

# Chapter B4-2, Project Standards



## Project Standards

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### Introduction

This chapter describes Fannie Mae's project standards, policies, and requirements.

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## Section B4-2.1, General Project Standards



### B4-2.1-01, General Information on Project Standards (11/10/2014)

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#### Introduction

This topic contains general information on Fannie Mae's project standards, including:

- Fannie Mae's Project Risk Overview
  - Project Documentation
  - Project Types
  - Project Review Methods
  - Delivery Requirements
  - Document Retention for Project Eligibility
  - Expiration for Project Reviews
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#### Fannie Mae's Project Risk Overview

The quality of mortgages secured by units in condo, co-op, and planned unit development (PUD) projects can be influenced by certain characteristics of the project or by the project as a whole. Before delivering a loan secured by an individual unit in a project, the lender must determine that the project meets Fannie Mae's eligibility requirements.

Project eligibility risk is a risk that is distinct from the credit risk presented by individual borrowers. Units located in a project present risks that are also distinct from the risks associated with properties that are not part of a homeowners' association (HOA) or project. These risks include the following:

- the financial stability and viability of the project;

- the condition and marketability of the project;
- limitations on the unit owner's ability to control the decision-making for the project, occupy the unit, or utilize the project's amenities and common elements;
- dissolution of the project and the unit owner's resulting rights and responsibilities;
- project-level litigation;
- project-level misrepresentation and fraud;
- the inability to cure a mortgage default due to restrictions in the project documents such as, but not limited to, right of first refusal provisions; and
- insurance coverage that is inadequate to protect the project from unexpected losses.

Project eligibility and financial strength are key drivers of credit performance on individual unit mortgages and critical to the long-term success of the project. Fannie Mae's project eligibility and underwriting requirements seek to mitigate project level risks and to ensure that projects are demonstrably well-managed.

Lenders that sell mortgage loans secured by units in a condo, co-op, or PUD project to Fannie Mae are expected to have staff that are knowledgeable about and qualified to evaluate the specific risks presented by these types of projects. The project review is in addition to the review the lender completes for underwriting the borrower, the transaction terms, and the individual unit appraisal.

Fannie Mae's project standards requirements are intended to address common project types across a broad geographic range. If a lender determines that a project does not meet all of Fannie Mae's project eligibility criteria, but feels that the project has merit and warrants additional consideration, the lender may request an exception (see B4-2.2-08, Projects with Special Considerations and Project Eligibility Waivers, for additional information).

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## **Project Documentation**

The documentation needed to complete a project review may differ depending on the project and review type. Lenders are responsible for determining the documentation needed to ensure that the project meets all of Fannie Mae's eligibility requirements. Project documentation may include, but is not limited to, the following:

- legal and recorded documents including the covenants, conditions and restrictions, declaration of condominium, or other similar documents that establish the legal structure of the project;

- project budgets, financial statements, and reserve studies;
- homeowners' association (HOA) certification;
- project construction plans;
- architects' or engineers' reports;
- completion reports;
- project marketing plans;
- environmental hazard reports;
- attorney opinions;
- appraisal reports; and
- evidence of insurance policies and related documentation.

Sources for project information include, but are not limited to, appraisers, HOAs, co-op corporations, management companies, real estate brokers, insurance professionals, and project developers. Lenders are responsible for the accuracy of any information obtained from these sources.

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### **Project Types**

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

<b>Project Type</b>	<b>Identification Criteria</b>
Established condo project	<p>A project for which all of the following are true:</p> <ul style="list-style-type: none"><li>• at least 90% of the total units in the project have been conveyed to the unit purchasers;</li><li>• the project is 100% complete, including all units and common elements;</li><li>• the project is not subject to additional phasing or annexation; and</li></ul>

Project Type	Identification Criteria
	<ul style="list-style-type: none"> <li>• control of the HOA has been turned over to the unit owners.</li> </ul>
New condo project	<p>A project for which one or more of the following is true:</p> <ul style="list-style-type: none"> <li>• fewer than 90% of the total units in the project have been conveyed to the unit purchasers;</li> <li>• 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;</li> <li>• the project is newly converted; or</li> <li>• the project is subject to additional phasing or annexation.</li> </ul>
Two- to four-unit condo project	<p>A project comprised of two, three, or four residential units in which each unit is evidenced by its own title and deed. A two- to four-unit condo project may be either a new or an established project and may be comprised of attached and/or detached units.</p>
Manufactured home project	<p>A project consisting partially or solely of manufactured homes.</p>
Co-op project	<p>A project in which a corporation or trust holds title to the property and sells shares of stock representing the value of a single apartment unit to individuals who, in turn, receive a proprietary lease as evidence of title.</p>
Planned unit development (PUD) project	<p>A project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD unit owners.</p> <p>See B4-2.3-01, Eligibility Requirements for Units in PUD Projects, for additional detail used in determining whether a project is subject to Fannie Mae's PUD eligibility requirements.</p>

### Project Review Methods

Fannie Mae purchases or securitizes mortgage loans secured by units in condo, co-op, and PUD projects that meet Fannie Mae's eligibility requirements. To determine whether the project meets these requirements, a number of project review methods are available. Whether a project review method is allowable or required depends on

- the unit type (attached or detached);

- the project type (condo, co-op, or PUD);
- the project status (new or established); and
- the mortgage transaction.

The characteristics that dictate which method to use are shown in the following table.

Unit and Project Type	Project Review Methods
Attached condo unit in a new or newly converted project,  including an attached unit in a condo project that includes a mixture of attached and detached units	<ul style="list-style-type: none"> <li>• Full Review (completed with or without using Condo Project Manager™ (CPM™)), or</li> <li>• Fannie Mae Review through the Project Eligibility Review Service (PERS)</li> </ul>
Attached condo unit in an established project,  including an attached unit in a condo project that includes a mixture of attached and detached units	<ul style="list-style-type: none"> <li>• Limited Review only for a unit that is a               <ul style="list-style-type: none"> <li>– principal residence with an LTV ratio <math>\leq</math> 80%, or</li> <li>– second home with an LTV ratio <math>\leq</math> 75%.</li> </ul> </li> <li>• Full Review (with or without CPM)</li> </ul>
Detached condo unit in a new or established project,  including a detached unit in a condo project that includes a mixture of attached and detached units	Limited Review
Attached or detached unit in a new or established two- to four-unit condo project	Based on the mortgage transaction and project characteristics, two- to four-unit condo projects may be reviewed using either <ul style="list-style-type: none"> <li>• Limited Review, or</li> <li>• Full Review (with or without CPM).</li> </ul>
Unit in a co-op project	Full Review  <p><b>Note:</b> Lenders must obtain special approval to be eligible to deliver co-op</p>

Unit and Project Type	Project Review Methods
	share loans to Fannie Mae secured by ownership interest in a co-op share project. See A1-1-01, Application and Approval of Lender, for additional information.
<ul style="list-style-type: none"> <li>• Condo or co-op project that contains manufactured homes</li> <li>• PUD project that contains single-wide manufactured homes</li> <li>• Newly-converted non-gut rehabilitation project (projects with attached units only) that contain more than four residential units</li> <li>• New or newly converted condo project consisting of attached units located in Florida</li> </ul>	Fannie Mae Review through PERS
Unit in a condo project approved by the FHA and that secures an FHA mortgage	FHA Project Approval

A mortgage secured by a unit in a project that fails to meet any of the following requirements is not eligible for delivery to Fannie Mae:

- requirements specific to the project review method used to determine that project’s eligibility,
- appraisal requirements (described in B4-1.4-03, Condo Appraisal Requirements), or
- insurance requirements (described in Subpart B7, Insurance, including all provisions applicable to projects in Subpart B7-4, Additional Project Insurance).

For additional information on each project review type, see the following topics:

Project Review Type	Additional Information
Limited Review	B4-2.2-01, Limited Review Process
Full Review	<ul style="list-style-type: none"> <li>• B4-2.2-02, Full Review Process</li> <li>• B4-2.2-03, Full Review: Additional Eligibility Requirements for Attached Units in New and Newly Converted Condo Projects</li> </ul>

<b>Project Review Type</b>	<b>Additional Information</b>
PERS	B4-2.2-06, Project Eligibility Review Service (PERS)

### Delivery Requirements

When delivering a loan for a unit located in a project, the lender must provide the Project Type Code and any applicable special feature codes as shown in the following table. The lender must also report all other applicable special feature code(s), including those specified in the lender's Master Agreement and in the [Special Feature Codes](#) document on Fannie Mae's website.

<b>Project Type Code</b>	<b>Description</b>
E	Established PUD project
F	New PUD project
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 (including projects consisting of manufactured housing)
U	FHA-approved condo project (applicable to FHA loans only)
<b>Special Feature Code</b>	<b>Description</b>
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
235	Manufactured Home Used to identify loans secured by a manufactured home

Lenders are encouraged to include the condo or co-op's HOA or Project IRS Federal Tax Identification Number (TIN) in the loan file and in CPM if CPM is used to review the project. See [Uniform Loan Delivery Dataset \(ULDD\) Quick Guide — Guidelines for Condominium/Cooperative Loans](#) for additional requirements about the delivery of project data.



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### Document Retention for Project Eligibility

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

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### Expiration for Project Reviews

Project reviews must meet the following timeline requirements.

<b>Project Review Process Employed</b>	<b>Expiration of Project Review</b>
<ul style="list-style-type: none"><li>Limited Review</li><li>Full Review (with or without CPM)</li></ul> <p><b>Note:</b> 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
Approved by FHA	FHA approval must be valid (unexpired) as of the note date

Mortgages secured by units in projects must be delivered to Fannie Mae within 120 days following the note date. When the elapsed time between note date and delivery date exceeds this limit, the lender may deliver the mortgage only if the project continues to meet Fannie Mae project eligibility requirements at the time of delivery.

Loans secured by units in a project that fails to meet Fannie Mae's project eligibility requirements under the applicable review type as of the note date are eligible for delivery after the project comes into compliance with the eligibility requirements (provided all standard mortgage seasoning and other applicable requirements are met). For example, if a lender closes a loan in a new project for which the pre-sales are less than the pre-sale requirement, the lender may deliver the loan after the project's pre-sales meet the Fannie Mae requirement (assuming the loan meets all other applicable requirements).

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2014-13</a>	November 10, 2014
<a href="#">Announcement SEL-2012-06</a>	June 26, 2012
<a href="#">Announcement SEL-2011-06</a>	July 26, 2011
<a href="#">Announcement SEL-2011-05</a>	June 28, 2011
<a href="#">Announcement SEL-2011-01</a>	January 27, 2011
<a href="#">Announcement SEL-2010-10</a>	August 12, 2010
<a href="#">Announcement 09-37</a>	December 30, 2009
<a href="#">Announcement 09-32</a>	October 30, 2009
<a href="#">Announcement 08-34</a>	December 16, 2008

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## B4-2.1-02, Ineligible Projects (11/10/2014)

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### Introduction

This topic contains information on ineligible projects and related criteria, including:

- List of Ineligible Project Characteristics
  - Projects that Operate as Hotels or Motels
  - Sources of Information for Researching Hotel or Motel Operations
  - Projects Subject to Split Ownership Arrangements
  - Projects that Contain Multi-Dwelling Unit Condos or Co-ops
  - Projects with Property that is not Real Estate
  - Projects that Operate as a Continuing Care Community or Facility
  - Non-Incidental Business Arrangements
  - Commercial Space and Mixed-Use Allocation
  - Live-Work Projects
  - Litigation
  - Priority of Common Expense Assessments
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### List of Ineligible Project Characteristics

Fannie Mae will not purchase or securitize mortgage loans that are secured by units in certain condo, co-op, or PUD 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.

**Note:** If a lender determines that a project does not meet all of Fannie Mae's project eligibility requirements but believes that the project has merit and warrants additional

consideration, the lender may request an exception (see B4-2.2-08, Projects with Special Considerations and Project Eligibility Waivers, for additional information).

<b>Ineligible Project Characteristics</b>	<b>Applicable Project Type</b>		
	<b>Condo</b>	<b>Co-op</b>	<b>Attached units in PUD</b>
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'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 HUD-1 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. (See section below for additional detail.)	✓	✓	✓

Ineligible Project Characteristics	Applicable Project Type		
	Condo	Co-op	Attached units in PUD
Projects with property that is not real estate, such as houseboat projects. (See section below for additional detail.)	✓	✓	✓
Any project that is owned or operated as a continuing care facility. (See section below for additional detail.)	✓	✓	✓
Projects with non-incidentual business operations owned or operated by the HOA including, but not limited to, a restaurant, spa, or health club. (See section below for additional detail and exceptions to this policy.)	✓	✓	✓
Projects that do not meet the requirements for live-work projects. (See section below for additional detail.)	✓	✓	✓
Projects in which the HOA or co-op 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. (See section below for additional detail.)	✓	✓	✓
Any project that permits a priority lien for unpaid common expenses in excess of Fannie Mae's priority lien limitations. (See section below for additional detail.)  <b>Note:</b> This restriction applies to all PUD projects, whether the units are attached or detached.	✓	✓	✓
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"> <li>• projects with 2 to 4 units – 1 unit</li> </ul>	✓	✓	

Ineligible Project Characteristics	Applicable Project Type		
	Condo	Co-op	Attached units in PUD
<ul style="list-style-type: none"> <li>• projects with 5 to 20 units – 2 units</li> <li>• projects with 21 or more units – 10%</li> </ul> <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 (or stock ownership and the accompanying occupancy rights) to more than one dwelling unit, with ownership of all of his or her owned units (or shares) evidenced by a single deed and financed by a single mortgage (or share loan). (See section below for additional detail.)	✓	✓	
<p>The total space that is used for nonresidential or commercial purposes may not exceed:</p> <ul style="list-style-type: none"> <li>• 25% for condo projects</li> <li>• 20% for co-op projects</li> </ul> <p>(See section below for additional detail.)</p>	✓	✓	
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.	✓	✓	

Ineligible Project Characteristics	Applicable Project Type		
	Condo	Co-op	Attached units in PUD
New or newly converted projects in Florida with 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. (See B4-1.3-04, Site Section of the Appraisal Report.)	✓	✓	
Co-op projects that are subject to leasehold estates.		✓	
Limited equity co-ops—projects in which the co-op corporation places a limit on the amount of return that can be received when stock or shares are sold.		✓	
Co-op projects with units that are subject to resale restrictions or located on land owned by community land trusts.  <b>Note:</b> Co-op projects subject to resale restrictions or on land owned by community land trusts may be submitted to Fannie Mae for review under the PERS process.		✓	
A tax-sheltered syndicate’s leasing to a co-op or “leasing” co-ops—projects that involve the leasing of the land and the improvements to the co-op corporation, even if the co-op corporation owns part of the building.		✓	
Co-op projects in which the developer or sponsor has an ownership interest or other rights in the project real estate or facilities other than the interest or rights it has in relation to unsold units.		✓	

### Projects that Operate as Hotels or Motels

Projects with one or more of the following characteristics may be operating as a hotel or motel and are therefore ineligible:

- hotel or motel conversions (or conversions of other similar transient properties), unless the project is an established project, meets all requirements for gut rehabilitation projects, and all units are residential dwelling units;
  - projects that include registration services and offer rentals of units on a daily basis;
  - projects that restrict the owner's ability to occupy the unit; 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 formal agreements between the developer, homeowners' association, and/or the individual unit owners, obligate the unit owner to rent the property on a seasonal, monthly, weekly, or daily basis. In many cases, the agreements include blackout dates, continuous occupancy limitations, and other such use restrictions. In return, the unit owner receives a share of the revenue generated from the rental of the unit.
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### **Sources of Information for Researching Hotel or Motel Operations**

The lender must perform an analysis of the project to determine whether it is operating as a hotel or motel. There are several sources of information on which to rely, including but not limited to:

- project legal and recorded documents and exhibits,
- the appraisal,
- the contract for sale, and
- the Internet.

Project characteristics that may indicate the project is operating as a hotel or motel include, but are not limited to:

- central telephone system,
- room service,
- units that do not contain full-sized kitchen appliances,
- daily cleaning service,
- advertising of rental rates,



- registration service,
- restrictions on interior decorating,
- franchise agreements,
- central key systems,
- location of the project in a resort area,
- owner-occupancy density — the project may have few or even no owner-occupants,
- projects converted from a hotel or motel,
- units that are less than 400 square feet,
- projects with a name that includes the word “hotel” or “motel,” or
- interior doors that adjoin other units.

Lenders must thoroughly examine the appraisal, contract for sale, and other documents to determine if there are guaranteed rent-backs, references to mandatory rental pooling or management agreements, and SEC filing references and prospectus documents.

The Internet has become a useful tool for obtaining project and unit-specific information. The project’s website may contain information on the project type, amenities, and the availability of units for rent. Internet searches may identify unit owners offering their unit for short term rentals within the subject property’s project. As long as the project is not being operated as a hotel or motel and the units are not subject to mandatory rentals or to optional leasing programs to a hotel or motel, then the advertising of a unit for short term rental by the unit owner does not, alone, constitute the project as a hotel or motel. The lender is responsible for fully evaluating the project to understand if the practice of offering short-term rentals by unit owners is organized in such a way that the project’s predominant use is to operate as a hotel or motel.

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### **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 for delivery to Fannie Mae. These types of properties include, but are not limited to, the following:

- “common interest” apartments or community apartment projects that are projects or buildings owned by several owners as tenants-in-common or by an association in which individuals

have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building;

- projects that restrict the owner's ability to occupy the unit, even if the project is not being operated as a motel or hotel; and
- projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over the occupancy of the units.
  - 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.

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### **Projects that Contain Multi-Dwelling Unit Condos or Co-ops**

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 or co-op projects that allow an individual to buy two or more individual legal units with the intent of structurally and legally combining the units for occupancy as a single-unit dwelling. Mortgages secured by units in these types of projects are eligible for purchase and securitization by Fannie Mae provided all of the following requirements are met:

- The unit securing the mortgage represents a single legal unit under a single deed.
- Any construction or renovation to structurally combine units has no material impact on the structural or mechanical integrity of the project's buildings or the subject property unit.
- The individual units must be fully described in the legal description in the mortgage and under a single deed.
- The project's legal documents must have been amended to reclassify the combined units as a single unit in the project.
- All structural renovation to physically combine the units must be completed.

A condo or co-op unit with an accessory unit may be eligible on a case-by-case basis with a Fannie Mae PERS Project Approval or a loan-level Project Eligibility Waiver. See B4-2.2-08, Projects with Special Considerations and Project Eligibility Waivers, for additional information on submitting an exception request.

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### **Projects with Property that is not Real Estate**

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

Boat slips, cabanas, and other amenities are permitted when owned in common by the unit owners as part of the HOA.

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### **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 for delivery to Fannie Mae. These communities or facilities are residential projects designed to meet specialized health and housing needs and typically require residents to enter into a lifetime contract with the facility to meet all future health, housing, or care needs. These communities may also be known by other names such as life-care facilities.

Projects that make continuing care services available to residents are eligible only if the continuing care facilities or services are not owned or operated by the HOA and residential unit owners are not obligated to purchase or utilize the services through a mandatory membership, contract, or other arrangement.

Continuing care communities are not the same as age-restricted projects. Age-restricted projects that restrict the age of residents but do not require residents to enter into a long-term or lifetime contract for healthcare and housing as the residents age are eligible.

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### **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-incident income from the following sources is permitted provided the income does not exceed 15% of the project's budgeted income:

- income from the use of recreational amenities or services owned by the HOA for the exclusive use by unit owners in the project or leased to another project according to a shared amenities agreement (as noted below);
- 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
- 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.

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### **Commercial Space and Mixed-Use Allocation**

Fannie Mae requires 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. For co-op projects, the amount of commercial space is limited to 20%.

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

Non-residential square footage includes:

- retail and commercial space,

- 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.

<b>If the commercial or mixed-use space is...</b>	<b>Then its square footage is included in the calculation of commercial space percentage</b>
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  <b>Example:</b> 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	Yes

<b>If the commercial or mixed-use space is...</b>	<b>Then its square footage is included in the calculation of commercial space percentage</b>
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	
owned, controlled, or operated by a private entity that is co-located in the building(s) that contain(s) the project's residential units  <b>Example:</b> <ul style="list-style-type: none"> <li>• floors 1 to 4 consist of hotel and retail,</li> <li>• floors 5 to 7 consist of privately-owned and -managed rental apartments, and</li> <li>• the remaining floors consist of the condo project units.</li> </ul>	Yes
owned, controlled, or operated by a private entity that is NOT co-located in the building(s) or common elements as declared in the project legal documents that contain(s) the project's residential units	No
owned and controlled by a project HOA other than the subject property's HOA that shares the same master HOA with the subject property's HOA BUT the commercial space is located in a building that is separate from the building(s) containing the project's residential units	No

### **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 for sale to Fannie Mae provided the following additional requirements are met:

- 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.

The lender 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:

- 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.

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## **Litigation**

Projects in which the HOA or co-op 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 are ineligible for sale to Fannie Mae.

If the lender determines that pending litigation involves minor matters with no impact on the safety, structural soundness, habitability, or functional use of the project, the project is eligible provided the litigation is limited to one of the following categories:

- non-monetary litigation involving neighbor disputes or rights of quiet enjoyment;
- litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the HOA's or co-op corporation's insurance; or
- the HOA or co-op is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA assessments.

The lender must obtain documentation to support its analysis that the litigation meets Fannie Mae's criteria for minor litigation as described above.

If the lender is aware of pending litigation and is unable to determine whether the litigation may be deemed a minor matter, the lender may contact Fannie Mae's Project Standards team (see E-1-03, List of Contacts) to determine whether Fannie Mae will accept delivery of mortgages secured by units in the project.

**Priority of Common Expense Assessments**

Fannie Mae allows a limited amount of regular common expense assessments (typically known as HOA fees) to have priority over Fannie Mae's mortgage lien for mortgage loans secured by units in a condo or PUD project. This applies if the condo or PUD project is located in a jurisdiction that has enacted

- the Uniform Condominium Act,
- the Uniform Common Interest Ownership Act, or
- a similar statute that provides for unpaid assessments to have priority over first mortgage liens.

The table below describes the permitted priority of common expense assessments for purposes of determining the eligibility of a mortgage loan secured by a unit in a condo or PUD project for purchase by Fannie Mae.

<b>If the condo or PUD project ...</b>	<b>Then...</b>
is located in a jurisdiction that enacted a law on or before January 14, 2014, that provides that regular common expense assessments will have priority over Fannie Mae's mortgage lien for a maximum amount greater than six months,	the maximum number of months of regular common expense assessments permitted under the applicable jurisdiction's law as of January 14, 2014, may have priority over Fannie Mae's mortgage lien, provided that if the applicable jurisdiction's law as of that date referenced an exception for Fannie Mae's requirements, then no more than six months of regular common expense assessments may have priority over Fannie Mae's mortgage lien.
is located in any other jurisdiction,	no more than six months of regular common expense assessments may have priority over Fannie Mae's mortgage lien, even if applicable law provides for a longer priority period.

Notwithstanding any provisions to the contrary in the Guide, which do not require the lender to represent or warrant compliance with Fannie Mae project legal document requirements, the



condo or PUD project legal documents must evidence compliance with the above priority of common expense assessment requirements.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2014-13</a>	November 10, 2014
<a href="#">Announcement SEL-2013-04</a>	May 28, 2013
<a href="#">Announcement SEL-2010-16</a>	December 1, 2010
<a href="#">Announcement 08-34</a>	December 16, 2008

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## Section B4-2.2, Project Eligibility and Environmental Hazards



### B4-2.2-01, Limited Review Process (11/10/2014)

[Click to see prior version of topic](#)

#### Introduction

This topic contains information on the Limited Review process performed by lenders, including:

- Unit and Project Types Eligible for Limited Review
- Eligible Transactions for Limited Review of Attached Units in Established Condo Projects
- Limited Review Eligibility Requirements

#### Unit and Project Types Eligible for Limited Review

Lenders 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:

- 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).

#### Eligible Transactions for Limited Review of Attached Units in Established Condo Projects

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.

<b>Eligible Transactions —</b>	
<b>For Limited Review Attached Units in Established Condo Projects</b>	
<b>Including 2- to 4-unit Condo Projects</b>	
<b>Occupancy Type</b>	<b>Maximum LTV, CLTV, and HCLTV Ratios</b>

<b>Eligible Transactions —</b>	
<b>For Limited Review Attached Units in Established Condo Projects</b>	
<b>Including 2– to 4–unit Condo Projects</b>	
Principal residence	≤ 80%
Second home	≤ 75%
Investment property	Ineligible for Limited Review

Attached units in established projects located in Florida are subject to more restrictive LTV ratio requirements under the Limited Review process. See B4-2.2-04, Geographic-Specific Condo Project Considerations, for additional information.

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### Limited Review Eligibility Requirements

In completing a Limited Review, the lender must ensure that the project and subject unit meet all of the eligibility requirements described in the following table.

✓	<b>Limited Review Eligibility Requirements</b>
	The project is not an ineligible project. (See B4-2.1-02, Ineligible Projects.)
	The project does not consist of manufactured homes.  <b>Note:</b> Manufactured housing projects require a Fannie Mae PERS review.
	If 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, as stated in Chapter B4-1, Appraisal Requirements.
	The unit securing the mortgage satisfies all insurance requirements as stated in Subpart B7, Insurance, including all provision applicable to condo projects in Chapter B7–4, Additional Project Insurance.

These requirements apply to both DU loan casefiles and manually-underwritten loans.

Provided the project and loan transaction are eligible for and meet all of the eligibility requirements of the Limited Review process, the lender is not required to validate that the project also meets the eligibility requirements of another project review type. However, in the event the lender becomes aware of a circumstance that would cause the project or transaction to be ineligible under a Limited Review, the lender must use one of the other project review methods

to determine project eligibility and the project must meet all of the eligibility requirements of that selected alternate project review type.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

Announcements and Release Notes	Issue Date
<a href="#">Announcement SEL-2014-13</a>	November 10, 2014
<a href="#">Announcement SEL-2012-07</a>	August 21, 2012
<a href="#">DU Version 9.0</a>	July 24, 2012
<a href="#">Announcement SEL-2012-06</a>	June 26, 2012
<a href="#">Announcement SEL-2011-05</a>	June 28, 2011
<a href="#">Announcement 08-34</a>	December 16, 2008



## **B4-2.2-02, Full Review Process (11/10/2014)**

[Click to see prior version of topic](#)

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## Introduction

This topic contains information on general eligibility requirements for the Full Review process, including:

- Overview
- Unit and Project Types Requiring Full Review
- Condo Project Manager (CPM)
- Full Review Eligibility Requirements for Attached Units in Condo Projects
- Replacement Reserve Studies

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## Overview

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

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### **Unit and Project Types Requiring Full Review**

The Full Review is required when the unit securing the mortgage is an attached unit located in one of the following project types:

- an established condo project, or
- a new or newly converted condo project.

Detached condo units located in projects containing a mixture of attached and detached units are eligible for review using the Limited Review process (see B4-2.2-01, Limited Review Process).

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.

Full Review requirements for units in co-op projects are addressed in B4-2.3-02, Co-op Project Eligibility.

**Note:** Projects consisting of manufactured homes are not eligible for the Full Review process but must be submitted to Fannie Mae through the PERS process.

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### **Condo Project Manager (CPM)**

Lenders may use Condo Project Manager (CPM) to assist in their Full Review of a project. CPM is a web-based tool designed to help lenders determine if a project meets Fannie Mae's eligibility requirements. When CPM is used as part of the project review, the lender must document the loan file with the CPM decision by including the unexpired CPM Certification in the file.

CPM Certifications are based solely on the data that the lender enters into CPM. The lender is responsible for reviewing the applicable project documentation to obtain the information needed to complete the project review and enter the data into CPM. The lender is also responsible for ensuring that all data entered into CPM is correct and that the project meets all applicable Fannie Mae eligibility requirements.

CPM is available on [Fannie Mae's website](#).

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### **Full Review Eligibility Requirements for Attached Units in Condo Projects**

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

✓	<b>Full Review Eligibility Requirements –                  For Attached Units in New, Established, or Two- to Four-Unit Condo Projects</b>
	The project must not be an ineligible project. (See B4-2.1-02, Ineligible Projects.)
	The project must not be a manufactured housing project.  <b>Note:</b> Manufactured housing projects require a Fannie Mae PERS review.
	The unit securing the mortgage satisfies all Fannie Mae's insurance requirements in Subpart B7, Insurance, including all provisions applicable to condo projects in Subpart B7-4, Additional Project Insurance.
	The appraisal of the subject unit must meet all applicable appraisal requirements, as stated in Subpart B4-1, Appraisal Requirements.
	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.  <b>Note:</b> In a two- to four-unit project, no unit owners may be 60 or more days past due on their HOA common expense assessments.  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.
	Lenders must review the HOA projected budget to determine that it <ul style="list-style-type: none"> <li>• is adequate (i.e., it includes allocations for line items pertinent to the type of condo project), and</li> <li>• provides for the funding of replacement reserves for capital expenditures and deferred maintenance that is at least 10% of the budget.</li> </ul> To determine whether the association has a minimum annual budgeted replacement reserve allocation of 10%, the lender must divide the annual budgeted replacement reserve allocation by the association's annual budgeted assessment income (which includes regular common expense fees).  The following types of income may be excluded from the reserve calculation: <ul style="list-style-type: none"> <li>• incidental income on which the project does not rely for ongoing operations, maintenance, or capital improvements;</li> </ul>

✓	<b>Full Review Eligibility Requirements –          For Attached Units in New, Established, or Two- to Four-Unit Condo Projects</b>
	<ul style="list-style-type: none"> <li>• income collected for utilities that would typically be paid by individual unit owners, such as cable TV or Internet access;</li> <li>• income allocated to reserve accounts; and</li> <li>• special assessment income.</li> </ul> <p>The lender 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"> <li>• the lender obtains a copy of an acceptable reserve study and retains the study and the lender’s analysis of the study in the project approval file,</li> <li>• 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,</li> <li>• the study demonstrates that the project’s funded reserves meet or exceed the recommendations included in the reserve study, and</li> <li>• the study meets Fannie Mae’s requirements for replacement reserve studies listed at the end of this section.</li> </ul> <p><b>Note:</b> These requirements for a budget review, replacement reserves, and reserve study are not applicable to two- to four-unit projects.</p>
	<p>For projects in which the units are not separately metered for utilities, the lender must</p> <ul style="list-style-type: none"> <li>• determine that having multiple units on a single meter is common and customary in the local market where the project is located, and</li> <li>• confirm that the project budget includes adequate funding for utility payments.</li> </ul> <p><b>Note:</b> 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>

✓	<b>Full Review Eligibility Requirements – For Attached Units in New, Established, or Two- to Four-Unit Condo Projects</b>
	The structures within the project must be within a reasonable distance from each other.
	Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.
	<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"> <li>• a description of the shared amenities subject to the arrangement;</li> <li>• a description of the terms under which unit owners in the project may use the shared amenities;</li> <li>• provisions for the funding, management, and upkeep of the shared amenities; and</li> <li>• provisions to resolve conflicts between the associations over the amenities.</li> </ul> <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>
	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).
	Phase I and II environmental hazard assessments are not required for condo projects unless the lender identifies an environmental problem through the performance of its project underwriting or due diligence.



✓	<b>Full Review Eligibility Requirements –          For Attached Units in New, Established, or Two- to Four-Unit Condo Projects</b>
	<p>In the event that environmental problems are identified, the problems must be acceptable, as described in E-2-03, 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> <p>When the project does not meet the owner-occupied ratio of 50%, an investment property transaction will only be eligible if the lender submits the project to Fannie Mae</p> <ul style="list-style-type: none"> <li>• for review under PERS and the project is approved (see B4-2.2-06, Project Eligibility Review Service (PERS), for additional information), or</li> <li>• for a single-loan project eligibility waiver and the waiver is approved (see B4-2.2-08, Projects with Special Considerations and Project Eligibility Waivers, for additional information).</li> </ul>
	<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>

✓	<b>Full Review Eligibility Requirements –          For Attached Units in New, Established, or Two- to Four-Unit Condo Projects</b>
	<p><b>Note:</b> If the project is a newly converted non-gut rehabilitation project with more than four residential units, lenders must submit the project to Fannie Mae for review and approval. See B4-2.2-06, Project Eligibility Review Service (PERS), for additional information.</p>
	<p>For newly converted two- to four-unit non-gut rehabilitation projects, the following requirements apply:</p> <ul style="list-style-type: none"> <li>• All rehabilitation work involved in a condo conversion must have been completed in a professional manner.</li> <li>• 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.</li> <li>• The project budget must contain line items for the following:           <ul style="list-style-type: none"> <li>– 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;</li> <li>– 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</li> <li>– a utility contingency of at least 10% of the previous year's utility costs if the utilities are not separately metered.</li> </ul> </li> </ul> <p><b>Note:</b> Newly converted gut rehabilitation projects must follow the standard gut rehabilitation requirements listed under the eligibility requirements above.</p>

### Replacement Reserve Studies

Reserve studies may be used to determine the appropriate level of reserves the HOA must maintain to ensure the project's long-term success. Reserve studies will also provide

useful information regarding the adequacy of the HOA's current reserve funds and offer recommendations to meet funding goals in the event the HOA has under-reserved for its needs in the past. The lender may review the most current reserve study or a reserve study update provided it has been completed within three years of the date on which the lender approves the project.

Reserve studies must be prepared by an independent third party that has specific expertise in completing reserve studies. This expertise may include any of the following:

- a reserve study professional with reserve study credentials,
- a construction engineer,
- a certified public accountant who specializes in reserve studies, or
- any professional with demonstrated knowledge of and experience in completing reserve studies.

While Fannie Mae does not require that a standard format be used for the reserve study, the following items must be addressed:

- all major components and elements of the project's common areas for which repair, maintenance, or replacement is expected;
- the condition and remaining useful life of each major component;
- an estimate of the cost of repair, replacement, restoration, or maintenance of major components;
- an estimate of the total annual contributions required to defray costs (minus the existing reserves funded for this purpose), including inflation;
- an analysis of existing funded reserves; and
- a suggested reserve funding plan.

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

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2014-13</a>	November 10, 2014
<a href="#">Announcement SEL-2013-04</a>	May 28, 2013
<a href="#">Announcement SEL-2012-06</a>	June 26, 2012
<a href="#">Announcement SEL-2010-16</a>	December 1, 2010
<a href="#">Announcement 08-34</a>	December 16, 2008



## **B4-2.2-03, Full Review: Additional Eligibility Requirements for Attached Units in New and Newly Converted Condo Projects (11/10/2014)**

[Click to see prior version of topic](#)

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### Introduction

This topic contains information on the Full Review of attached units in new and newly converted condo projects, including:

- Additional Requirements for Attached Units in New and Newly Converted Condo Projects
- Condo Project Legal Document Review Requirements for Attached Units in New or Newly Converted Projects

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### Additional Requirements for Attached Units in New and Newly Converted Condo Projects

When performing a Full Review of attached units in new or newly converted condo projects, lenders must ensure compliance with the following additional requirements.

**Note:** These requirements are not applicable to attached units in new or newly converted projects in Florida, which must be reviewed by Fannie Mae through the PERS process. See B4-2.2-04, Geographic-Specific Condo Project Considerations.

✓	<p align="center"><b>Full Review Requirements –                      For Attached Units in New or Newly Converted Condo Projects</b></p>
	<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.</p> <p>There may not be more than one legal phase per building.</p> <p>“Substantially complete” means that</p> <ul style="list-style-type: none"> <li>• a certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or subject phase; and</li> <li>• all the units in the building in which the unit securing the mortgage is located are complete, subject to the installation of buyer selection items, such as appliances.</li> </ul> <p><b>Note:</b> Fannie Mae does not require the installation of typical buyer selection items such as appliances, floor coverings, counter tops, or light fixtures that are common and customary for the market, although buyer selections that involve the modification of a unit floor plan must be complete. Lenders are expected to obtain appropriate documentation to verify that all buyer selection items for the unit being financed are properly installed prior to closing.</p> <p><b>Two- to four-unit projects:</b> 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"> <li>• 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.</li> <li>• For the purposes of this review process, a project consisting of one building cannot have more than one legal phase.</li> </ul>

✓	<b>Full Review Requirements – For Attached Units in New or Newly Converted Condo Projects</b>
	<b>Two- to four-unit projects:</b> 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.
	Individual units in new condo projects must be available for immediate occupancy at the time of loan closing.
<b>Not Applicable to Two- to Four-Unit Condo Projects</b>	
	If the project is part of a larger development, and the unit owners are required to pay monthly assessments of more than \$50 to a separate master association for that development, lenders must review the overall development plan for the master association to evaluate the acceptability of the project.
	The overall development plan of the project must be reviewed and the following must be acceptable: <ul style="list-style-type: none"> <li>• consistency of future and existing improvements,</li> <li>• time limitations for expansion, and</li> <li>• reciprocal easements between legal phases.</li> </ul>
	For projects (or the subject legal phase) that are only substantially complete rather than 100% complete, lenders must determine that acceptable completion assurance arrangements that guarantee the future completion of all project facilities, common elements, and limited common elements have been provided. These assurance arrangements may include <ul style="list-style-type: none"> <li>• cash deposits,</li> <li>• letters of credit,</li> <li>• assignments of certificates of deposit, or</li> <li>• assignments of other assets that can be easily converted to cash.</li> </ul> Similar arrangements must be provided to support assurances against construction and structural defects. The assurances must <ul style="list-style-type: none"> <li>• protect each unit against defects that become apparent within one year from the date of its settlement, and</li> </ul>

✓	<b>Full Review Requirements – For Attached Units in New or Newly Converted Condo Projects</b>
	<ul style="list-style-type: none"> <li>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.</li> </ul>
	The developer or sponsor should provide for and promote the unit owners’ early participation in the management of the project.
	The project must meet the condo project legal document requirements in the following section.

**Condo Project Legal Document 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.

<b>Condo Project Legal Document Review Requirements – For Attached Units in New or Newly Converted Condo Projects</b>	
<b>Limitations on Ability to Sell/Right of First Refusal</b>	<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"> <li>foreclose or take title to a condo unit pursuant to the remedies in the mortgage,</li> <li>accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor, or</li> <li>sell or lease a unit acquired by the mortgagee or its assignee.</li> </ul>
<b>Rights of Condo Mortgagees and Guarantors</b>	<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"> <li>any condemnation or casualty loss that affects either a material portion of the project or the unit securing its mortgage;</li> </ul>

<b>Condo Project Legal Document Review Requirements – For Attached Units in New or Newly Converted Condo Projects</b>	
	<ul style="list-style-type: none"> <li>• any 60-day delinquency in the payment of assessments or charges owed by the owner of any unit on which it holds the mortgage;</li> <li>• a lapse, cancellation, or material modification of any insurance policy maintained by the homeowners’ association; and</li> <li>• any proposed action that requires the consent of a specified percentage of mortgagees.</li> </ul>
<b>First Mortgagee’s Rights Confirmed</b>	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.
<b>Amendments to Documents</b>	<p>Required provisions related to amendments to project documents are as follow:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• The project documents may provide for implied approval to be assumed when a</li> </ul>



<b>Condo Project Legal Document Review Requirements – For Attached Units in New or Newly Converted Condo Projects</b>	
	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.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2014-13</a>	November 10, 2014
<a href="#">Announcement SEL-2013-04</a>	May 28, 2013
<a href="#">Announcement 08-34</a>	December 16, 2008

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## **B4-2.2-04, Geographic-Specific Condo Project Considerations (11/10/2014)**

[Click to see prior version of topic](#)

### **Introduction**

This topic contains information on geographic-specific condo project considerations, including:

- Florida — Attached Units in New and Newly Converted Condo Projects
- Florida — Project Review Maximum LTV Requirements for Attached Units in New, Newly Converted, and Established Projects

### **Florida — Attached Units in New and Newly Converted Condo Projects**

PERS is required for new and newly converted condo projects consisting of attached units located in Florida. See B4-2.2-06, Project Eligibility Review Service (PERS).

The following project review methods may not be used to review such projects in Florida:

- Limited Review, or
- Full Review (with or without CPM).

### **Florida — Project Review Maximum LTV Requirements for Attached Units in New, Newly Converted, and Established Projects**

The following table provides the project review requirements for loans secured by units in condo projects located in Florida. The required project review type depends on the LTV ratio of the mortgage loan.

<b>Florida — Attached Units in New and Newly Converted Condo Projects</b>			
<b>Maximum LTV Ratios</b>			
	<b>PERS Approved</b>	<b>Full Review (with or without CPM)</b>	<b>Limited Review</b>
Principal Residence	95%	Not Eligible	
Second Home	90%		
Investor	85%		

<b>Florida — Attached Units in Established Condo Projects</b>			
<b>Maximum LTV Ratios</b>			
	<b>PERS Approved</b>	<b>Full Review (with or without CPM)</b>	<b>Limited Review</b>
Principal Residence		95%	75%
Second Home		90%	70%
Investor		85%	Not Eligible

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2014-13</a>	November 10, 2014
<a href="#">Announcement SEL-2013-07</a>	September 24, 2013
<a href="#">Announcement SEL-2011-01</a>	January 27, 2011
<a href="#">Announcement 09-37</a>	December 30, 2009
<a href="#">Announcement 08-34</a>	December 16, 2008



## **B4-2.2-05, FHA-Approved Condo Review Eligibility (11/10/2014)**

[Click to see prior version of topic](#)

### Introduction

This topic contains information on FHA-approved condo review eligibility, including:

- Overview
- Project Requirements
- Document Retention
- Delivering FHA Mortgage Loans Secured by Units in FHA-approved Condo Projects

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## Overview

Fannie Mae accepts delivery of FHA mortgage loans in FHA-approved condo projects that appear on the FHA-approved condo list. For conventional mortgage loans, the condo project must meet Fannie Mae's project eligibility requirements. FHA condo project approval alone is not acceptable for conventional mortgage loans.

Lenders may search for FHA-approved condo projects by location, name, or project status online at [HUD.gov](http://HUD.gov) or through [CPM](#).

Lenders must maintain printed copies of the FHA approval documentation in the loan file.

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## Project Requirements

Lenders must ensure that

- the FHA standard conditions have been met for presale, occupancy status, and completion;
- any additional conditions noted by FHA have been met;
- the project is not an ineligible project as defined in B4-2.1-02, Ineligible Projects;
- the project is covered by the required insurance as set forth in Subpart B7-4, Additional Project Insurance; and
- the project is not comprised of manufactured homes.

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## Document Retention

When lenders deliver mortgage loans secured by condo units in an FHA-approved project, lenders must retain the documentation as set forth in Document Retention for Project Eligibility in B4-2.1-01, General Information on Project Standards.

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## Delivering FHA Mortgage Loans Secured by Units in FHA-approved Condo Projects

When delivering FHA mortgage loans secured by individual units in FHA-approved condo projects, the lender must report the Project Type Code U for an FHA-approved project as part of the delivery data.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2014-13</a>	November 10, 2014
<a href="#">Announcement SEL-2012-06</a>	June 26, 2012
<a href="#">Announcement 09-37</a>	December 30, 2009



## **B4-2.2-06, Project Eligibility Review Service (PERS) (11/10/2014)**

[Click to see prior version of topic](#)

### Introduction

This topic contains information on Fannie Mae's Project Eligibility Review Service (PERS), including:

- Overview
- Required Use of PERS
- PERS Submission Process
- Required PERS Submission Forms
- Availability of Project Information
- Decision Expiration Dates
- Newly Converted Non-Gut Rehabilitation Condo Projects

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### Overview

The Project Eligibility Review Service (PERS) is an option available to lenders to submit new and newly converted condo projects to Fannie Mae to determine eligibility. Lenders must submit complete project packages to Fannie Mae via email to PERS Project Submission (see

E-1-03, List of Contacts). Upon completion of its review, Fannie Mae will issue one of the following project eligibility determinations:

- 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.

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### Required Use of PERS

The following projects must be submitted to PERS to determine eligibility:

- new and newly converted condo projects consisting of attached units located in Florida;
- newly converted non-gut rehabilitation attached units in condo projects that contain more than four residential units; and
- all attached and detached units in condo, co-op, and PUD projects consisting of manufactured homes, with the exception of PUD projects that contain multi-width manufactured homes. (See B4-2.2-07, Additional Requirements for Review of Condo, Co-op, and PUD Projects Comprised of Manufactured Homes, for additional information.)

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### PERS Submission Process

The PERS submission process is as follows:

Step	Action
1.	The lender performs a basic review to determine if the project satisfies all applicable Fannie Mae project eligibility and underwriting requirements prior to submission to PERS.
2.	The lender completes a project submission package, which includes: <ul style="list-style-type: none"><li>• <i>Project Eligibility Review Service Document Checklist</i> (<a href="#">Form 1030</a>), and</li><li>• <i>Application for Project Approval</i> (<a href="#">Form 1026</a>).</li></ul>

Step	Action
	See below for additional forms that may be required.
3.	<p>The condo project's legal documents must comply with the Fannie Mae's requirements listed in B4-2.2-03, Full Review: Additional Eligibility Requirements for Attached Units in New and Newly Converted Condo Projects.</p> <ul style="list-style-type: none"> <li>• A qualified attorney engaged by the lender must review the condo project legal documents and determine that the documents are in compliance with Fannie Mae's requirements.</li> <li>• This determination must be documented by the attorney in writing but need not rise to the level of a formal, written legal opinion. The attorney may be the same person who prepared the legal documents or an attorney employed by the lender, but he or she cannot be an employee, principal, or officer of the developer or sponsor of the project.</li> <li>• The lender must complete the <i>Warranty of Condominium Project Legal Documents (Form 1054)</i> and attach the attorney review as part of the PERS submission process.</li> </ul>
4.	The lender submits the complete project package, including all relevant supporting documentation, via email using the PERS Project Submission mailbox. See E-1-03, List of Contacts.
5.	A member of the Project Standards team reviews the package to determine if the project is eligible for approval.
6.	Upon completion of the review, Fannie Mae issues its decision to the lender via email and posts approved projects on its website. See <i>Condo, Co-op, and Planned Unit Development (PUD) Eligibility</i> for approved projects listed for each state, the District of Columbia, and the U.S. Virgin Islands.
7.	Fannie Mae informs the lender of the specific review fee assessed for each PERS submission. Lenders are billed for PERS review fees in their "Monthly Technology Invoice." For fees, see the <i>Project Eligibility Review Service (PERS) Overview</i> on Fannie Mae's website.

### Required PERS Submission Forms

The forms shown below are required for a PERS submission.

Form	Title	Description
1026	<i>Application for Project Approval</i>	Requires certification that the lender has "underwritten" the project; includes non-

<b>Form</b>	<b>Title</b>	<b>Description</b>
		residential space, common areas, sales plan, construction warranty, budget, builder/ developer information, status of construction, environmental issues, resale restrictions, phasing, project management.
1029	<i>Warranty of Project Presales</i>	Requires lender certification of sales and presales information.
1030	<i>Project Eligibility Review Service Document Checklist</i>	Checklist confirming all required documents have been provided (see below).
1051	<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.
1054	<i>Warranty of Condominium Project Legal Documents</i>	Requires lender certification of compliance with laws and Fannie Mae legal requirements.
1071	<i>Statement of Insurance and Fidelity Coverage</i>	Requires lender certification of all insurance requirements; addresses specific insurance types and clauses, and requires the lender to obtain and review all policies.
1073	<i>Individual Condominium Unit Appraisal</i>	Individual condominium appraisal report.
1073A	<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.
1081	<i>Final Certification of Substantial Project Completion</i>	Lender certification that project is substantially complete; lender to document any exceptions or uncompleted.

The *Project Eligibility Review Service Document Checklist* (Form 1030) also requires that the lender submit the following project documentation to Fannie Mae with the PERS application:

✓	<b>Required Project Documentation</b>
	Prospectus, Public Offering Statement, or equivalent document
	Sample contract of sale



✓	<b>Required Project Documentation</b>
	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.

### **Availability of Project Information**

Lenders submitting projects to PERS must ensure that the developer, builder, management company, and/or HOA will provide project information to Fannie Mae as and when requested without charge. In the event the requested information is not provided, Fannie Mae reserves the right to withdraw the PERS approval.

### **Decision Expiration Dates**

Conditional Project Approval: expires 9 months from the date of issue.

Final Project Approval: expires 18 months from the date of issue.

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

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

### 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:

✓	<b>Lender Pre-PERS Submission Review Requirements – For Newly Converted Non-Gut Rehabilitation Condo Projects</b>
	The project cannot be an ineligible project in accordance with B4-2.1-02, Ineligible Projects.
	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"> <li>• reserves to adequately support the costs identified in the reserve study, and</li> <li>• a utility contingency of at least 10% of the previous year's utility costs if the utilities are not separately metered.</li> </ul>
	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.
	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.

✓	<b>Lender Pre-PERS Submission Review Requirements – For Newly Converted Non-Gut Rehabilitation Condo Projects</b>
	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.

**Note:** See B4-1.3-08, Comparable Sales, for information about appraisals of units in newly converted condo projects.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2014-13</a>	November 10, 2014
<a href="#">Announcement SEL-2012-06</a>	June 26, 2012
<a href="#">Announcement SEL-2012-04</a>	May 15, 2012
<a href="#">Announcement SEL-2010-16</a>	December 01, 2010
<a href="#">Announcement SEL-2010-06</a>	April 30, 2010
<a href="#">Announcement 08-34</a>	December 16, 2008

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## **B4-2.2-07, Additional Requirements for Review of Condo, Co-op, and PUD Projects Comprised of Manufactured Homes (11/10/2014)**

[Click to see prior version of topic](#)

### **Introduction**

This topic contains information on additional requirements for reviewing condo, co-op, and PUD projects comprised of manufactured housing, including:

- Submission to Fannie Mae
- Lender Requirements
- Delivering Loans Secured by Manufactured Home Units Accepted by Fannie Mae PERS Project Review

### **Submission to Fannie Mae**

All condo and co-op projects comprised of manufactured homes must be submitted to Fannie Mae for review and acceptance through the PERS submission process. Any PUD project comprised of single-wide manufactured homes must also be submitted to Fannie Mae for review and acceptance through the PERS submission process. Lenders that would like to submit a project comprised of manufactured housing for Fannie Mae review must contact the Project Standards team (see E-1-03, List of Contacts) to discuss the project and Fannie Mae's project submission requirements.

### **Lender Requirements**

Before submitting a project consisting of manufactured homes for a Fannie Mae PERS approval, the lender must perform the following pre-submission project review requirements.

✓	<b>Lender Pre-PERS Submission Review Requirements – For Projects Consisting of Manufactured Homes</b>
	Review all aspects of the project to determine that it satisfies Fannie Mae condo eligibility requirements as stated in B4-2.1-01, General Information on Project Standards.
	Review all aspects of the project to determine that it meets all eligibility requirements for the Full Review for condos or co-ops, requirements for PUDs, and any other applicable requirements.

✓	<b>Lender Pre-PERS Submission Review Requirements – For Projects Consisting of Manufactured Homes</b>
	Review the manufactured housing unit to confirm that it meets all requirements of B4-1.4-01, Factory-Built Housing: Manufactured Housing.
	Perform a thorough underwriting analysis of the project.  <b>Note:</b> The lender must provide its underwriting analysis conclusion when the project is submitted to Fannie Mae for consideration.

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### **Delivering Loans Secured by Manufactured Home Units Accepted by Fannie Mae PERS Project Review**

When delivering mortgage loans secured by units in manufactured home projects reviewed under the Fannie Mae PERS Project Review process, the lender must report the Project Type Code T and SFC 235 as part of the delivery data.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2014-13</a>	November 10, 2014
<a href="#">Announcement SEL-2012-06</a>	June 26, 2012



## **B4-2.2-08, Projects with Special Considerations and Project Eligibility Waivers (11/10/2014)**

[Click to see prior version of topic](#)

### **Introduction**

This topic contains information on projects with special considerations and project eligibility waivers, including:

- Projects with Special Considerations
- Project Eligibility Waivers

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## Projects with Special Considerations

Lenders may identify projects that merit special consideration even though the project characteristics do not meet all of the Fannie Mae eligibility requirements. In these instances, lenders can contact the Fannie Mae Project Standards team (see E-1-03, List of Contacts) to discuss the possibility of accepting such projects. Exceptions to Fannie Mae eligibility and underwriting requirements are considered on a project-by-project basis.

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## Project Eligibility Waivers

If the lender believes that a specific eligibility requirement should be waived for a particular project with respect to a single loan, then the lender must

- 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.

Fannie Mae's Project Standards team (see E-1-03, List of Contacts) will determine if a single loan project eligibility waiver is warranted. Fannie Mae charges a nonrefundable \$200 review fee for each waiver request. A higher review fee may be charged based on the complexity of the waiver review.

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

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Dates
<a href="#">Announcement SEL-2014-13</a>	November 10, 2014



## **B4-2.2-09, Environmental Hazard Assessments (04/01/2009)**

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### **Introduction**

This topic contains information on environmental hazard assessments, including:

- Overview
  - Types of Environmental Hazard Assessments
  - Acceptability of Consultants
  - Phase I Environmental Assessment
  - Phase II Environmental Assessment Description
  - Who Should Complete the Phase II Environmental Assessment
  - Phase II Environmental Assessment Report Forms and Requirements
  - Kinds of Testing or Sampling Under Phase II Environmental Assessments
- 

### **Overview**

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

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### **Types of Environmental Hazard Assessments**

The table below describes two types of environmental hazard assessments.

<b>Type</b>	<b>Performed by</b>	<b>Description</b>
Phase I assessment (see E-2-03, Suggested Format for Phase I Environmental Hazard Assessments)	the lender or by someone employed by the lender	gathers information from various sources to evaluate the environmental soundness of the project.
Phase II assessment	a qualified environmental consultant	when required

Type	Performed by	Description
		<ul style="list-style-type: none"><li>• Phase I assessment identifies problems or</li><li>• Phase I assessment is inconclusive with regard to any particular hazard.</li></ul>

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### Acceptability of Consultants

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

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### Phase I Environmental Assessment

A Phase I assessment enables lenders to quickly determine whether adequate information exists to evaluate the environmental status of a property. A Phase I assessment is principally a screening process that focuses on reviewing the available documentation, interviewing people who are knowledgeable about the site operations, and inspecting the site, the building, and adjoining properties. Fannie Mae does not require a specific form for a Phase I assessment.

Any report that is thorough and professionally prepared will be acceptable. For a suggested format, see E-2-03, Suggested Format for Phase I Environmental Hazard Assessments.

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### Phase II Environmental Assessment Description

A Phase II assessment provides a more detailed review of the site. It includes specific physical sampling for each hazard that was not acceptable under the Phase I assessment, as well as a review of historical records. It determines the presence or absence of specific environmental liabilities (such as asbestos or leaking underground storage tanks) or quantifies the extent of an observed or suspected environmental liability (such as soil or groundwater contamination).

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### Who Should Complete the Phase II Environmental Assessment

The specialized nature of the investigations conducted under a Phase II assessment requires the knowledge and experience of a qualified consultant.

Lenders must use care in choosing firms to perform environmental hazard assessments. Lenders should confirm that the consultant it plans to use is not affiliated with the buyer or seller of the



property or a firm engaged in a business that might present a conflict of interest. Lenders should also evaluate whether the consulting firm's personnel have adequate and appropriate education and training to carry out the required duties.

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### **Phase II Environmental Assessment Report Forms and Requirements**

Fannie Mae does not specify an exact format for the consultant's report. Any report that is thorough and professionally prepared will be acceptable.

The table below provides the requirements for the Phase II Environmental Assessment Report.

✓	<b>The consultant's report for a Phase II environmental assessment report must</b>
	include a full description of the sampling procedures
	include the laboratory results
	include the consultant's recommendations
	follow all regulatory standards and good management practices at all times, especially when physical sampling and laboratory analysis are involved
	include a certification in the report that: <ul style="list-style-type: none"><li>• the assessment was performed diligently and in accordance with all regulatory and good management standards; and</li><li>• to the best of the consultant's knowledge, the results are complete and accurate</li></ul>
	include the signature of an officer of the consulting firm that conducted the work

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### **Kinds of Testing or Sampling Under Phase II Environmental Assessments**

Examples of the kind of testing or sampling that occur under a Phase II assessment include but are not limited to the following:

- investigating the status of any enforcement actions related to neighboring properties under the Superfund or Resource, Conservation, and Recovery Acts;
- testing for underground storage leaks;
- sampling and analyzing the soil;
- sampling and analyzing the groundwater;
- testing soil or facilities that are suspected as being contaminated by polychlorinated biphenyls; and

- sampling and analyzing bulk asbestos and developing related abatement and maintenance programs, if necessary.



## **B4-2.2-10, Unacceptable Environmental Conditions (04/01/2009)**

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### **Introduction**

This topic contains information on unacceptable environmental conditions, including:

- Overview
  - Unacceptable Environmental Conditions
- 

### **Overview**

The existence of one or more unacceptable environmental conditions generally will result in a project being ineligible. However, if the lender believes that the relative risk is minimal or can be managed, it may contact the Fannie Mae Project Standards team (see E-1-03, List of Contacts).

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### **Unacceptable Environmental Conditions**

The table below describes examples of unacceptable environmental conditions; however, this list is not exhaustive.

✓	<b>Examples of Unacceptable Environmental Conditions</b>
	a property that is (or has been) used as a landfill or other solid, hazardous, or municipal waste disposal site
	a property that is (or has been) used for activity related to the storage of oil, hazardous waste, or other toxic substances—except that the property may have been used for the storage of small quantities of hazardous substances that are generally recognized as appropriate for residential uses and maintenance of the property
	a property that is the subject of outstanding environmental or public health litigation or administrative action from private parties or public officials
	a high-risk neighboring property that has evidence of hazardous waste spills or soil or groundwater contamination on or around its site

✓	<b>Examples of Unacceptable Environmental Conditions</b>
	a property that has documented soil or groundwater contamination and/or a documented tank leak that is leaking at more than 0.05 gallons per hour (which is the National Fire Protection Association's standard)
	a property with soil sampling that has values for metal in excess of the following concentration limits in parts per million (ppm): <ul style="list-style-type: none"> <li>• chromium: 100 ppm</li> <li>• arsenic: 20 ppm</li> <li>• zinc: 350 ppm</li> <li>• cadmium: 3 ppm</li> <li>• lead: 100 ppm</li> <li>• nickel: 100 ppm</li> <li>• copper: 170 ppm</li> <li>• selenium: 20 ppm</li> </ul>
	a property that is contaminated from polychlorinated biphenyls (PCBs)
	a property with soil sampling that has values for other organic materials in excess of the following concentration limits in parts per million (ppm): <ul style="list-style-type: none"> <li>• total volatile organics: 1 ppm</li> <li>• total hydrocarbons: 100 ppm</li> <li>• total petroleum hydrocarbons: 100 ppm</li> </ul>
	a property with groundwater sampling that has values for other organic materials in excess of the following concentration limits in parts per million: <ul style="list-style-type: none"> <li>• total organics (volatiles and base neutrals): 0.10 ppm</li> <li>• total petroleum hydrocarbons: 1.00 ppm</li> </ul>
	a property with groundwater sampling that has values for metals in excess of the following concentration limits in parts per million: <ul style="list-style-type: none"> <li>• arsenic: 0.05 ppm</li> </ul>

✓	<b>Examples of Unacceptable Environmental Conditions</b>
	<ul style="list-style-type: none"> <li>• lead: 0.05 ppm</li> <li>• boron: 1.00 ppm</li> <li>• mercury: 0.002 ppm</li> <li>• cadmium: 0.01 ppm</li> <li>• selenium: 0.01 ppm</li> <li>• chromium: 0.05 ppm</li> <li>• silver: 0.05 ppm</li> </ul>
	a property with high radon levels (e.g., above four picocuries per liter) that can be corrected only through large capital improvements or extensive ongoing maintenance programs that are beyond the financial or technical abilities of the HOA or co-op corporation for the project
	a property that has conditions representing material violations of applicable local, state, or federal environmental or public health statutes and laws
	a property that is contaminated by friable asbestos-containing materials



## **B4-2.2-11, Remedial Actions for Environmental Assessments Below Standards (04/01/2009)**

### **Introduction**

This topic contains information on remedial actions for environmental assessments below standards.

### **Remedial Actions for Environmental Assessments Below Standards**

Properties that fail to meet a particular standard may be corrected through remedial actions and then retested. Remedial actions must be undertaken with the advice and written endorsement of a qualified environmental consultant. All remedial actions must be taken in accordance with all regulatory and good management standards.

Typically, lenders must confirm the completion and effectiveness of remedial actions based on the following conditions:

- A qualified environmental consultant states in writing that remedial work needed to make the property eligible under the environmental standards can be completed within 90 days.
- The project's developer or sponsor signs a contract with a qualified firm to perform the remedial work within 90 days.

The lender must warrant that the job has been satisfactorily completed and the property meets Fannie Mae's environmental eligibility standards.

The project developer or sponsor must provide a performance escrow equal to 150% of the gross contract amount to ensure the completion of the remedial work.

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## Section B4-2.3, PUD and Co-op Eligibility Requirements



### B4-2.3-01, Eligibility Requirements for Units in PUD Projects (11/10/2014)

[Click to see prior version of topic](#)

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#### Introduction

This topic contains information on PUD projects, including:

- PUD Project Definition
  - Eligibility Requirements for Units in 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, unless they contain single-wide manufactured housing, which does require a PERS submission.

### Eligibility Requirements for Units in PUD Projects

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

✓	<b>Eligibility Requirements – For Units in PUD Projects</b>
	If the unit is an attached unit in a PUD project, then the project must not be in an ineligible project in accordance with the provisions applicable to attached units in PUDs in B4-2.1-02, Ineligible 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 in Chapter B7-4, Additional Project Insurance.

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

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2014-13</a>	November 10, 2014
<a href="#">Announcement SEL-2011-05</a>	June 28, 2011



## B4-2.3-02, Co-op Project Eligibility (11/10/2014)

[Click to see prior version of topic](#)

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## Introduction

This topic contains information on co-op project eligibility, including:

- Co-op Project Eligibility Overview
- Request for Co-op Project Information
- Eligibility Requirements for Co-op Projects
- Co-op Project — Full Review

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## Co-op Project Eligibility Overview

Fannie Mae purchases or securitizes co-op share loans for units in co-op projects. (See B4-2.3-05, Other Requirements for Co-op Share Loans, for co-op share loan requirements.) Lenders must determine the acceptability of a co-op project, unless the project is comprised of manufactured homes (see B5-2-02, Manufactured Housing Loan Eligibility).

The lack of available co-op project data and the inconsistent reporting of co-op project information can be a barrier to obtaining affordable financing for co-op housing. Lenders are responsible for determining the most appropriate method for obtaining information about co-op projects and the accuracy of the information they obtain.

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## Request for Co-op Project Information

The *Request for Cooperative Project Information* ([Form 1074](#)) includes the project information that most lenders, investors, and mortgage insurers use in their evaluation of the eligibility of a



co-op project, and provides an efficient means of collecting basic project information from co-op project management agents, boards of directors, or sponsors/developers.

Lenders must retain any of the documentation needed to support the warranty that the project meets Fannie Mae eligibility and underwriting criteria. This documentation must be retained as long as the lender originates share loans from the project and until all share loans sold to Fannie Mae have been liquidated.

### Eligibility Requirements for Co-op Projects

In order for a co-op share loan to be eligible for delivery, the co-op project in which the secured unit is located must qualify as a cooperative housing corporation under Section 216 of the Internal Revenue Service Code.

The table below provides project eligibility requirements for co-ops.

✓	<b>Eligibility Requirements – For Co-op Projects</b>
	The co-op corporation must provide the lender with a statement about the project’s compliance with Section 216 of the Code.  <b>Note:</b> If the co-op project does not meet Section 216 requirements, Fannie Mae will not purchase a co-op share loan from within the project.
	Commercial use in the co-op project is limited to no more than 20% of the project's total square footage.
	The co-op housing project must: <ul style="list-style-type: none"> <li>• be designed principally for residential use,</li> <li>• consist of five or more units, and</li> <li>• be located in an area that has a demonstrated market acceptance for the co-op form of ownership.</li> </ul>
	The project may be owned in fee simple.
	The blanket project mortgage may be a market-rate FHA-insured mortgage or a conventional mortgage.  Fannie Mae purchases or securitizes co-op share loans regardless of whether Fannie Mae owns the blanket mortgage.

✓	<b>Eligibility Requirements – For Co-op Projects</b>
	Fannie Mae will not purchase or securitize co-op share loans if the co-op project is an ineligible project type, regardless of the characteristics of the share loan. (See B4-2.1-02, Ineligible Projects.)  <b>Note:</b> Lenders may obtain exceptions in advance to accept share loans from such projects on a case-by-case basis from the Project Standards team (see E-1-03, List of Contacts).
	Co-op projects may be newly constructed or conversions of existing buildings.
	All construction and rehabilitation for the project must be completed before Fannie Mae purchases or securitizes the share loan, unless the Project Standards Team (see E-1-03, List of Contacts) approves delivery at an earlier date.
	Lenders may not deliver co-op share loans that account for more than 20% of the total number of units in the project. Lenders should contact the Project Standards Team if they wish to deliver a group of share loans that represent a greater percentage of the total units in the project.

### Co-op Project — Full Review

When delivering loans secured by units in a co-op project on the basis of a Full Review, lenders must ensure adherence to the following requirements:

✓	<b>Eligibility Requirements – For Full Review of Co-op Projects</b>
	The project must meet the requirements of the General Warranty of Project Eligibility.
	The project must not be an ineligible project. (See B4-2.1-02, Ineligible Projects.)
	The project must not be a manufactured housing project.
	The project must meet Fannie Mae’s insurance requirements, as stated in Chapter B7–4, Additional Project Insurance.
	Phase I and II environmental hazard assessments are not required for co-op projects unless the lender identifies an environmental problem through the performance of its project underwriting and due diligence.

✓	<b>Eligibility Requirements – For Full Review of Co-op Projects</b>
	In the event that environmental problems are identified, the problems must be determined to be acceptable, as described in E-2-03, Suggested Format for Phase I Environmental Hazard Assessments.
	All rehabilitation work involved in a co-op conversion must be completed in a professional manner.
	For project conversions that did not involve gut rehabilitation, lenders must review an engineer’s report or other substantially similar report to verify that all necessary repair(s) are complete and replacement reserves are identified for all capital improvements and noted as adequate by the party evaluating the project.  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.
	For project conversions that were 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, and so on.
	The lender must warrant that it is not aware of any change in circumstances since its review of the project that would result in the project no longer satisfying Fannie Mae’s eligibility criteria.
	The project must be located in an area with a demonstrated market acceptance for the co-op form of ownership as reflected by the availability of similar comparable sales for co-op units in the market area.
	The project cannot be subject to additional phasing or annexation.
	The construction of the project (or all rehabilitation work involved in the conversion of an existing building to a co-op project) must be complete.
	Stock or share ownership and the accompanying occupancy rights that represent at least 80% of the total number of units in the project must have been sold and conveyed (or, for new construction, must be under contract for sale) to principal residence purchasers.
	No more than 10% of the stock or shares in the co-op corporation and the related occupancy rights may be owned by any single entity except for the developer or sponsor during the sales period.
	The project’s operating budget must:

✓	<b>Eligibility Requirements – For Full Review of Co-op Projects</b>
	<ul style="list-style-type: none"> <li>• be consistent with the nature of the project,</li> <li>• provide for adequate cash flow to service the current debt and operating expenses, and</li> <li>• provide for adequate replacement and operating reserves.</li> </ul>
	The project must have a good financial record, with no more than 15% of the owners being more than one month delinquent in the payment of their financial obligations to the co-op corporation.
	Any blanket mortgage for the project must not be a balloon mortgage with a remaining term of less than three years or a mortgage that provides for interest rate adjustments.
	The project may not be the recipient of any subsidies or similar benefits such as tax or assessment abatements that will terminate partially or fully within the next three years.
	The project and share loan documentation must comply with Fannie Mae’s general legal requirements and any specific legal requirements established for the state in which the project is located.
	The units in the project must be owned in fee simple.
	The unit owners must be the sole owners of, and have rights to the use of the project’s facilities, common elements, and limited common elements.
	<p>Lenders must retain all project documentation that supports the warranty that the project meets Fannie Mae eligibility criteria.</p> <p><b>Note:</b> This documentation must be retained from the time the lender first originates mortgages secured by units in the project until all such mortgages that were sold to Fannie Mae have been liquidated.</p>
	The project must meet the eligibility requirements.
	All units, common areas, and facilities within the project must be 100% complete.
	<p>Facilities related to the project—such as parking, recreational facilities, etc.—must be owned by the co-op corporation.</p> <p>The developer or sponsor may not retain an ownership interest in any of them.</p>

✓	<b>Eligibility Requirements – For Full Review of Co-op Projects</b>
	Any commercial space in the project must be compatible with the overall residential nature of the project and should not be an inordinate amount of commercial space.
	The project must be demonstrably well managed.
	If the project is professionally managed, the management contract must be for a reasonable term and its termination provision must not require the payment of a penalty or advance notice of more than 90 days.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2014-13</a>	November 10, 2014
<a href="#">Announcement SEL-2011-05</a>	June 28, 2011
<a href="#">Announcement SEL-2010-10</a>	August 12, 2010
<a href="#">Announcement 09-32</a>	October 30, 2009
<a href="#">Announcement 08-34</a>	December 16, 2008

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## **B4-2.3-03, Legal Requirements for Co-op Projects (04/01/2009)**

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### **Introduction**

This topic contains information on legal requirements for co-op projects, including:

- Legal Requirements
  - Co-op Project Documentation
  - Availability of Project Documents
  - Availability of Audited Financial Statements
  - Amendments to Documents
  - Co-op Membership
  - Co-op's Lien Position
  - Prior Co-op Financing
  - Assignment of Co-op's Lease/Occupancy Rights
  - Co-op Corporation's Recognition Agreement, Responsibilities, and Lender's Rights
  - Lender's Rights
- 

### **Legal Requirements**

The lender must review the project's legal documents to determine whether they are in compliance with the master association, state and local law and the requirements of this Guide. Fannie Mae may waive a specific requirement if the lender can show that the waiver will not adversely affect Fannie Mae's security. The lender should point out the possible need for a waiver when it submits an application for project acceptance.

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### **Co-op Project Documentation**

The co-op corporation must be a validly formed entity authorized to carry out its independent purposes and must be in compliance with all applicable state and local laws.

The co-op documents must provide:

- terms that sufficiently explain the manner in which the corporation is managed and controlled;
- a legally permissible procedure for handling any losses or proceeds from condemnation, destruction, or liquidation of all or a part of the project or from termination of the project; and
- a requirement for property, flood, liability, and fidelity/crime insurance coverages (see Chapter B7–4, Additional Project Insurance).

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### **Availability of Project Documents**

The project documents must require that the co-op corporation have current copies of the co-op project documentation as well as its own books, records, and financial statements available for inspection by tenant-stockholders or by holders, insurers, and guarantors of share loans for units in the project. Generally, these documents should be available during normal business hours.

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### **Availability of Audited Financial Statements**

When a project consists of 50 or more units:

- the project documentation must provide for the co-op corporation to make an audited statement for the preceding fiscal year (if the project has been established for a full fiscal year) available to the holder, insurer, or guarantor of any co-op share loan for a unit in the project on submission of a written request for it; and
- the documents must further provide for the audited financial statement to be available within 120 days of the co-op corporation's fiscal year-end.

If a project consists of fewer than 50 units and there is no audited statement available, the project documents must allow any share loan holder to have an audited statement prepared at its own expense.

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### **Amendments to Documents**

The co-op project's documents must provide for the tenant-stockholders to have the right to amend them. In addition, the co-op corporation must be legally bound to notify the holder of a co-op share loan about any proposed material changes to the co-op project with respect to allocation of membership interests; voting rights; assessments (including increases that raise

the previous assessment amount by more than 25%, and the method of calculating liens or lien subordination); unit boundaries; insurance or fidelity coverages; restrictions on leasing or selling units; professional management (if Fannie Mae requires it); reduction in replacement or operating reserves and changes in maintenance policies; and any other provisions that are for the express benefit of the lender.

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### **Co-op Membership**

The project documents must require that the sale or transfer of stock, shares, or membership certificates in the co-op corporation be in compliance with federal and state security disclosure laws. The document also must require tenant-stockholders to own stock, shares, or a membership certificate, and permit the stock, shares, or membership certificates to be pledged and registered in the co-op corporation.

The project documents must give the tenant-stockholder a right to occupy the unit for a period that extends at least to the maturity date of the share loan, although this right should be subject to the terms and conditions of a proprietary lease or occupancy agreement between the tenant-stockholder and the co-op corporation. The documents also must prohibit the co-op corporation from imposing unreasonable limitations on the tenant-stockholder's ability to sell, transfer, or convey his or her membership, or to sublease his or her unit. If the purchaser's right to membership or occupancy is subject to any right of the co-op corporation to give approval, the lender must furnish evidence to clearly show that such approval has been given before Fannie Mae will purchase or securitize the co-op share loan.

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### **Co-op's Lien Position**

The co-op corporation must have good and marketable title to the property. The co-op corporation must own the property in fee simple and the project premises must be free and clear of liens and encumbrances, except for those disclosed to Fannie Mae by the lender. The lender must provide appropriate title evidence to indicate that Fannie Mae will be receiving full title protection.

The share loan must be secured by the assignment (in pledge or trust) of the leasehold estate; a pledge or trust of the corporation stock, shares, or membership certificate; and any other documents that are appropriate under individual state or local laws and practices. The share loan must be a first lien, except that, where custom dictates to the contrary, Fannie Mae will consider partial subordination of its lien to that portion of the co-op corporation's lien against the tenant-stockholder's shares for unpaid assessments that represents the *pro rata* share of the corporation's payments for the blanket mortgage, current year's real estate taxes, and special assessments.



The lender that is financing the share loan must receive an assignment of the proprietary lease or occupancy agreement for all share loans that it delivers to Fannie Mae, together with stock power that authorizes the lender to transfer shares in the event of a default. Valid financing statements and assignments of financing statements must be executed and filed, if necessary to perfect Fannie Mae's security interest under the Uniform Commercial Code of the state in which the property is located. Information searches, or equivalent evidence of filing financing statements and assignments of financing statements, must be obtained and must show that Fannie Mae is the sole secured party. In those states in which co-op units are considered real property, perfection of the lien must comply with state law applicable to real estate.

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### **Prior Co-op Financing**

The co-op project must be in compliance with the requirements imposed by the holder of any prior financing for the project. If the blanket mortgage on a project includes a due-on-encumbrance clause and the project is located in a state in which share loans are considered to be an encumbrance on the project, the blanket lender must consent to the share loan financing. In the case of a conversion of an existing building, the blanket lender must agree to the use of the building as a co-op and, if it is feasible, agree—in the event of a default on the blanket mortgage—not to wipe out the shares of those tenant-stockholders who are current in the payment of their assessments or carrying charges.

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### **Assignment of Co-op's Lease/Occupancy Rights**

Generally, the project documents should not permit the co-op corporation to restrict the sale, conveyance, or transfer of a unit owned by a lender, its successors, or assigns, nor to place any limits on the assignment of the proprietary lease or occupancy agreement to the lender, its successors, or assigns. This lease or agreement must be assumable by the lender if the tenant-stockholder defaults on the share loan. If the co-op's organizational documents require that a tenant-stockholder be a natural person, they must permit the lender to select a non-corporate designee for any assignment of a proprietary lease or occupancy agreement that it acquires through foreclosure or acceptance of a deed in lieu of foreclosure. If the lender assumes the lease or agreement as the result of the tenant-stockholder's default, the co-op corporation must allow the lender to attempt to sell its interest in the lease or agreement. However, if the lender is unable to effect a satisfactory sale within 60 days—either through its own efforts or with assistance from the co-op corporation—the co-op corporation may not prohibit the lender from subletting the unit then, or for a period of up to three years after it acquired the unit.

The project documents may grant the co-op corporation the right to approve a lender's sublessee or to offer an alternate sublessee that is satisfactory to the lender. However, the co-op corporation's approval standards and procedures may not be unreasonably restrictive or in

violation of applicable law, and the action must be completed within a reasonable time—no more than 30 days—after the lender requests approval of a proposed sublessee.

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### **Co-op Corporation’s Recognition Agreement, Responsibilities, and Lender’s Rights**

The project documents must either require the co-op corporation to execute a separate agreement—such as a recognition agreement—or include provisions to recognize specific rights of the lender that finances the share loan (or those of its successors or assigns) and the co-op corporation’s responsibilities to that lender.

#### **Co-op Corporation’s Responsibilities**

The recognition agreement (or the project’s legal documents) must include, among other things, the following responsibilities for the co-op corporation:

- The co-op corporation must evict a tenant-stockholder who has defaulted on his or her share loan and must terminate that tenant-stockholder’s lease, if the share loan holder requests it to do so.
- The co-op corporation must maintain insurance policies that meet Fannie Mae’s minimum insurance requirements for co-ops.
- The co-op corporation must maintain replacement and operating reserves.
- The co-op corporation must be legally bound to notify the lender of any of the following changes or occurrences:
  - Any threatened or actual condemnation, eminent domain proceeding or acquisition, or any actual loss, whether or not covered by insurance, that affects any portion of the co-op project or unit;
  - The co-op corporation’s generation—during any taxable year—of 80% or less of its gross income from “tenant-stockholders” income, as that term is defined in Section 216 of the Internal Revenue Code;
  - Any 30-day delinquency by the co-op corporation in payments due under any blanket mortgage for real estate taxes, assessments, and charges imposed by a government entity or public utility, or under any ground lease;
  - Any lapse, cancellation, or material modification of any insurance or fidelity insurance coverages maintained by the co-op project;
  - Any proposed action that requires the consent of a specified percentage of eligible share loan holders; and

- Any 60-day delinquency by the tenant-stockholder that is related to the payment of his or her monthly assessments or carrying charges.

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### **Lender's Rights**

The project documents must grant the lender financing a share loan the right to cure the tenant-stockholder's defaults in his or her assessment payments or carrying charges and the right to review and approve the following actions before the co-op corporation can consent to them:

- any surrender, cancellation, modification, or assignment of any documents evidencing ownership, possession, and use of a unit;
- any sublease of a unit;
- any further or additional pledge or mortgage of any documents evidencing ownership, possession, and use of a unit;
- the addition of any blanket financing that is superior to the share loan if it would result in an annual increase of more than 10% in a unit's monthly assessments or carrying charges;
- any action to change the form of ownership of the project;
- any provisions that expressly benefit the blanket mortgage holder; or
- the contraction, expansion, or termination of the co-op project.



## **B4-2.3-04, Loan Eligibility for Co-op Share Loans (08/20/2013)**

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### **Introduction**

This topic contains information on loan eligibility for co-op share loans, including:

- Overview
- Structure of the Co-op Share Loan
- Whole Loan and MBS Pool Deliveries
- Co-op Share Loan Eligibility Requirements
- Acceptable Repayment Terms for Co-op Share Loans

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## Overview

The property that secures Fannie Mae's first lien is the borrower's ownership interest in a co-op housing corporation that is represented by stock or shares in the co-op housing corporation (or by a membership certificate or other contractual agreement evidencing ownership) and an assignment of the borrower's rights under a proprietary lease or occupancy agreement with the co-op housing corporation.

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## Structure of the Co-op Share Loan

A co-op share loan must be a lien that has priority over all other liens against the borrower's interest in the property, except that the lien may be subordinated to:

- that portion of the co-op corporation's lien against the tenant-stockholder's shares for unpaid assessments that represents:
  - the *pro rata* share of the co-op corporation's payments for the blanket mortgage,
  - the current year's real estate taxes, and
  - any special assessments;
- any assignment of rents or maintenance expenses in any:
  - mortgage or deed of trust that is secured by the co-op project,
  - Regulatory Agreement entered into by the co-op corporation and the Secretary of HUD as a condition for obtaining HUD mortgage insurance.

**Note:** The *pro rata* share of the blanket mortgage that is related to the co-op share loan cannot exceed 30% of the sum of the related *pro rata* share of the blanket mortgage and the appraised equity interest value of the shares.

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## Whole Loan and MBS Pool Deliveries

Fannie Mae accepts whole loan deliveries of co-op share loans under Fannie Mae's standard commitments.

MBS pool deliveries that consist of co-op share loans must always be delivered under negotiated contracts, generally as separate pools. However, co-op share loans can be commingled in MBS

pools that include other types of mortgages, provided they do not represent more than 10% of the aggregate issue date principal balance for the pool.

**Note:** See Part C: Selling, Securitizing, and Delivering Loans, for additional limitations that may apply if other special product characteristics are present.

### Co-op Share Loan Eligibility Requirements

Fannie Mae will purchase co-op share loans if the requirements detailed in the following table are met:

✓	<b>Eligibility Requirements – For Co-op Share Loans</b>
	Fannie Mae will not purchase or securitize co-op share loans that are subject to subordinate financing.
	The co-op share loan must be secured by stock or shares in the co-op corporation (or by a membership certificate or other contractual agreement evidencing ownership) and the accompanying exclusive occupancy rights related to a single-family dwelling in the project.
	The borrower must occupy the property as a principal residence or second home. Investment properties are prohibited.
	The tenant-stockholder (borrower) must have a right to occupy the unit for a period that extends at least to the maturity date of the share loan although this right will be subject to the terms and conditions of a proprietary lease or occupancy agreement that he or she entered into with the co-op housing corporation.
	The tenant-stockholder must own stock, shares, or membership certificates in the co-op housing corporation.
	If Fannie Mae owns an interest in the blanket co-op project mortgage, the maximum mortgage amount that would otherwise be available for a co-op share loan from that project must be reduced by the portion of the unpaid principal balance of the blanket mortgage that is attributable to the share loan.

For the applicable LTV/CLTV/HCLTV ratio limits, see the [Eligibility Matrix](#).

### Acceptable Repayment Terms for Co-op Share Loans

A co-op share loan may be closed using any of the following repayment terms:

- a fixed-rate, fully amortizing first mortgage, or
- any standard ARM plan if the share loan will be sold to Fannie Mae as a whole loan. See the [Standard ARM Plan Matrix](#) for additional information.

**Note:**

- Lenders must obtain an individual negotiated contract for an MBS pool delivery.
- Fannie Mae’s standard required margin for the ARM plan under which a co-op share loan is originated must be increased by 25 basis points to reflect the increased risk of the co-op form of ownership.

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**Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2013-06</a>	August 20, 2013
<a href="#">Announcement SEL-2011-03</a>	March 31, 2011
<a href="#">Announcement SEL-2010-13</a>	September 20, 2010
<a href="#">Announcement SEL-2010-06</a>	April 30, 2010
<a href="#">Announcement SEL-2010-02</a>	March 2, 2010

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## **B4-2.3-05, Other Requirements for Co-op Share Loans (04/15/2014)**

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### **Introduction**

This topic contains information on other requirements for co-op share loans, including:

- Overview
  - Co-op Property Requirements
  - Blanket Mortgages
  - Acceptable Subordination Conditions for Co-op Share Loans
  - Tenant-Stockholder (Borrower)
  - Eligible Products and Repayment Terms
  - Eligible Co-op Projects
  - Project Requirements
  - Co-op Share Loan Documentation
  - Calculating the LTV Ratio for Co-op Share Loans
  - Whole Loan and MBS Delivery Requirements
- 

### **Overview**

Co-op share loans finance the purchase or refinancing of the borrower's ownership interest in a co-op housing corporation and accompanying occupancy rights in a residential unit in a co-op project owned by the co-op housing corporation. A co-op share loan is secured by a pledge of the borrower's co-op shares and an assignment of the borrower's rights under a proprietary lease or occupancy agreement with the co-op housing corporation.

Fannie Mae purchases or securitizes first liens secured by co-op units. Co-op unit properties that secure the loans must be represented by shares, stock, a membership certificate, or other contractual agreement in a co-op housing corporation.

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## Co-op Property Requirements

The table below provides the requirements for first liens purchased or securitized by Fannie Mae as co-op units.

✓	<b>Eligibility Requirements – For Co-op Properties</b>
	Fannie Mae does not purchase or securitize co-op share loans that are subject to subordinate financing except for DU Refi Plus and Refi Plus transactions.
	Fannie Mae purchases or securitizes co-op share loans regardless of whether Fannie Mae owns the blanket mortgage.
	Loans must meet the blanket mortgage requirements detailed below.
	Co-op housing projects must be designed principally for residential use and must consist of five or more units.
	Co-op housing projects must be located in areas that have a demonstrated market acceptance for the co-op form of ownership.

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## Blanket Mortgages

The blanket project mortgage may be a market-rate FHA-insured mortgage or a conventional mortgage. However, if Fannie Mae owns an interest in the blanket co-op project mortgage, the maximum mortgage amount available must be reduced by the portion of the unpaid principal balance of the blanket mortgage(s) that are attributable to the share loan.

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## Acceptable Subordination Conditions for Co-op Share Loans

Co-op share loans must be liens that have priority over all other liens against the borrower's interest in the property, except when the lien is subordinated to

- that portion of the co-op corporation's lien against the tenant-stockholder's shares for unpaid assessments that represents the *pro rata* share of the co-op corporation's payments for the blanket mortgage, the current year's real estate taxes, and any special assessments;

**Note:** The *pro rata* share of the blanket mortgage that is related to the co-op share loan cannot exceed 30% of the sum of the related *pro rata* share of the blanket mortgage and the appraised equity interest value of the shares.



- any assignment of rents or maintenance expenses in any mortgage or deed of trust that is secured by the co-op project, or any Regulatory Agreement entered into by the co-op corporation and the Secretary of HUD as a condition for obtaining HUD mortgage insurance.
- 

### **Tenant-Stockholder (Borrower)**

Tenant-stockholders (borrowers) must

- have a right to occupy the unit for a period that extends at least to the maturity date of the share loan (although this right will be subject to the terms and conditions of a proprietary lease or occupancy agreement that he or she entered into with the co-op housing corporation);
  - own stock, shares, or membership certificates in the co-op housing corporation.
- 

### **Eligible Products and Repayment Terms**

Acceptable products and repayment terms for co-op share loans include the following:

- fixed-rate, fully amortizing first mortgages;
- if the share loan will be sold to Fannie Mae as a whole first mortgage, any standard ARM plan Fannie Mae offers; and
- Fannie Mae's standard required margin for the ARM plan under which a co-op share loan is originated must be increased by 25 basis points to reflect the increased risk of the co-op form of ownership.

For credit score requirements in association with products, see the [Eligibility Matrix](#).

---

### **Eligible Co-op Projects**

In order for a co-op share loan to be eligible for delivery to Fannie Mae, the co-op project in which the secured unit is located must qualify as a co-op housing corporation under the Internal Revenue Service Code. The co-op corporation must provide the lender with a statement about the project's compliance with Section 216 of the Code. If co-op projects do not meet Section 216 requirements, Fannie Mae will not purchase a co-op share loan from within the project. See Chapter B4–2, Project Standards, for additional information.

The lender is responsible for determining that the co-op corporation holds title to the property of the co-op project, including the dwelling units. A type of co-op project that does not meet these requirements is one in which the borrower, not the co-op corporation, owns his or her dwelling

unit in the project. Co-op share loans in these projects, commonly referred to as “land-home” or “land-lease” co-op projects, can only be delivered by lenders that are approved to deliver co-op share loans and that have a variance in their Master Agreement that permits deliveries of co-op share loans in “land-home” or “land-lease” projects.

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## Project Requirements

The table below provides the requirements for conventional co-op projects.

Project Type	Requirements
New construction	All construction for the project must be completed before Fannie Mae purchases or securitizes the share loan, unless the lender’s lead Fannie Mae regional office (see E-1-03, List of Contacts) approves delivery at an earlier date.
Conversion of an existing building to a co-op project	All construction and rehabilitation for the project must be completed before Fannie Mae purchases or securitizes the share loan according to Fannie Mae project standards requirements for co-ops.

---

## Co-op Share Loan Documentation

Fannie Mae does not publish multistate standard co-op share loan instruments because of the variations in state laws pertaining to the co-op form of ownership. If a lender elects to use the Fannie Mae fixed-rate note forms for co-op share loans, the lender represents and warrants that the notes comply with all applicable laws and regulations for co-op share loans in and are enforceable and negotiable under the laws of the applicable jurisdiction.

On [Fannie Mae's website](#), Fannie Mae publishes state-specific documentation requirements for states in which Fannie Mae purchases co-op share loans. Those requirements describe documents that must be delivered to the document custodian (for example, co-op Recognition Agreement, assignments to Fannie Mae, and evidence of share ownership) and documents that the lender must retain in the individual loan file.

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## Calculating the LTV Ratio for Co-op Share Loans

The LTV ratio is determined by dividing the original loan amount by the lower of

- the sales price for the co-op unit (unencumbered by the unit's *pro rata* share of the co-op project's blanket mortgage(s)), or
- the appraised value of the co-op stock or shares and the related occupancy rights (unencumbered by the unit's *pro rata* share of the project's blanket mortgage(s)).

For specific limitations regarding maximum LTV, CLTV, and HCLTV ratios for purchase money and refinance transactions, see the *Eligibility Matrix*.

### Whole Loan and MBS Delivery Requirements

The table below provides whole loan and MBS delivery requirements.

<b>If the co-op share loan is ...</b>	<b>Then Fannie Mae ...</b>
to be delivered as a whole loan,	accepts standard commitments.
in an MBS pool comprising co-op share loans that represent more than 10% of the aggregate issue date principal balance for the pool,	requires a negotiated contract, generally as separate pools.
in an MBS pool comprising co-op share loans that represent 10% or less of the aggregate issue date principal balance for the pool,	permits co-op share loans to be commingled in MBS pools that include other types of mortgages, provided the loans with nonstandard characteristics do not represent more than 15% of the aggregate issue date principal balance for the pool. See C3-2-01, Determining Eligibility for Loans Pooled into MBS, for additional limitations that may apply if other nonstandard characteristics are present.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcement</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2014-03</a>	April 15, 2014
<a href="#">Announcement SEL-2013-06</a>	August 20, 2013
<a href="#">Announcement SEL-2012-04</a>	May 15, 2012
<a href="#">Announcement SEL-2011-03</a>	March 31, 2011
<a href="#">Announcement SEL-2010-13</a>	September 20, 2010
<a href="#">Announcement SEL-2010-10</a>	August 12, 2010
<a href="#">Announcement SEL-2010-06</a>	April 30, 2010
<a href="#">Announcement SEL-2010-02</a>	March 2, 2010

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# Subpart B5, Unique Eligibility and Underwriting Considerations



## Unique Eligibility and Underwriting Considerations

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### Introduction

This subpart contains unique eligibility and underwriting considerations pertaining to certain loan, property, and financing types.

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### In This Subpart

This subpart contains the following chapters:

B5-1, High-Balance Mortgage Loans .....	732
B5-2, Manufactured Housing .....	737
B5-3, Construction and Energy Financing.....	756
B5-4, Property-Specific Products.....	788
B5-5, Community Seconds, Community Land Trusts, DU Refi Plus™ and Refi Plus™, and Loans with Resale Restrictions .....	808
B5-6, MyCommunityMortgage (MCM) .....	884

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# Chapter B5-1, High-Balance Mortgage Loans



## High-Balance Mortgage Loans

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### Introduction

This chapter describes the policies and requirements related to high-balance mortgage loans.

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### In This Chapter

This chapter contains the following topics:

B5-1-01, High-Balance Mortgage Loan Eligibility and Underwriting (01/17/2013).....	732
B5-1-02, High-Balance Pricing, Mortgage Insurance, Special Feature Codes, and Delivery Limitations (06/26/2012) .....	735

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## B5-1-01, High-Balance Mortgage Loan Eligibility and Underwriting (01/17/2013)

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### Introduction

This topic contains loan eligibility and underwriting information on high-balance mortgage loans, including:

- Loan Limits
- Loan Eligibility and Underwriting Requirements
- DU Refi Plus and Refi Plus
- Government Mortgage Loans
- Appraisal Requirements

---

## Loan Limits

The high-balance loan requirements apply to mortgage loans with original loan amounts meeting the high-cost area loan limits established by the Federal Housing Finance Agency. Fannie Mae publishes on its website the maximum high-cost area loan limits that may apply by state (or territory); however, specific loan limits are established for each county (or equivalent) and may be lower for each specific high-cost area. Refer to [Loan Limits for Conventional Mortgages](#) for additional information, including the loan limits for each area.

Lenders are responsible for ensuring that the original principal balance of each mortgage loan does not exceed the applicable maximum loan limit for the specific area in which the property is located. To assist lenders in determining the applicable limits, Fannie Mae posts reference material on its website, including the Loan Limit Geocoder™, which lenders can use to look up loan limits based on a specific address (or batch of addresses).

---

## Loan Eligibility and Underwriting Requirements

High-balance mortgage loans must meet all standard Fannie Mae eligibility and underwriting requirements, as outlined in this *Selling Guide*, except as noted in this section. The following guidelines apply to all high-balance mortgage loans:

- Loans must be conventional first-lien mortgages only.
- Loans must meet the LTV, CLTV, HCLTV ratio, and minimum credit score requirements as outlined in the High-Balance Mortgage Loans chart in the [Eligibility Matrix](#) available on its website.
- All borrowers must have a credit score.
- Loans may be underwritten manually or through DU.

For additional eligibility information, see the *Eligibility Matrix*. For information about loan delivery, see B5-1-02, High-Balance Pricing, Mortgage Insurance, Special Feature Codes, and Delivery Limitations.

**Note:** Unless otherwise notified by Fannie Mae, existing variances in a lender's Master Agreement apply to high-balance mortgage loans; however, the more restrictive of the eligibility requirements of this section or the lender's variance will apply.

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## DU Refi Plus and Refi Plus

High-balance mortgage loans are eligible for DU Refi Plus and Refi Plus. The eligibility and appraisal requirements specific to DU Refi Plus and Refi Plus supersede all requirements that apply to high-balance mortgage loans. See B5-5.2-01, DU Refi Plus and Refi Plus Eligibility, for additional information.

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## Government Mortgage Loans

Lenders may deliver higher balance FHA, VA, and RD mortgage loans to Fannie Mae. For details, see A2-4-01, Master Agreement Overview, B6-1-01, General Government Mortgage Loan Requirements, B6-1-02, Eligible FHA-Insured Mortgage Loans, B6-1-03, Eligible VA-Guaranteed Mortgages, and B6-1-05, Eligible RD-Guaranteed Mortgages.

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## Appraisal Requirements

The following appraisal requirements apply in addition to the standard *Selling Guide* or DU fieldwork requirements:

- A *One-Unit Residential Appraisal Field Review Report (Form 2000)*, is required if the loan amount is greater than \$625,500 and the LTV, CLTV, or HCLTV ratio is greater than 80%; or the property is valued at \$1,000,000 or more and the LTV, CLTV, or HCLTV ratio is greater than 75%.

A Field Review is required to ensure that the appraisal is an accurate representation of value. If the Field Review results in a different opinion of value than the appraisal, the lowest of the original appraised value, the Field Review value, or the sales price (for purchases) should be used to calculate the LTV ratios.

- For properties in attached condo projects, the appraisal must contain two comparable sales from projects outside of the subject's project in addition to the current comparable sale requirements as outlined in the *Selling Guide*.



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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

Announcements and Release Notes	Issue Date
<a href="#">Announcement SEL-2013-01</a>	January 17, 2013
<a href="#">Announcement SEL-2012-07</a>	August 21, 2012
<a href="#">DU Version 9.0</a>	July 24, 2012
<a href="#">Announcement 09-08R</a>	June 8, 2009
<a href="#">Announcement 08-27</a>	October 16, 2008



## **B5-1-02, High-Balance Pricing, Mortgage Insurance, Special Feature Codes, and Delivery Limitations (06/26/2012)**

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### Introduction

This topic contains information about the following aspects of high-balance mortgage loans, including:

- Pricing/Loan-Level Price Adjustments
- Mortgage Insurance Requirements
- Delivery Data Requirements Including Special Feature Codes
- High-Balance Whole Loan and MBS Delivery Limitations

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### Pricing/Loan-Level Price Adjustments

Live pricing options are provided for high-balance mortgage loan transactions in eCommitting and eCommitONE. Specific additional LLPAs apply to all high-balance mortgage loans, whether delivered under whole loan commitments or MBS contracts. High-balance mortgage loans are also subject to all other applicable LLPAs and the Adverse Market Delivery Charge. All price adjustments are cumulative. For details, see the [Loan-Level Price Adjustment \(LLPA\) Matrix and Adverse Market Delivery Charge \(AMDC\) Information](#).

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## Mortgage Insurance Requirements

Mortgage insurance coverage is required for high-balance mortgage loans with LTV ratios greater than 80%. Financed borrower-purchased mortgage insurance is permitted; however, the maximum gross LTV (after the inclusion of the financed premium) cannot exceed 90%.

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## Delivery Data Requirements Including Special Feature Codes

SFCs: Lenders must use SFC 808 when delivering high-balance mortgage loans to Fannie Mae, except for government loans and unless otherwise instructed. All other applicable SFCs must also be provided.

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## High-Balance Whole Loan and MBS Delivery Limitations

Fannie Mae's requirements regarding delivery limitations for nonstandard loans apply to high-balance mortgage loans. For details see C2-2-01, General Requirements for Good Delivery of Whole Loans, and C3-2-01, Determining Eligibility for Loans Pooled into MBS. Furthermore, lenders may deliver high-balance mortgage loans into a Fannie Majors TBA-eligible pool. For details, see C3-6-01, Parameters for Pooling Loans Into Fannie Majors.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2012-06</a>	June 26, 2012
<a href="#">Announcement 09-29</a>	September 22, 2009
<a href="#">Announcement 09-08R</a>	June 8, 2009
<a href="#">Announcement 08-27</a>	October 16, 2008

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# Chapter B5-2, Manufactured Housing



## Manufactured Housing

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### Introduction

This chapter describes the requirements for originating and underwriting mortgage loans secured by manufactured housing.

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### In This Chapter

This chapter contains the following topics:

B5-2-01, Manufactured Housing (04/09/2013).....	737
B5-2-02, Manufactured Housing Loan Eligibility (04/15/2014) .....	739
B5-2-03, Manufactured Housing Underwriting Requirements (07/26/2011) .....	741
B5-2-04, Manufactured Housing Pricing, Mortgage Insurance, and Special Feature Code Requirements (12/30/2009) .....	747
B5-2-05, Manufactured Housing Legal Considerations (07/30/2013).....	748

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## B5-2-01, Manufactured Housing (04/09/2013)

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### Introduction

This topic contains information on manufactured housing, including:

- Manufactured Housing Overview
- Lender Eligibility
- Variances
- Lender Indemnification

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## Manufactured Housing Overview

Any dwelling unit built on a permanent chassis and attached to a permanent foundation system is a manufactured home for purposes of Fannie Mae's guidelines.

The manufactured home and the land on which it is situated must be titled as real property.

Other factory-built housing (not built on a permanent chassis)—such as modular, prefabricated, panelized, or sectional housing—is not considered manufactured housing and mortgage loans secured by such housing are eligible under the guidelines stated in Subpart B2, Eligibility.

Government insured or guaranteed manufactured housing loans are not subject to conventional guidelines for manufactured housing and therefore are not subject to the provisions set forth in Chapter B6–1, Government Insured and Guaranteed Mortgages.

---

## Lender Eligibility

Lenders are not required to obtain specific approval to deliver mortgages secured by manufactured homes. However, lenders must obtain Fannie Mae's project acceptance for the following projects if they are composed of manufactured homes:

- Any condo project — Both the land and the dwelling must be subject to the condo association. See the following topics for more information:
  - B4-2.1-01, General Information on Project Standards
  - B4-2.2-07, Additional Requirements for Review of Condo, Co-op, and PUD Projects Comprised of Manufactured Homes
- Any co-op project — Both the land and the dwelling must be owned by the co-op corporation.
- Any PUD project composed of single-width manufactured homes.

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## Variances

Unless specifically stated in the terms of the contract, variances or other terms contained in any lender's contract are not eligible for use with mortgages secured by manufactured homes.

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## Lender Indemnification

A lender that sells mortgages to Fannie Mae that are secured by manufactured homes must indemnify Fannie Mae in certain circumstances, which are set forth in the *Servicing Guide*.

This indemnification encompasses all losses, damages, judgments, and legal fees that are based on, or result from, breach or alleged breach of obligations owed to the borrower by the manufacturer or by any party that sells the manufactured home to the borrower, delivers it to the site, or installs it at the site.

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## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2013-03</a>	April 9, 2013



## **B5-2-02, Manufactured Housing Loan Eligibility (04/15/2014)**

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### Introduction

This topic contains information on manufactured housing loan eligibility, including:

- General Loan Eligibility Criteria
- Ineligible Manufactured Housing Criteria
- Manufactured Housing Standards

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### General Loan Eligibility Criteria

Fannie Mae purchases mortgage loans secured by manufactured homes that meet the following general criteria:

- first-lien mortgages only,
- fully amortizing fixed-rate mortgages or
- fully amortizing adjustable-rate mortgages with initial fixed-rate periods of 7 years or 10 years,

- principal residences and second home dwellings.

Refer to the *Eligibility Matrix* for maximum allowable LTV, CLTV, and HCLTV ratios.

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### **Ineligible Manufactured Housing Criteria**

The following are ineligible for mortgage loans secured by manufactured homes:

- temporary buydowns;
- investment properties;
- single-width manufactured homes, unless located in a Fannie Mae-approved subdivision, co-op, condo, or PUD project development;
- homes located on leasehold estates.

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### **Manufactured Housing Standards**

The mortgage loan must be secured by both the manufactured home and the land on which it is situated, and both the manufactured home and the land must be legally classified as real property under applicable state law.

The purchase, conveyance, and financing (or refinancing) of the land and the manufactured home must be evidenced and secured by a single valid and enforceable note and first lien mortgage, deed of trust or security deed that is recorded in the land records, in states where applicable state law clearly provides for such a single lien.

See B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing, for additional information.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2014-03</a>	April 15, 2014
<a href="#">Announcement SEL-2013-06</a>	August 20, 2013
<a href="#">Announcement SEL-2013-03</a>	April 9, 2013



## **B5-2-03, Manufactured Housing Underwriting Requirements (07/26/2011)**

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### **Introduction**

This topics contains information on manufactured housing underwriting considerations, including:

- Underwriting and DU Requirements
  - Sales Price and Original Loan Amount
  - Down Payment Requirements
  - Trade Equity from the Borrower's Existing Manufactured Home
  - Traded Manufactured Homes
  - Purchase Money Transactions
  - Limited Cash-Out Refinance Transactions
  - Cash-Out Refinance Transactions
- 

### **Underwriting and DU Requirements**

Mortgages secured by manufactured homes must be underwritten through DU.

When entering the property information into DU, the lender must correctly identify the property type as manufactured housing. DU checks the subject property addresses against manufactured home property addresses in the DU property database. If DU's database indicates the property may be a manufactured home, DU will return a message alerting the lender. DU's issuance of this message does not necessarily mean the property is a manufactured home, nor does the absence of this message indicate that Fannie Mae accepts the accuracy of the property type as it was submitted.

Lenders must research the subject property type. If it is determined the property is a manufactured home, the lender must correct the property type and resubmit the loan casefile

to DU. If it is NOT a manufactured home, the loan may be delivered with the appraisal recommendation provided by DU.

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### **Sales Price and Original Loan Amount**

The sales price of the manufactured home may include bona fide and documented transportation, site preparation, and dwelling installation at the site.

Any personal property items (non-realty items) purchased in conjunction with the manufactured home must be deducted from the sales price and cannot be financed as part of the mortgage.

In addition to the cost of the manufactured home and land, if applicable, the original loan amount may also include:

- the financing of borrower-purchased mortgage insurance premiums as provided for in B7-1-04, Financed Borrower-Purchased Mortgage Insurance;
- the cost of bona fide and documented transportation, site preparation, and dwelling installation at the site.

Financing of other costs is not permitted for purchase money mortgages, but is permitted for limited cash-out refinance transactions, as provided for in B2-1.2-02, Limited Cash-Out Refinance Transactions

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### **Down Payment Requirements**

A minimum down payment of 5% must come from the borrower's own funds unless:

- the LTV or CLTV ratio is less than or equal to 80%; or
- the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution. See B3-4.3-04, Personal Gifts; B3-4.3-06, Donations From Entities; and B3-4.3-08, Employer Assistance, for additional information.

The borrower's equity in the land is considered the borrower's own funds. Where the borrower holds title to the land on which the manufactured home will be permanently attached, the value of the land may be credited toward the borrower's minimum down payment requirement. The borrower's equity contribution will be the difference between any outstanding liens against the land and the market value of the land.



The following table describes how to determine the value of the land based on when and how the borrower acquired the land.

Date of Land Purchase	Value of the Land	Documentation Requirements
More than 12 months preceding the loan application.	The current appraised value.	None.
12 or fewer months preceding the date of the loan application.	The lesser of the sales price or the current appraised value.	The lender must document the borrower's cash investment by obtaining: <ul style="list-style-type: none"> <li>• a certified copy of the HUD-1 Settlement Statement or similar settlement statement,</li> <li>• a copy of the warranty deed that shows there are no outstanding liens against the property, or</li> <li>• a copy of the release of any prior liens(s).</li> </ul>
The borrower acquired the land at any time as a gift, inheritance, or other non-purchase transaction.	The current appraised value.	The lender must obtain appropriate documentation to verify the acquisition and transfer of ownership of the land.

### Trade Equity from the Borrower's Existing Manufactured Home

Trade equity from the borrower's existing manufactured home may be used as part of the borrower's minimum down payment requirement. The maximum equity contribution from the traded manufactured home is 90% of the retail value for the traded manufactured home based on the *NADA Manufactured Housing Appraisal Guide* except:

- If the borrower has owned the traded manufactured home for less than 12 months preceding the date of the loan application, the maximum equity contribution is the lesser of 90% of the retail value or the lowest price at which the home was sold during that 12 month period.

- Any costs associated with the removal of the traded home or any outstanding indebtedness secured by liens on the home must be deducted from the maximum equity contribution.

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### **Traded Manufactured Homes**

For traded manufactured homes, Fannie Mae requires a lien search in the appropriate real property and personal property records to verify ownership and to determine whether there are any existing liens on the manufactured home and land, or on the home and the land if they are encumbered by separate liens. The seller of the new manufactured home must provide proof of title transfer and satisfaction of any existing liens on the traded manufactured home.

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### **Purchase Money Transactions**

Purchase money transactions are those in which the mortgage proceeds are used to finance the purchase of the manufactured home or the manufactured home and the land. The land may be previously owned by the borrower, either free of any mortgage or subject to a mortgage that will be paid off with the proceeds of the new purchase money mortgage.

**Note:** The borrower does not receive any cash back with a purchase money transaction.

#### *New Manufactured Homes*

The LTV ratio (and CLTV/HCLTV ratio, if applicable) for a loan secured by a newly built manufactured home that is being attached to a permanent foundation system in connection with a purchase transaction will be based on the lower of:

- the sales price of the manufactured home plus:
  - the lowest sales price at which the land was sold during that 12 month period if the land was purchased in the 12 months preceding the loan application date; or
  - the current appraised value of the land if the land was purchased more than 12 months preceding the loan application date.
- the “as completed” appraised value of the manufactured home and land.

#### *Existing Manufactured Homes*

The LTV ratio (and CLTV/HCLTV ratio, if applicable) for a loan secured by a manufactured home that already exists on its foundation will be based on the lowest of:

- the sales price of the manufactured home and land;
  - the current appraised value of the manufactured home and land; or
  - if the manufactured home was built in the 12 months preceding the loan application date, the lowest price at which the home was previously sold during that 12-month period, plus the lower of:
    - the current appraised value of the land, or
    - the lowest price at which the land was sold during that 12 month period (if there was such a sale).
- 

### **Limited Cash-Out Refinance Transactions**

Limited cash-out refinance transactions involve the payoff of an existing mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered by separate liens). The maximum LTV ratio (and CLTV ratio, if applicable) for a limited cash-out refinance transaction for a loan secured by a manufactured home and land will be based on the lower of:

- the current appraised value of the manufactured home and land; or
- if the manufactured home was owned by the borrower for less than 12 months on the loan application date and:
  - if the home and land are secured by separate liens, the lowest price at which the home was previously sold during that 12-month period plus the lower of the current appraised value of the land, or the lowest sales price at which the land was sold during that 12-month period (if there was such a sale);
  - if the home and land are secured by a single lien, the lowest price at which the home and land were previously sold during that 12-month period.

Proceeds of a limited cash-out refinance mortgage may be used to:

- pay off the outstanding principal balance of an existing first lien mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered by separate first liens);
- pay off the outstanding principal balance of an existing subordinate mortgage or lien secured by the manufactured home and/or land, but only if it was used to purchase the manufactured home and/or land;

- finance closing costs (including prepaid expenses); and
- provide cash back to the borrower in an amount not to exceed the lesser of 2% of the balance of the new refinance mortgage or \$2,000.

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### Cash-Out Refinance Transactions

A cash-out refinance:

- involves the payoff of an existing first lien mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered by separate first liens); or
- enables the property owner to obtain a mortgage on a property that does not already have a mortgage lien against it, and permits the borrower to take equity out of the property in the form of mortgage proceeds that may be used for any purpose.

To be eligible for a cash-out refinance, the borrower must have owned both the manufactured home and land for at least 12 months preceding the date of the loan application. The LTV ratio (and CLTV/HCLTV ratio, if applicable) for a cash-out refinance for a loan secured by a manufactured home and land will be based on the current appraised value of the manufactured home and land.

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### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2011-06</a>	July 26, 2011
<a href="#">Announcement SEL-2011-03</a>	March 31, 2011
<a href="#">Announcement SEL-2010-06</a>	December 1, 2010
<a href="#">Announcement 09-29</a>	September 22, 2009



## **B5-2-04, Manufactured Housing Pricing, Mortgage Insurance, and Special Feature Code Requirements (12/30/2009)**

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### **Introduction**

This topic contains information about manufactured housing, including:

- Loan-Level Price Adjustments
  - Mortgage Insurance
  - Special Feature Code Requirements
- 

### **Loan-Level Price Adjustments**

An LLPA applies to all mortgages secured by manufactured homes delivered to Fannie Mae for whole loan purchase or MBS issuance. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. For the current LLPAs, see the *[Loan-Level Price Adjustment \(LLPA\) Matrix and Adverse Market Delivery Charge \(AMDC\) Information](#)*.

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### **Mortgage Insurance**

For mortgage insurance coverage requirements see B7-1-02, Mortgage Insurance Coverage Requirements.

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### **Special Feature Code Requirements**

Loans secured by manufactured homes must be delivered with SFC 235. This code is in addition to any other special feature codes that may apply.

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## Related Announcements

The table below provides references to the Announcements and Release Notes that have been issued that are related to this topic.

Announcements and Release Notes	Issue Date
<a href="#">DU Version 8.0</a>	September 22, 2009
<a href="#">Announcement 09-29</a>	September 22, 2009

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## **B5-2-05, Manufactured Housing Legal Considerations (07/30/2013)**

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### Introduction

This topic contains information on manufactured housing legal considerations, including:

- Closing Instructions
  - Post Closing Items and Conversion to Real Property
  - Certificate of Title
  - Title Issues and Lien Requirements
  - Title Insurance
  - Loan Documents
  - The Security Instrument
  - Affidavit of Affixture
  - Background Information Regarding Titling for Manufactured Homes
  - Background Information on States where Surrender of a Certificate of Title is not Permitted
- 

### Closing Instructions

Closing instructions must advise closing agents to obtain the required documentation necessary to ensure that the manufactured home is attached to a permanent foundation system on the land, thus becoming part of the real property.

If a closing agent is not available to perform this action, the lender can rely on the certification of completion completed by the appraiser.

In addition, where state law provides that a manufactured home may be exempt from certificate of title requirements (for instance, where a home is attached initially to a permanent foundation system), such closing instructions must instruct the closing agent to ensure that the manufactured home qualifies for exemption from certificate of title requirements, including monitoring of property installation procedures and the related documentation, and to provide the lender with documentary evidence of that for retention in the loan file.

Where state law allows for the elimination of the certificate of title, the closing instructions must instruct the closing agent to perform all necessary procedures to:

- assure that the certificate of title to the manufactured home is properly retired, and
- provide the lender with documentary evidence for retention in the loan file.

Additionally, lenders must obtain an insured closing protection letter for each mortgage loan that is secured by a manufactured home, if available.

If an insured closing protection letter is not available, then the lender must include a note in the file documenting its unavailability.

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## Post Closing Items and Conversion to Real Property

If there are post closing items related to conversion of the manufactured home from personal property to real property, the lender should consider use of a properly circumscribed power of attorney from the borrower that may be used to complete the post closing items. All post closing items must be documented in the loan file and, any relevant documents received after closing must be included in the loan file.

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## Certificate of Title

The table below provides conditional requirements pertaining to the manufactured home certificate of title.

<b>If ...</b>	<b>Then ...</b>
state law permits the manufactured home to become real property when it is immediately affixed to the permanent foundation system, without issuance of a certificate of title,	the lender must if the transaction involves the purchase of a new manufactured home obtain, and retain as part of the loan file, evidence that no certificate of title was issued.

If ...	Then ...
	<p>For example, if the lender obtains the manufacturer's certificate of origin, this would be evidence, in most states, that no certificate of title could have been issued.</p>
<p>a certificate of title has been issued, but state law provides for or permits surrender of the certificate of title,</p>	<p>the lender must obtain, and retain as part of the loan file, evidence that the certificate has been surrendered.</p> <p>Such evidence includes:</p> <ul style="list-style-type: none"> <li>• the confirmation required to be provided by the authority to which the certificate was surrendered, or</li> <li>• if no such confirmation is obtainable:             <ul style="list-style-type: none"> <li>– a copy of the documents submitted in connection with the surrender, and</li> <li>– evidence that such documents were delivered to the appropriate authority.</li> </ul> </li> </ul>
<p>a certificate of title has been issued, but state law does not permit the manufactured home to become real property without issuance of a certificate of title and does not provide for surrender of the certificate of title,</p>	<p>the lender must adhere to the following requirements:</p> <ul style="list-style-type: none"> <li>• The lien must be indicated on the certificate of title.</li> <li>• The certificate of title must be retained in the loan file.</li> <li>• The lender must assure that no other lien is indicated on the certificate of title.</li> <li>• Ownership of the manufactured home as shown on the certificate of title and ownership of the land as shown on the mortgage, deed of trust, or security deed must be identical (that is, the same individuals must sign both, each using the exact same name on both documents).</li> </ul>



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## Title Issues and Lien Requirements

To be eligible for purchase by Fannie Mae:

- A manufactured home mortgage loan must be secured by a perfected lien (or liens) on real property consisting of the manufactured home and the land.
- The manufactured home must be legally classified as real property under applicable state law, including relevant statutes, regulations, and judicial decisions.

The following requirements are also applicable:

- The owner of the manufactured home must own the land on which the home is situated.
- The manufactured home must be attached to a permanent foundation on the land and comply with state and jurisdictional requirements for permanent affixation.
- A mortgage, deed of trust, or security deed must be recorded in the land records and must identify the encumbered property as including both the home and the land.
- If applicable state law so permits, any certificate of title to the manufactured home must be surrendered to the appropriate state government authority.
- If the certificate of title cannot be surrendered, the lender must indicate its lien on the certificate.

Fannie Mae prefers that a loan on the manufactured home and the land on which it is situated be secured by a single lien.

However, it is recognized that some state laws do not provide for a single lien on both the manufactured home and the land. Therefore, a loan documented by a lien on the land evidenced by a mortgage, deed of trust or security deed and by a real property lien on the manufactured home evidenced on the certificate of title or other document is acceptable.

**Note:** loans in which there is a chattel lien on the home plus a real property lien on the land are unacceptable.

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## Title Insurance

The mortgage must be covered under a standard real property title insurance policy that insures that the manufactured home is part of the real property that secures the loan.

American Land Title Association® (ALTA®) Endorsement 7, 7.1, or 7.2 or any other endorsement required in the applicable jurisdiction for manufactured homes to be treated as real property must be included in the file.

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## Loan Documents

Fannie Mae prefers lenders to use the standard Fannie Mae Uniform Instruments (see *Security Instruments*).

If the Uniform Instruments are not used, then the lender must adhere to the following requirements:

- A single note must be used evidencing all the debt related to the land and the home, and a mortgage, deed of trust, or Georgia security deed securing such indebtedness (plus the certificate of title if state law so requires).
- The note used must provide the nonstandard document warranties that are referenced in A2-2.1-03, Document Warranties.

Loan documents are not acceptable if they:

- state that the home is personal property or contain other words to that effect;
  - state that the parties do not intend to attach the home to a permanent foundation system on the land, or contain statements inconsistent with that intention;
  - unless required by law, provide that rights of holders in due course are waived, or with other words provide that an assignee note holder may be held liable for claims the borrower may have against other parties; or
  - include consumer finance paper which combines the note and security instrument in a single document or a retail installment sales contract.
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## The Security Instrument

The security instrument must:

- state that the manufactured home is an improvement to the land and an immovable fixture, or include similar language as may be required by applicable law to assure, to the greatest extent possible, that the manufactured home will be treated as real property under applicable state law. If applicable law provides specific obligatory wording, such wording must be used; and

- include a comprehensive description of the manufactured home and the land in the property description section.

The description must include the serial or VIN number (or the serial number or VIN for each unit if the home is multi-width), make, model, size, and any other information that may be required by applicable law to definitively identify the home.

**Note:** The serial number is located on the HUD Data Plate located on the interior of the home, usually near the electrical box. In addition, the serial number is generally cold-stamped on the frame front cross member of each transportable section.

Some jurisdictions may not allow any information in the property description section of the security instrument other than what is customary for other real property transactions. If this is the case, then an addendum may be used, which must be attached to the security instrument and included in the loan file.

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### **Affidavit of Affixture**

The borrower and the lender must sign an Affidavit that acknowledges their intent for the manufactured home to be permanently part of the real property that secures the mortgage and contains any specific language that may be required by applicable law.

The Affidavit must be signed by both the lender and the borrower(s), preferably recorded, and must be retained in the loan file.

**Note:** Failure to include the Affidavit of Affixture in the loan file may result in the loan being ineligible for delivery to Fannie Mae. If assistance is needed in preparing an acceptable affidavit, the lender should contact its lead Fannie Mae regional office (see E-1-03, List of Contacts).

If state law requires a Uniform Commercial Code (UCC) filing in order to perfect a security interest in a manufactured home, the lender must make such filing in any and all appropriate locations.

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### **Background Information Regarding Titling for Manufactured Homes**

Titling is complex and further complicated by the lack of a federal standard. Consequently, all states devise their own laws resulting in diverse approaches to manufactured home titling and lien perfection. The variety of approaches is particularly challenging for lenders originating manufactured home loans in more than one state. Laws of some states do not clearly provide

for a single lien on the manufactured home, together with the land on which it is situated, but instead, for example, require that the lien on the manufactured home be evidenced by notation on the certificate of title.

While the laws of some states establish a procedure for surrender of the certificate of title when the manufactured home has become so permanently affixed to the land that it has become real property, the laws of other states do not allow for the elimination of the certificate of title to a manufactured home regardless of the degree of affixation of the home to the land. In these states, the lien on the land (evidenced by the mortgage, deed of trust or security deed) may be legally distinct from the lien on the manufactured home (evidenced on the certificate of title), though both are liens on real property. In this instance, the manufactured home is often treated as an “immovable fixture” (personal property that has become so permanently attached to the land that it has become real property).

Research on state laws affecting manufactured housing liens indicates, more specifically, that in order to document a lien on a manufactured home that is real property, state laws take several approaches:

- surrendering the certificate of title when the manufactured home is permanently affixed to the land;
- statutory, regulatory, or judicial authority for recognizing a manufactured home as part of the real property, without surrender of the certificate of title. A few states also require UCC filings; or
- recognizing the manufactured home as real property without issuing a certificate of title when the unit is affixed to the land.

Most states permitting manufactured homes to be treated as real property without first being titled as personal property also have procedures for issuing a certificate of title and then surrendering it.

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### **Background Information on States where Surrender of a Certificate of Title is not Permitted**

State law that does not provide for surrender of the certificate of title may pose some additional risk to the lender and Fannie Mae.

Under the UCC, as adopted in almost every state, a lien evidenced on any outstanding certificate of title will have priority over a lien on real property to which the manufactured home is affixed, which is evidenced by a mortgage, deed of trust, or security deed.

However, Fannie Mae believes that if a lender follows procedures tailored to take advantage of all protection offered under existing state law—including taking steps to assure that no certificate of title still exists that bears evidence of any lien securing any other loan—sufficient legal protection is afforded.

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### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2013-05</a>	July 30, 2013

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