee or its assignee to:</p> <ul style="list-style-type: none"> • 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	<p>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:</p> <ul style="list-style-type: none"> • 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	<p>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</p>
Amendments to Documents	<p>Required provisions related to amendments to project documents are as follow:</p> <ul style="list-style-type: none"> • 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.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



<p>FANNIE MAE FULL REVIEW: ADDITIONAL ELIGIBILITY REQUIREMENTS FOR ATTACHED UNITS IN NEW AND NEWLY CONVERTED CONDO PROJECTS, CONTINUED</p>	<ul style="list-style-type: none"> 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.
---	---

<p>FANNIE MAE PROJECT ELIGIBILITY REVIEW SERVICE (PERS)</p>	<p>PERS is a review method available to underwriters to submit new, newly converted and established condo 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:</p> <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 50%;">Standard PERS Process</th> <th style="width: 50%;">Streamlined PERS Process</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> Newly converted non-gut rehabilitation attached units in condo projects that contain more than four residential units; and <p>Optional for:</p> <ul style="list-style-type: none"> All other new or newly converted condo projects </td> <td> <ul style="list-style-type: none"> Established condo projects that do not consist of manufactured homes </td> </tr> </tbody> </table>	Standard PERS Process	Streamlined PERS Process	<ul style="list-style-type: none"> Newly converted non-gut rehabilitation attached units in condo projects that contain more than four residential units; and <p>Optional for:</p> <ul style="list-style-type: none"> All other new or newly converted condo projects 	<ul style="list-style-type: none"> Established condo projects that do not consist of manufactured homes
Standard PERS Process	Streamlined PERS Process				
<ul style="list-style-type: none"> Newly converted non-gut rehabilitation attached units in condo projects that contain more than four residential units; and <p>Optional for:</p> <ul style="list-style-type: none"> All other new or newly converted condo projects 	<ul style="list-style-type: none"> Established condo projects that do not consist of manufactured homes 				

The standard PERS submission process is as follows:

Step	Action
1.	The underwriter performs a basic review to determine if the project satisfies all applicable Fannie Mae project eligibility and underwriting requirements prior to submission to PERS <ul style="list-style-type: none"> For newly converted non-gut rehabilitation condo projects, see below
2.	The underwriter completes a project submission package, which includes: <ul style="list-style-type: none"> <i>Project Eligibility Review Service Document Checklist</i> (Form 1030), and <i>Application for Project Approval</i> (Form 1026). <p>See below for additional forms that may be required.</p>
3.	The condo project's legal documents must comply with the Fannie Mae's requirements listed in Fannie Mae Seller Guide section <u>B4-2.2-03, Full Review: Additional Eligibility Requirements for Attached Units in New and Newly Converted Condo Projects.</u> <ul style="list-style-type: none"> A qualified attorney 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, but he or she cannot be an employee, principal, or officer of the developer or sponsor of the project. The underwriter must complete the <i>Warranty of Condominium Project Legal Documents</i> (Form 1054) and attach the attorney review as part of the PERS submission process.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



**FANNIE MAE
PROJECT
ELIGIBILITY
REVIEW
SERVICE (PERS)
CONTINUED**

4.	The Underwriter submits the complete project package, including all relevant supporting documentation, via email using the PERS Project Submission mailbox. See Fannie Mae Seller Guide section E-1-03, <u>List of Contacts</u> .
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 via email and posts approved projects on its website.
7.	Fannie Mae informs the underwriter of the specific review fee assessed for each PERS submission. Provident Bank Mortgage is billed for PERS review fees in their “Monthly Technology Invoice.” For fees, see the <i>Project Eligibility Review Service (PERS) Overview</i> on Fannie Mae’s website.

Required Forms for Standard PERS Submission

The forms shown below are required for a standard PERS submission.

Form	Title	Description
<u>1026</u>	<i>Application for Project Approval</i>	Requires certification that the underwriter 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.
<u>1029</u>	<i>Warranty of Project Presales</i>	Requires lender certification of sales and presales information.
<u>1030</u>	<i>Project Eligibility Review Service Document Checklist</i>	Checklist confirming all required documents have been provided (see below)
<u>1051</u>	<i>Project Development/Master Association Plan</i>	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.
<u>1054</u>	<i>Warranty of Condominium Project Legal Documents</i>	Requires lender certification of compliance with laws and Fannie Mae legal requirements
<u>1073</u>	<i>Individual Condo</i>	Individual condominium appraisal report.
<u>1073A</u>	<i>Analysis of Annual Income and Expenses – Operating Budget</i>	Requires lender certification that the operating budget has been analyzed; detailed operating budget information to be completed by HOA and lender.
<u>1081</u>	<i>Final Certification of Substantial Project Completion</i>	Lender certification that project is substantially complete; underwriter to document any exceptions or uncompleted.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



**FANNIE MAE
PROJECT
ELIGIBILITY
REVIEW
SERVICE (PERS)
CONTINUED**

The *Project Eligibility Review Service Document Checklist (Form 1030)* also requires that the underwriter 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.

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 PERS, 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.
	The project must comply with all requirements of the Full Review (as provided in B4-2.2-02, Full Review Process and B4-2.2-03, Full Review: Additional Eligibility Requirements for Attached 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 <ul style="list-style-type: none"> • 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 HOA's reserve account, in addition to the amount stated immediately above.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



**FANNIE MAE
PROJECT
ELIGIBILITY
REVIEW
SERVICE (PERS)
CONTINUED**

	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 units in the project or subject legal phase must have been conveyed or be under contract for purchase to principal 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.

Streamlined PERS Submission Process – For Established Projects

The streamlined PERS submission process for established condo projects that do not consist of manufactured homes is as follows

Step	Action
1.	The underwriter 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 underwriter completes a project submission package, which includes: <ul style="list-style-type: none"> • <i>Application for approval of Established Project (Form 1091).</i> • <i>Condominium Project Questionnaire – Full Form (Form 1076),</i> or a substantially similar form, 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 10% dedicated expense allocation in the budget to a replacement reserve for the future repair/replacement of the project’s major components).
3.	The underwriter submits the complete project package, including all relevant supporting documentation, via email using the PERS Project Submission mailbox.
4.	A member of the Projects 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 via email and posts approved projects on its website.
6.	Fannie Mae informs the underwriter of the specific review fee assessed for each PERS submission. Provident Bank Mortgage is billed for PERS review fees in their “Monthly Technology Invoice.” For fees, see the <i>Project Eligibility Review Service (PERS) Overview</i> 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

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FANNIE MAE PROJECT ELIGIBILITY REVIEW SERVICE (PERS) CONTINUED

Approval Designations
For both standard and streamlined PERS submissions, underwriters must submit complete project packages to Fannie Mae via email to PERS Project Submission. 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

Mortgages secured by units in projects must have a valid Fannie Mae Final Project Approval prior to delivery. Mortgages may not be delivered under the Conditional Project approval, Ineligible, or Suspension of the Application designations.

Availability of Project Information
Underwriters 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 date of issue.
- Final Project Approval: expires 18 months from the date of issue.
- Final Project Approval for Streamline PERS submissions expire 24 months from date of issue.

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

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

FREDDIE MAC PROJECT REVIEW METHODS

Project Review Method	Requirements										
Streamlined reviews for Established Projects	<ul style="list-style-type: none"> • The condominium unit must be located in an Established Condominium project, and • must not contain any Manufactured Homes in the project <table border="1" style="width: 100%; margin-top: 10px; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Streamlined Review for Condominium Units in Established Condominium Projects</th> </tr> <tr> <th style="width: 50%; text-align: center;">Occupancy</th> <th style="width: 50%; text-align: center;">Loan Product Advisor Accept Risk Class</th> </tr> </thead> <tbody> <tr> <td>Primary Residence</td> <td>90%</td> </tr> <tr> <td>Second Home</td> <td>75%</td> </tr> <tr> <td>Investment Property</td> <td>Not eligible</td> </tr> </tbody> </table> <p>Notes:</p> <ul style="list-style-type: none"> • Super Conforming Condominium Unit Mortgages are eligible for streamlined review. • Projects containing a mix of attached and detached units are eligible for a streamlined review if they meet the requirements listed above • If streamlined review requirements can be met, the underwriter is not required to comply with any of the other project review types. 	Streamlined Review for Condominium Units in Established Condominium Projects		Occupancy	Loan Product Advisor Accept Risk Class	Primary Residence	90%	Second Home	75%	Investment Property	Not eligible
Streamlined Review for Condominium Units in Established Condominium Projects											
Occupancy	Loan Product Advisor Accept Risk Class										
Primary Residence	90%										
Second Home	75%										
Investment Property	Not eligible										

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FREDDIE MAC PROJECT REVIEW METHODS, CONTINUED	<p>Established Condominium Project Reviews</p>	<p>If the mortgage does not comply with the eligibility requirements for streamlined reviews, the mortgage must comply with all of the following eligibility requirements:</p> <ul style="list-style-type: none"> • All units, common elements, and amenities must be complete • There are no manufactured homes in the project • Owner-Occupancy Requirements: <ul style="list-style-type: none"> ○ Primary Residences and second homes: no owner-occupancy requirements • Investment properties: at least 50% of the units in project are occupied as primary residences or second homes • Project budget – is consistent with the nature of the project and appropriate assessments are established to manage the project <ul style="list-style-type: none"> ○ Appropriate allocations for line items pertinent to the type and status of the project ○ There must be adequate funding for insurance deductible amounts ○ At least 10% of the budget provides funding for replacement reserves for capital expenditures, deferred maintenance based on the project’s age, estimated remaining life, and replacement cost of major common elements ○ The underwriter may use a reserve study instead of calculating the replacement reserves of 10% ○ Adequate funding for insurance deductible amounts • Delinquent assessments – 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. <p>Note: if established condominium project review requirements can be met, the underwriter is not required to comply with any of the other project review types.</p>
	<p>New Condominium Project Reviews</p>	<p>In addition to the project eligibility requirements above, the mortgage must comply with the following requirements:</p> <ul style="list-style-type: none"> • Project completion – the subject legal phase (or the subject building) and prior legal phases in which units have been offered for sale are substantially complete. “Substantially complete” indicates that the Common Elements are complete and the units are complete subject to the selection of buyer preference items. <ul style="list-style-type: none"> ○ There are no manufactured homes in the project ○ Owner-occupancy requirements – 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 other than the developer (or its successor) who will occupy the units as their primary residences or second homes • Project budget – HOA assessments must begin once the developer has ceased to pay operating expenses attributable to the project whether or not all units are sold. When any unit owner other than the developer pays assessments, the developer must pay the assessments attributable to the

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FREDDIE MAC PROJECT REVIEW METHODS, CONTINUED	<p style="text-align: center;">New Condominium Project Reviews, continued</p>	<p>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:</p> <ul style="list-style-type: none"> ○ There must be appropriate allocations for line items pertinent to the type and status of the project ○ If the project was recently converted, the developer must have initially funded a working capital fund in an amount consistent with the estimated remaining life of the common elements ○ 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. <ul style="list-style-type: none"> ▪ 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 ○ Seller may rely on a reserve study instead of the project budget providing a replacement reserve of at least 10% <ul style="list-style-type: none"> ● Delinquent assessments – 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 ● Compliance with laws – project has been created and exists in full compliance with applicable State law, the requirements of the jurisdiction in which the project is located and all other applicable laws and regulations governing creation of the project ● Limitations on ability to sell/right of first refusal –any right of first refusal in the project documents will not adversely impact the right of mortgagee or its assignee to: <ul style="list-style-type: none"> ○ Foreclose or take title to a unit pursuant to the remedies in the mortgage, or ○ 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 ● 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 underwriter’s review and determination of project eligibility:
--	---	--

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



<p style="text-align: center;">FREDDIE MAC PROJECT REVIEW METHODS, CONTINUED</p>	<p>New Condominium Project Reviews, continued</p>	<ul style="list-style-type: none"> ○ 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 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 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. ● Mortgagee consent: <ul style="list-style-type: none"> ○ The Project Documents or applicable State law must provide that amendments of a material adverse nature to first-lien mortgages 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 ○ 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 ○ 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. ● Rights of condominium mortgagees and guarantors – 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: <ul style="list-style-type: none"> ○ Any condemnation or casualty loss that affects either a material portion of project or the unit securing its mortgage ○ Any 60-day delinquency in 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
---	---	--

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



<p style="text-align: center;">FREDDIE MAC PROJECT REVIEW METHODS, CONTINUED</p>		<ul style="list-style-type: none"> • First mortgagee’s rights confirmed – the project documents must not give a Condominium unit owner or 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 taking of units and/or common elements. • Marketing units in the condominium project – sales program developed for marketing units in a project must recognize and provide procedures for complying with all laws pertaining to the advertising and sale of real estate, the form and content of sales contracts and the method for handling deposits connected with the sale. • When Project Documents allow the HOA to retain the right of first refusal (i.e., the right to provide a substitute buyer or to have the first option to purchase a unit), that right cannot be exercised in any way that constitutes unlawful discrimination, or that is likely to impair the marketability of the units in the project.
	<p>2- to 4-Unit Condominium Project Reviews</p>	<p>In addition to complying with project eligibility requirements and the definition of 2- to 4- Unit Condominium Project above, the mortgage must comply with the following requirements:</p> <ul style="list-style-type: none"> • Project completion requirements – all units and common elements must be complete (including common elements owned by a master association) • Owner-occupancy requirements – all but one unit must have been conveyed to purchasers (other than the developer) who occupy their units as primary residences or second homes <p>Note: if these requirements can be met, the underwriter is not required to comply with any of the other project review types.</p>
	<p>Detached Condominium Reviews</p>	<p>In addition to complying with project eligibility requirements and the definition of a Detached Condominium Project above, the project must not include manufactured homes.</p> <p>Note: if the above requirements can be met, the underwriter is not required to comply with any of the other project review types.</p>
<p style="text-align: center;">FREDDIE MAC REPLACEMENT RESERVE STUDY</p>	<p>Requirements when an underwriter relies on a project reserve study for Established Condominium Projects:</p> <p>The reserve study must comply with the following requirements:</p> <ul style="list-style-type: none"> • The reserve study generally must include: <ul style="list-style-type: none"> ○ 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 • 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 PBM’s determination that a condominium project is eligible 	

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



<p style="text-align: center;">FREDDIE MAC REPLACEMENT RESERVE STUDY</p>	<ul style="list-style-type: none"> • 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 California statutes • The reserve study must comment favorably on the project’s age, estimated remaining life, structural integrity and the replacement of major components <p>If relying 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.</p> <p>The underwriter must obtain and retain in the mortgage file a copy of the reserve study. The underwriter must also perform an analysis of the study and retain the analysis in the mortgage file.</p> <p>Note: if the requirements for established condominium projects are met, then the requirements for any other project review types are not applicable.</p>
<p style="text-align: center;">FANNIE MAE INSURANCE REQUIREMENT FOR CONDO AND PUD PROJECTS</p>	<p>Required Coverage for Condo, or PUD Projects This section covers property insurance requirements for insurance policies covering the common elements of condo and PUD projects—the project’s blanket or master policy.</p> <p>Acceptable policies must provide coverage for either an individual project or multiple affiliated projects. The insurance policy must at a minimum protect against fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard “all risk” or “special form” endorsement.</p> <p>If the policy does not include an “all risk” or “special form” endorsement, Fannie Mae will accept a policy that includes the “broad form” covered causes of loss. The applicable requirements are:</p> <ul style="list-style-type: none"> • PUD Requirements — The HOA must maintain a property insurance policy, with premiums being paid as a common expense. The policy must cover all of the common elements except for those that are normally excluded from coverage, such as land, foundation, and excavations. Fixtures and building service equipment that are considered part of the common elements, as well as common personal property and supplies, should be covered. Individual insurance policies are also required for each unit mortgage that Fannie Mae purchases in a PUD project. If the project’s legal documents allow for blanket insurance policies to cover both the individual units and the common elements, Fannie Mae will accept the blanket policies in satisfaction of its insurance requirements for the units. • Condo Requirements — The underwriter must review the entire condo project insurance policy to ensure the HOA maintains a master or blanket type of insurance policy, with premiums being paid as a common expense. The insurance requirements vary based on the type of HOA master or blanket insurance policy as follows: <ul style="list-style-type: none"> • “Single Entity” policy: The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. The amount of coverage must be sufficient to restore the condo unit to its condition prior to a loss claim event. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FANNIE MAE INSURANCE REQUIREMENT FOR CONDO AND PUD PROJECTS CONTINUED

“All-In” (sometimes known as an “all-inclusive”) policy: The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

“Bare Walls” policy: This policy typically provides no coverage for the unit interior, which includes fixtures, equipment, and replacement of interior improvements and betterments. As a result, 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, as determined by the insurer.

Amount of Coverage

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in the project. An insurance policy that includes any of the following coverage, either in the policy language or in a specific endorsement to the policy, is acceptable:

- Guaranteed Replacement Cost- the insurer agrees to replace the insurable property regardless of the cost;
- Extended Replacement Cost- the insurer agrees to pay more than the property’s insurable replacement cost, or
- Replacement Cost – the insurer agrees to pay up to 100% of the property’s insurable replacement cost.

Policies with Coinsurance

Policies with coinsurance provisions can create additional risk for an HOA in the event of a loss if the amount of insurance coverage is less than the full insurable value. Master property policies that provide coverage at 100% of the insurable replacement cost of the project improvements, including the individual units, alleviate the risk of a coinsurance penalty being applied in the event of a loss.

If the policy has a coinsurance clause, inclusion of an Agreed Amount Endorsement or selection of the Agreed Value Option (which waives the requirement for coinsurance) is considered acceptable evidence that the 100% insurable replacement cost requirement has been met. If an Agreed Amount/Agreed Value provision is used, the Agreed Amount must be no less than the estimated replacement cost.

If the policy includes a coinsurance clause, but the coinsurance provision is not waived, the policy is still eligible if evidence acceptable confirms that the amount of coverage is at least equal to 100% of the insurable replacement cost of the project improvements. This evidence (documentation) must be maintained by the servicer.

Maximum Deductible Amounts

For policies covering the common elements in a PUD project and for policies covering condo or projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy.

For losses related to individual units in a project or for individual PUD units that are covered by the blanket policy for the project, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit. If, however, the policy provides for a wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



<p>FANNIE MAE INSURANCE REQUIREMENT FOR CONDO AND PUD PROJECTS CONTINUED</p>	<p>For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.</p> <p>Special Requirements for Condo Projects Additional insurance policy requirements for condo projects are as follows:</p> <ul style="list-style-type: none"> • Any Insurance Trust Agreement is recognized. • The right of subrogation against unit owners is waived. • The insurance is not prejudiced by any acts or omissions of individual unit owners that are not under the control of HOA. • The policy must be primary, even if a unit owner has other insurance that covers the same loss. <p>Name Insured The table below provides the requirements regarding the name of the insured entity.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Coverage Type</th> <th style="width: 50%;">Requirement for Name Insured</th> </tr> </thead> <tbody> <tr> <td>Condo projects</td> <td>The policy must show the HOA as the name insured. If the condo’s legal documents permit it, the policy can specify an authorized representative of the HOA, including its insurance trustee, as the name insured. The “loss payable” clause should show the HOA or the insurance trustee as a trustee for each unit owner and the holder of each unit’s mortgage loan.</td> </tr> <tr> <td>PUD common areas</td> <td>The policy must show the HOA as the named insured.</td> </tr> </tbody> </table> <p>Notices of Changes or Cancellation For Condo Projects the policy must require the insurer to notify in writing the HOA (or insurance trustee) at least 10 days before it cancels or substantially changes a condo project’s coverage</p>	Coverage Type	Requirement for Name Insured	Condo projects	The policy must show the HOA as the name insured. If the condo’s legal documents permit it, the policy can specify an authorized representative of the HOA, including its insurance trustee, as the name insured. The “loss payable” clause should show the HOA or the insurance trustee as a trustee for each unit owner and the holder of each unit’s mortgage loan.	PUD common areas	The policy must show the HOA as the named insured.
Coverage Type	Requirement for Name Insured						
Condo projects	The policy must show the HOA as the name insured. If the condo’s legal documents permit it, the policy can specify an authorized representative of the HOA, including its insurance trustee, as the name insured. The “loss payable” clause should show the HOA or the insurance trustee as a trustee for each unit owner and the holder of each unit’s mortgage loan.						
PUD common areas	The policy must show the HOA as the named insured.						
<p>FANNIE MAE LIABILITY INSURANCE</p>	<p>Projects Requiring Liability Insurance Liability insurance is required for all condo projects, with the following exceptions:</p> <ul style="list-style-type: none"> • Condo projects reviewed under the Limited Review method, or • Two-to four unit condo projects that do not maintain commercial general liability insurance but meet the following criteria: <ul style="list-style-type: none"> ○ The project is horizontal in nature (no vertical or stacked units); ○ There is documentable evidence acceptable to the underwriter that the project does not contain any common elements that would require liability coverage (for example, units are only separated by lot lines and a party wall); and ○ The association’s legal documents do not require the maintenance of a general liability policy in the name of the HOA. <p>Liability Insurance Requirements The HOA 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. The insurance must also cover commercial spaces that are owned by the HOA, even if they are leased to others. The liability insurance policy must provide coverage for bodily injury and property damage that results from the operation, maintenance, or use of the project’s common areas and elements.</p>						

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



<p>FANNIE MAE LIABILITY INSURANCE CONTINUED</p>	<p>Amount of Coverage</p> <ul style="list-style-type: none"> The amount of coverage must be at least \$1 million for bodily injury and property damage for any single occurrence. If the policy does not include severability of interest or separation of insureds in its terms, Fannie Mae requires a specific endorsement to preclude the insurer’s denial of a unit owner’s claim because of negligent acts of the HOA or of other unit owners. <p>Cancellation/Modification Requirements</p> <p>The liability insurance policy for a condo must include a provision that calls for at least ten days’ written notice to the HOA or insurance trustee before the policy can be canceled or substantially modified for any reason.</p>
<p>FREDDIE MAC INSURANCE REQUIREMENT FOR CONDO AND PUD PROJECTS</p>	<p>Condominiums</p> <p>The condominium homeowners association must insure common elements and property for 100% of their replacement cost under a <i>Condominium Association Coverage Form</i> of the ISO or equivalent commercial package policy which covers, at a minimum, loss from causes identified in the ISO’s <i>Commercial Property Causes of Loss – Special Form</i> endorsement.</p> <p>Common elements and property that must be insured under the condominium homeowners association’s policy include the following:</p> <ul style="list-style-type: none"> Building and structures in the Condominium Project Fixtures, machinery, equipment and supplies maintained for the service of the condominium project Fixtures, improvements, alterations and equipment within the individual condominium units, regardless of ownership, unless the condominium unit owners are required by the governing documents to insure these items. To the extent the condominium homeowners association’s policy does not cover the interior of the unit or the improvements to the unit, the Borrower must maintain an HO-6 unit owner policy. Coverage for the HO-6 unit owner policy must be sufficient to repair the Condominium Unit to at least its condition prior to the claim. <p>The insurance coverage must provide for loss or damage settlement at replacement cost.</p> <p>A policy with a coinsurance clause, inclusion of an Agreed Amount Endorsement or selection of the Agreed Value Option (which waives the requirement for coinsurance) is considered acceptable evidence that the 100% replacement cost requirement has been met. If an Agreed Amount/Agreed Value provision is used, the Agreed Amount must be no less than the estimated replacement cost. Also, if a coinsurance clause is included in the condominium project’s policy, the policy is still eligible if the amount of coverage is at least equal to 100% replacement cost.</p> <p>The condominium homeowners association must also obtain any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following where applicable and available:</p> <ul style="list-style-type: none"> Agreed Amount, Agreed Value, Replacement Guarantee or Extended Replacement Inflation guard Ordinance or law Mechanical Breakdown and Equipment Failure with an Ordinance of Law endorsement <p>The insurance limit per covered mechanical breakdown or equipment failure must equal the lesser of:</p> <ul style="list-style-type: none"> 100% of the replacement cost of the building housing the property which is susceptible to mechanical breakdown or equipment failure, or \$2 million

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FREDDIE MAC INSURANCE REQUIREMENT FOR CONDO AND PUD PROJECTS CONTINUED

If a higher limit is required by private mortgage investors for Condominium Projects similar in construction, location and use, the condominium homeowners association must maintain the higher insurance limits.

Mortgages secured by a condominium unit in a condominium project with a master or blanket insurance policy that combines insurance coverage for multiple unaffiliated condominium projects are not eligible for sale to Freddie Mac.

Projects that are under the same master association and/or share the use of common facilities, whether those facilities are individually owned or owned as part of a master association or development, are considered to be affiliated projects. Multiple condominium projects that do not meet one of these criteria, even if they are under the management of the same management company, are not considered to be affiliated projects.

The deductible for fire, water (not caused by flooding) or wind damage to the insured improvements (generally designated as "building" in the insurance policy) may not exceed 5% of the limit maintained for building coverage.

The insurance policy of the condominium homeowners association must name the insured in substantially the same language indicated below:

Association of Owners of the [Name of the Condominium Project] Condominium for the use and benefit of the individual owners (designated by name, if required by law or the governing documents).

In the event the HO-6 unit owner policy is required, the policy must include the standard Mortgage clause.

Detached Condominiums

If the mortgaged premises is in a Detached Condominium Project and the condominium governing documents so permit, Freddie Mac will accept insurance for the mortgaged premises that meets the requirements applicable to 1- to 4-unit properties. The condominium unit homeowners association must maintain all other applicable insurance coverages as required.

Planned Unit Developments (PUDs)

Unit owners within a Planned Unit Development can insure their units individually.

If the individual units are covered by insurance purchased by their respective owners, the PUD homeowners association must also insure Common Elements for 100% of their replacement cost under a commercial package policy which covers, at a minimum, loss from causes identified in the Insurance Services Office's (ISO's) *Commercial Property Causes of Loss – Special Form* endorsement. If the insurable value of the Common Elements is minimal or does not exist, the homeowners association is not required to insure the Common Elements. Examples of Common Elements with minimal insurable value may include items such as entrance signage and lamp posts. Common Elements with an insurable value that is not de minimis are required to be insured (e.g., a PUD's clubhouse or pool house). The policy must provide for loss or damage settlement at replacement cost.

A policy with a coinsurance clause, inclusion of an agreed amount endorsement or selection of the agreed value option (which waives the requirement for coinsurance) is considered acceptable evidence that the 100% replacement cost requirement has been met. If an agreed amount/agreed value provision is used, the agreed amount must be no less than the estimated replacement cost. If a coinsurance clause is included in the PUD homeowners association's policy, the policy is still eligible if the amount of coverage is at least equal to 100% replacement cost.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



<p>FREDDIE MAC INSURANCE REQUIREMENT FOR CONDO AND PUD PROJECTS CONTINUED</p>	<p>Freddie Mac will also accept a master or blanket insurance covering all units in the PUD as well as insurable Common Elements, if called for in the PUD’s governing documents. Such coverage must meet the requirements applicable to each PUD and those applicable to insurable Common Elements. However, mortgages secured by units in a PUD with a master or blanket insurance policy that combines insurance coverage for multiple unaffiliated PUDs are not eligible for sale to Freddie Mac. Projects that are under the same master association and/or share the use of common facilities, whether those facilities are individually owned or owned as part of a master association or development, are considered to be affiliated projects. Multiple PUD projects that do not meet one of these criteria, even if they are under the management of the same management company, are not considered to be affiliated projects. Deductibles are allowed under this blanket coverage under the terms and conditions stipulated below. The homeowners association must also obtain any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following where applicable and available:</p> <ul style="list-style-type: none"> • Agreed amount, agreed value, replacement guarantee or extended replacement • Inflation guard • Ordinance or law • Mechanical breakdown and equipment failure with an ordinance or law endorsement <p>The insurance limit per covered mechanical breakdown or equipment failure must equal the lesser of:</p> <ul style="list-style-type: none"> • 100% of the replacement cost of the building housing the property which is susceptible to mechanical breakdown or equipment failure; or • \$2 million <p>If a higher limit is required by private mortgage investors for PUDs similar in construction, location and use, the PUD homeowners association must maintain the higher insurance limit.</p> <p>The deductible for fire, water (not caused by flooding) or wind damage to the insured improvements (generally designated as “building” in the insurance policy) may not exceed five percent of the limit maintained for building coverage.</p> <p>The insurance policy of the PUD homeowners association must name the insured in substantially the same language indicated below:</p> <p style="text-align: center;"><i>Association of Owners of the [Name of PUD] Planned Unit Development for the use and benefit of the individual owners (designated by name, if required by law or the governing documents).</i></p>
<p>FREDDIE MAC LIABILITY INSURANCE</p>	<p>Condominiums</p> <p>The condominium homeowners association must maintain commercial general liability (CGL) insurance covering all common areas, common elements, commercial spaces and public ways in the Condominium project.</p> <p>If not already included in the terms of the CGL coverage, there must be a “severability of interest” endorsement precluding the insurer’s denial of a unit owner’s claim because of negligent acts by the association or other unit owners.</p> <p>The association must also maintain any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following where applicable and available:</p> <ol style="list-style-type: none"> 1. Comprehensive automobile liability 2. Bailee’s liability 3. Elevator collision liability 4. Garage keeper’s liability 5. Host liquor liability 6. Worker’s compensation and employer’s liability

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FREDDIE MAC LIABILITY INSURANCE, CONTINUED

7. Contractual liability

The insurer's limit of liability per occurrence for personal injury, bodily injury or property damage under the terms of the above coverages must be at least \$1 million and the coverage must provide for claim settlements on an occurrence basis.

For condominium projects reviewed under the Streamline Project Review type or the Detached Condominium Project review type, PBM is not required to determine the existence or adequacy of the project liability insurance described in this section.

Fidelity or Employee Dishonesty Insurance for Condominiums

Freddie Mac requires all condominium homeowners associations in Condominium Projects that consist of more than 20 units to obtain and maintain fidelity or employee dishonesty insurance that meets the terms and conditions of coverage detailed in this section. If a Condominium Project is located in a State that requires condominium homeowners associations to obtain and maintain fidelity or employee dishonesty insurance on terms or conditions different from Freddie Mac's, Freddie Mac will deem compliance with the State's requirements to be in compliance with Freddie Mac's requirements.

The condominium homeowners association must maintain fidelity or employee dishonesty insurance covering losses resulting from dishonest or fraudulent acts committed by the association's directors, managers, trustees, employees or volunteers who manage the funds collected and held for the benefit of the Condominium Unit owners. A professional management firm must be insured to the same extent as an association that manages its own operation. The management firm must submit evidence of such coverage to the association or must be insured under the condominium homeowners association's policy.

Fidelity or employee dishonesty insurance coverage must have all of the following characteristics:

- The policy must name the condominium homeowners association as the insured, and premiums must be paid as a common expense by the association
- The coverage must equal no less than the maximum amount of funds in the custody of the condominium homeowners association or its management firm at any one time, unless the amount of the funds is less than or equal to \$5,000, in which case fidelity or employee dishonesty insurance is not required. A lower coverage limit is acceptable if the condominium's Project Documents require the homeowners association and any management firm to adhere to certain financial controls. However, in such case, the coverage limit must at least equal the sum of three months of assessments on all units in the Condominium Project.

Freddie Mac will accept reduced fidelity or employee dishonesty insurance coverage based on greater financial controls if such controls include at least one of the following provisions:

- The condominium homeowners association or its management firm maintains separate accounts for the operating budget and the reserve fund. The depository institution in which funds are deposited sends copies of the monthly account statements directly to the association.
- Separate records and accounts are maintained for each condominium homeowners association or other community association using the management firm's services. The management firm does not have the authority to draw checks on or to transfer funds from the reserve fund of the condominium homeowners association
- Two or more members of the board of directors must sign any checks drawn on the reserve fund.

For Condominium Projects reviewed under the streamlined project review type or the Detached Condominium Project review type, PBM is not required to determine the existence or adequacy of the fidelity or employee dishonesty insurance described above.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FANNIE MAE PUD PROJECTS

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 this policy, all of the following requirements must be met:

- each unit owner’s membership in the HOA must be automatic and nonseverable,
- 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 under Fannie Mae’s policies. 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.

PUD projects are not eligible for review using the PERS process.

Eligibility Requirements for Units in PUD Projects

Underwriter must determine that the subject unit meets the following requirements:

✓	Eligibility Requirements- For Units in PUD Projects
	The appraisal of the unit meets all appraisal requirements in Chapter B4-1, Appraisal Requirements.
	The individual unit securing the mortgage must be substantially complete. Any unfinished items must be in compliance with Fannie Mae’s policy for Postponed Improvements (see B4-1.2-03, Requirements for Postponed Improvements).
	The unit securing the mortgage satisfies all Fannie Mae’s insurance requirements in Subpart B7, Insurance, including all provisions applicable to PUD projects
	The PUD project must be in compliance with Fannie Mae’s policy for priority liens Fannie Mae Seller Guide section B4-2.1-02, Ineligible Projects.)

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

If the subject property is an Attached unit in a PUD project and the appraisal is completed on Form 1073 (Individual Condominium Appraisal Report), all of the Project Information section on page one of the appraisal must be completed. If the subject property is involved in litigation the underwriter must follow the requirements in the Ineligible Projects section (Litigation).

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



FREDDIE MAC PUD PROJECTS

Definitions

- PUD: A real estate project in which each unit owner holds title to a lot and the improvements on the lot, and the homeowners association (HOA) 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 HOA to maintain the common elements for their benefit
- Covenants, Conditions and Restrictions (CC&Rs): CC&Rs are part of the Project Documents that dictate how the Homeowners Association operates, and define the responsibilities of the unit owners, tenants and guests
- Homeowners Association: a Homeowners Association is an association comprised of unit owners that maintains the common elements in a Planned Unit Development for the benefit of the unit owners. In Planned Unit Developments, 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 loan must comply with both Condominium and PUD requirements and warranties

Leasehold Estates

If the PUD unit or any PUD Common Element is on a leasehold estate, the loan must comply with both the leasehold estate requirements and the PUD requirements and warranties.

Warranties for Planned Unit Developments

- The property must meet the definition of Planned Unit Development (PUD) listed above
- When reviewing a PUD to determine if it meets requirements, underwriters must consider all units and space that are included as integral parts of the subject PUD's Homeowners Association. Freddie Mac's determination of whether a Project is a PUD, however, is conclusive.
- Property insurance requirements must be met.

Appraisal Requirements

- The appraiser must report the Planned Unit Development's legal name, the Homeowners Association assessments, and the property rights for each comparable sale; and must compare them to the subject Planned Unit Development. The appraiser must also identify the common elements/amenities available to the unit owners, comment on their condition, and analyze how they compare to the common elements/amenities of competing PUDs
- Comparable sales for a unit in a PUD may be detached 1-unit dwellings that are not subject to CC&Rs, are in the same market, and compete for the same purchasers. The appraiser must support the use of 1-unit dwellings not subject to CC&Rs as comparable sales, and must analyze and report the impact the deed restrictions have on marketability and value.

Reciprocal Project Reviews

Freddie Mac will:

- Purchase mortgages secured by a 1-unit residential dwelling in a Planned Unit Development that Fannie Mae has approved, and
- Mortgages secured by a 1-unit residential dwelling in an FHA-approved Planned Unit Development, provided they meet the following requirements:
 - As of the settlement date:
 - The Planned Unit Development must comply with the applicable eligibility requirements and warranties; any terms and conditions set forth in the acceptance/approval have not expired, and have not been rescinded or modified in any way
 - PBM is not aware of any circumstances that would make the Planned Unit Development ineligible for approval/acceptance.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



<p style="text-align: center;">PROJECT ELIGIBILITY WAIVERS FANNIE MAE</p>	<p>Projects with Special Considerations The underwriter 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 underwriter 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.</p> <p>Project Eligibility Waivers If the underwriter believes that a specific eligibility requirement should be waived for a particular project with respect to a single loan, then the underwriter must;</p> <ul style="list-style-type: none"> • first enter the project into CPM before requesting a waiver through the Credit Variance Administration System (CVAS), and • request a waiver from Fannie Mae through CVAS. <p>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.</p> <p>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. Underwriters must not request a project eligibility waiver for a unit in a new project to circumvent the required review for new projects.</p>
<p style="text-align: center;">RECIPROCAL PROJECT REVIEWS FREDDIE MAC</p>	<p>Condominium Unit Mortgages secured by Condominium Units located in Condominium Projects approved by other secondary market participants are eligible for Freddie Mac if the Condominium Unit Mortgages comply with the following requirements:</p> <p style="padding-left: 20px;">(a) Fannie Mae-approved and Certified Projects</p> <p style="padding-left: 20px;">With the exception of Mortgages secured by units in Condominium Projects that receive Fannie Mae Special Approval designations or Fannie Mae Project Eligibility Review Service (PERS) Conditional Approval designations, Freddie Mac will purchase Mortgages secured by 1-unit residential dwellings in Condominium Projects that</p> <ul style="list-style-type: none"> • Fannie Mae has approved through Final Project Approval through PERS, or • The underwriter has approved as a Fannie Mae “Full Review”, submitted to Fannie Mae’s Condo Project Manager (CPM) (Condo Project Manager and CPM are trademarks of Fannie Mae) and received a project acceptance certification, if the Mortgage complies with the requirements below: <p>As of the Settlement Date:</p> <ol style="list-style-type: none"> 1. The project complies with all applicable Fannie Mae eligibility requirements and lender warranties 2. Any terms and conditions set forth in the acceptance have not expired, and have not been rescinded or modified in any way 3. 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) or documentation of PBM’s project approval as a Fannie Mae “Full Review” completed with a CPM project acceptance certification. 4. The Condominium Project complies with the project eligibility requirements listed in these Guidelines.

FANNIE MAE/FREDDIE MAC CONDO/PUD GUIDELINES



**RECIPROCAL
PROJECT
REVIEWS
FREDDIE MAC**

✓	Pre-PERS Submission Review Requirements for Projects Consisting of Manufactured Homes
	Review all aspects of the project to determine that it satisfies Fannie Mae condo eligibility requirements
	Review all aspects of the project to determine that it meets all eligibility requirements for the Full Review for condos, requirements for PUDs, and any other applicable requirements
	Review the manufactured housing unit to confirm that it meets all requirements
	Perform a thorough underwriting analysis of the project
	Note: the underwriter must provide his/her underwriting analysis conclusion when the project is submitted to Fannie Mae for consideration.