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### CONDOMINIUMS

All condominium projects, for non-delegated and table funded transactions, must be reviewed and approved by Flagstar's Condo Review Department. Flagstar Bank utilizes Fannie Mae's Condominium Project Management (CPM) system for all full project approvals. In addition, established projects may be submitted through Freddie Mac's Project Assessment Request (PAR).

For Delegated Correspondent Lenders, *Project Eligibility Certification Form*, [Doc. #3285](#), or similar form completed by the underwriter on all Condo transactions.

### PROJECT DOCUMENTATION RETENTION AND EXPIRATION

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.

Expiration for Project Reviews		
Project Review Process Employed	Fannie Mae Expiration	Freddie Mac Expiration
Limited/Streamline Review	Must have been completed within one year prior to the note date	Must review and determine project meets requirements within one year prior to the Note date
Full Review (with or without CPM) for Established Projects		
Full review for New Projects	Must have been completed within 180 days prior to the note date	Must review and determine project meets requirements within 180 days prior to the note date
Approved by Fannie Mae as Reflected in CPM	Must be valid (unexpired) as of the note Date	
Approved by FHA	FHA approval must be valid (unexpired) as of the note date	N/A

### **CONDO PROJECT MANAGER (CPM) DESIGNATIONS**

CPM is a web-based application that supports a lender's Full Review of a condo project by providing key project eligibility questions to assist the lender in determining whether the project meets Fannie Mae's eligibility requirements. CPM is also used to communicate eligibility decisions made by Fannie Mae.

Certified by Lender	Loans in the project are eligible for sale by the certifying lender prior to the expiration date.
Approved by Fannie Mae	Project has been approved by Fannie Mae, and loans may be sold with a valid and unexpired approval by any lender. This status may include projects approved through the PERS or other Fannie Mae approval processes.
Conditional Approval	Project has been approved by Fannie Mae through the PERS process subject to certain conditions being met. Loans in this project cannot be sold to Fannie Mae until an Approved by Fannie Mae status has been issued.
No Fannie Mae Review	Lender can certify the project or subject legal phase based on the Selling Guide requirements.
Unavailable	Project has been determined by Fannie Mae to be ineligible.
Guide Ineligible	Based on information entered in CPM by the lender, loans in this project are not eligible for sale to Fannie Mae.

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Incomplete Certification	Project has been entered into CPM, but the lender's certification process has not been completed. The required information must be entered into CPM for the lender to determine the project's eligibility.
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If a lender becomes aware of any information that could impact the eligibility status reflected in CPM (such as **transient housing**, significant deferred maintenance or major litigation), the lender must notify the CPM Management team with the relevant data and information. Fannie Mae will evaluate the new information and its impact on eligibility. Fannie Mae reserves the right to change a project eligibility status designation if information acquired after approval or certification has an impact on a previously issued eligibility determination.

Fannie Mae does not review insurance policies as part of the review process, therefore verification that the project meets the applicable insurance requirements is required.

### **FREDDIE MAC CONDO PROJECT ADVISOR – PROJECT ASSESSMENT REQUEST (PAR)**

PAR is a web-based application that supports a lender's review of established projects. Green PAR results do not remove any requirements or reduce documentation required from the project review. If yellow results are returned from PAR, additional documentation may be required.

Note: all condo projects, excluding delegated transactions, must be reviewed and approved by Flagstar Bank Condo Review Department in order to ensure requirements have been met.

### DETACHED CONDOMINIUMS

A detached condo is defined as any condo unit that is completely detached from other condo units in the project. The unit may share no adjoining walls, ceilings, floors, or other attached architectural elements (such as breezeways or garages) with any neighboring unit. A detached condo unit may be in a project consisting solely of detached units or in a development containing a mixture of attached and detached units. Site condos in which the unit owner owns the detached condo unit and the land upon which the unit is built are a type of detached condo.

A **thorough** project review is not required, but the project must meet the following requirements.

- Mortgage is secured by a single detached unit in a condominium project
- The subject is a detached unit and does not include manufactured housing units.
- Project cannot be transient housing (e.g. condo-hotel), houseboat, timeshare project, or a project with segmented ownership.
- Appraisals for units in condominium project that consist solely of detached dwellings may be documented on Form 1004 or 1073.
- The subject is covered by a Title Insurance Policy that includes an ALTA Form 4, condominium endorsement, or its equivalent.
- The property is covered by hazard, flood, liability, and fidelity insurance
  - Fannie Mae - Evidence of liability insurance is not required if the projects common elements consist of greenbelts and contains no structural improvements or amenities such as playgrounds or retention ponds and does not contain any commercial space
    - Freddie Mac - It is not required to determine the existence or adequacy of the project liability insurance and/or the fidelity or employee dishonesty insurance for a detached condominium unit reviewed under the detached condominium projects review type.
- Unit holders have an automatic non-severable interest in the homeowners' association and pay mandatory assessments
- When using Loan Product Advisor or Desktop Underwriter, the property type must be submitted as a Detached Condominium.

- A condo rider will be required at closing
- Special Feature Code must be applied to the loan
  - Fannie Mae – SFC 588
  - Freddie Mac – SFC H04

### FANNIE MAE TEMPORARY REQUIREMENTS

The following requirements will remain in effect until further notice.

#### **SIGNIFICANT DEFERRED MAINTENANCE AND UNSAFE CONDITIONS**

Loans secured by units in condo projects with significant deferred maintenance or in projects that have received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions are not eligible. These projects will remain ineligible until the required repairs have been made and documented. Acceptable documentation may include a satisfactory engineering or inspection report, certificate of occupancy, or other substantially similar documentation that shows the repairs have been completed in a manner that resolves the building's safety, soundness, structural integrity, or habitability concerns.

Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:

- full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time;
- the project has deficiencies, defects, substantial damage, or deferred maintenance that
  - is severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements;
  - the improvements need substantial repairs and rehabilitation, including many major components; or
  - impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.

Additionally, projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or re-certifications are not eligible.

These policies do not apply to routine maintenance or repairs that a homeowners' association (HOA) undertakes to maintain or preserve the integrity and condition of its property. Also, if damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the improvements then these project eligibility requirements do not apply. Examples of this scenario include water damage to a unit due to a leaky pipe that is isolated or damage from a small fire impacting the interior of a specific unit. However, if the subject property unit is affected, our standard requirements for property condition apply.

#### **SPECIAL ASSESSMENTS**

Any current or planned special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability. Documentation must be retained in the loan file with the following:

- the reason for the special assessment;
- the total amount assessed and repayment terms;
- documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project; and

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- borrower qualification with any outstanding special assessment payment.

Obtain the financial documents necessary to confirm the association has the ability to fund any repairs. If the special assessment is related to safety, soundness, structural integrity, or habitability, all related repairs must be fully completed or the project is not eligible. Additionally, if unable to determine that there is no adverse impact, the project is ineligible.

### **CONDO PROJECT MANAGER “UNAVAILABLE” STATUS**

Loans secured by units in any project with a CPM status of “Unavailable” are ineligible, regardless of the project review process used.

### **RESERVE REQUIREMENTS**

A reserve study in lieu of the condo project meeting our 10% budget reserve requirement is not eligible. Reserve studies are an important tool to help HOAs plan for future needs. It is best practice for HOAs to obtain a reserve study, keep it updated, and follow its recommendations for reserves and maintenance schedules. However, projects that budget less than 10% of the HOA’s assessment income may be at increased risk for significant deferred maintenance and special assessments. Lenders may submit exception requests to us through the Project Eligibility Review Service (PERS) process for established projects that do not meet our minimal reserve requirements but that have a reserve study demonstrating sufficient reserves. We will not consider such requests for new projects at this time.

### **BEST PRACTICES AND REMINDERS**

In the event documentation is obtained (e.g. project questionnaire, appraisal, insurance, etc.) indicating deferred maintenance or other conditions that impact the safety, soundness, structural integrity, or habitability, Flagstar may request any of the following in adherence with Fannie Mae’s best practices:

- Six months of the project’s HOA meeting minutes review for references to items such as improvements, renovations, inadequate reserve funding, budget deficits, and negative cash-flows
- Any available inspection, engineering, or other certification reports completed within the past five years to identify deferred maintenance that may need to be addressed.
- Regardless of review type, projects must comply with all policies described Ineligible Projects, including when completing a Limited Review or an appraisal waiver is used.

As a reminder, appraisers must document special assessments or deferred maintenance that may impact the safety, soundness, structural integrity, or habitability of the unit or the overall project and its amenities.

- Regardless of review type, projects must comply with all policies described in Ineligible Projects, including when completing a Limited Review or an appraisal waiver is used.
- Using an appraisal waiver does not exempt the lender from completing the required project review.

### **FREDDIE MAC TEMPORARY REQUIREMENTS**

The following requirements apply to all condo projects with five or more attached units, regardless of the project review type, and will remain in effect until further notice.

### **PROJECTS IN NEED OF CRITICAL REPAIRS**

Loans secured by units in condo projects in need of critical repairs, as defined below, are not eligible. Acceptable sources of documentation to determine if a project needs critical repairs may include but are not limited to:

- Homeowners association (HOA)
- Engineer's reports
- Reserve studies
- List of necessary repairs provided by the HOA or management company, and
- Other substantially similar documentation

Violations of State or local law, ordinance or code, including failure by the HOA to schedule an inspection required by the applicable jurisdiction and any directive from a regulatory authority or inspection agency to make Critical Repairs.

Projects in need of critical repairs remain ineligible until the required repairs and/or inspection report have been completed and documented. An engineer's report or substantially similar document must be reviewed to determine that the repairs resolved the building's safety, soundness, structural integrity, or habitability concerns.

These temporary requirements do not apply to:

- Routine Repairs and Maintenance, and
- Damage or deferred maintenance to one or a few units in the project, provided that there is no impact to the overall safety, soundness, structural integrity, or habitability of the improvements

### **SPECIAL ASSESSMENTS**

Any current special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability. Borrowers must qualify with any outstanding special assessment with more than 10 monthly payment remaining.

The assessment must be reviewed to determine the following:

- The reason for the special assessment
- The total amount assessed
- For current special assessments, the total amount is an appropriate allocation or, for planned special assessments, there is adequate cash flow to fund the reason for the special assessment, and
- For current special assessments, the amount budgeted to be collected year-to-date has been collected

To determine that the amount budgeted to be collected year-to-date (YTD) has been collected:

- The Seller must review an income statement or a substantially similar document which has YTD budgeted and actual amounts for the special assessment
- The document should be dated within 90 days of the project review date, and
- Any shortfall between the budgeted and actual YTD amounts for the special assessment must not be more than 5%



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Calculation:  $1 - (\text{actual YTD amount collected} / \text{budgeted YTD amount}) \leq .05$

If the special assessment is related to a critical repair, all related repairs must be completed or the project is not eligible.

### FREDDIE MAC KEY TERMS

Term	Definition
Critical Repairs	Repairs and replacements that significantly impact the safety, soundness, structural integrity or habitability of the project's building(s) and/or that impact unit values, financial viability or marketability of the project. These repairs and replacements include: <ul style="list-style-type: none"> <li>• All life safety hazards</li> <li>• Violations of any federal, State or local law, ordinance or code relating to zoning, subdivision and use, building, housing accessibility, health matters or fire safety</li> <li>• Material Deficiencies</li> <li>• Significant Deferred Maintenance</li> </ul>
Material Deficiencies	Unresolved problems that cannot reasonably be addressed by normal operation or routine maintenance and which include: <ul style="list-style-type: none"> <li>• Deficiencies which, if left uncorrected, have the potential to result in or contribute to critical element or system failure within one year</li> <li>• Deficiencies that will likely result in a significant escalation of remedial cost related to any material building components that are approaching, have reached or exceeded their typical expected useful life or whose remaining useful life should not be relied upon in view of actual or effective age, abuse, excessive wear and tear, poor maintenance and exposure to the elements</li> <li>• Any mold, water intrusions or potentially damaging leaks to the project's building(s)</li> </ul>
Significant Deferred Maintenance	The postponement of normal maintenance, which cannot reasonably be resolved by normal operations or routine maintenance and which may result in any of the following: <ul style="list-style-type: none"> <li>• Advanced physical deterioration</li> <li>• Lack of full operation or efficiency</li> <li>• Increased operating costs</li> <li>• Decline in property value</li> </ul>
Routine Repairs and Maintenance	Repairs and maintenance that are expected to be completed by the project in the normal course of business and are nominal in cost. These repairs are not considered to be critical and include work that is: <ul style="list-style-type: none"> <li>• Often preventative in nature</li> <li>• Accomplished within the project's normal operating budget</li> <li>• Typically completed by on-site staff</li> <li>• Focused on keeping the project fully functioning and serviceable</li> <li>• Minor deficiencies with a cost of \$3,000 or less per repair item that do not warrant immediate attention but that require repairs or replacements that should be undertaken within the next 12 months</li> <li>• Scheduled repairs and maintenance that are fully funded, may have a cost greater than \$3,000 and will be undertaken within the next 12 months</li> </ul>

### BEST PRACTICES AND REMINDERS

Appraisers must document special assessments or deferred maintenance that may impact the safety, soundness, structural integrity, or habitability of the unit or the overall project and its amenities.



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- Regardless of review type, projects must comply with all policies described in Ineligible Projects, including when completing a Limited Review or an appraisal waiver is used.
- Using an appraisal waiver does not exempt the lender from completing the required project review.

As a reminder, if reserve study is utilized, all requirements which include but are not limited to the following must be met:

- A reserve study's financial analysis must validate that the project has appropriately allocated the recommended reserve funds to provide the Condominium Project with sufficient financial protection comparable to Freddie Mac's standard budget requirements for replacement reserves,
- The reserve study's annual reserve funding plan, which details total costs identified for replacement components, must meet or exceed the study's recommendation and conclusion,
- The most current reserve study (or update) must be dated within 36 months of the Seller's determination that a Condominium Project is eligible, and
- The reserve study must be prepared by an independent expert skilled in performing such studies (such as a reserve study professional, a construction engineer, a certified public accountant who specializes in reserve studies, or any professional with demonstrated experience and knowledge in completing reserve studies)

When evaluating the reserve study's financial analysis, a comparison should be completed for the current fiscal year, the estimated beginning of the year (BOY) reserve fund balance in the reserve study to the actual BOY reserve fund balance. The reserve study's recommended reserve allocation for the current fiscal year correlates to the project starting the year with that estimated reserve fund balance. If the project started the year with significantly less than what was estimated, then the project has likely failed to appropriately allocate the recommended reserve funds to provide the project with sufficient financial protection.

### FANNIE MAE LIMITED REVIEW/ FREDDIE MAC STREAMLINED REVIEW REQUIREMENTS FOR ATTACHED ESTABLISHED PROJECTS

To be eligible for limited/streamline review the following characteristics must be met:

- Project or legal phase must be completed
- Must not contain any characteristics under [Ineligible Projects](#);
- 90% of the units must be sold and conveyed
- Control of HOA must be turned over to the unit owners
- Project does not consist of manufactured homes
- Project is not currently on Flagstar's denied list

### **LIMITED/STREAMLINE REVIEW SUBMISSION REQUIREMENTS**

Limited/Streamline Review Uniform Condominium Questionnaire, [Doc. #3281](#) or similar form is required. A condominium questionnaire will not be required if the condominium is on the Flagstar approved list

## Conventional Condominium Guidelines

### LIMITED CASH-OUT PROJECT REVIEW WAIVER

Limited Cash-Out Project Review Waiver		
Requirements	Fannie Mae <sup>1</sup>	Freddie Mac
Current Loan	Fannie Mae must own	Freddie Mac must own
LTV/CLTV/HCLTV	Maximum LTV 80% (CLTV/HCLTV may be higher)	Maximum LTV/CLTV/HCLTV 80%
Project Type	Project is not <b>transient housing</b> (e.g. condo-hotel, motel), houseboat, a timeshare or segmented ownership project, or include manufactured homes	
Insurance	Complies with all applicable project related property and flood coverage	
Title	Complies with all title insurance requirements	

1. Fannie Mae-Loan must be delivered with Project Type Code "V" and any applicable SFCs that apply

### LIMITED REVIEW ELIGIBILITY FOR ATTACHED UNITS IN ESTABLISHED PROJECTS (OUTSIDE OF FLORIDA)

Limited Review Attached Units in Established Condo Project (Project Outside of Florida) Maximum LTV/CLTV/HCLTV Ratios		
Occupancy	Fannie Mae	Freddie Mac
Principal Residence	90% LTV/CLTV/HCLTV	
Second Home	75% LTV/CLTV/HCLTV	
Investment Property	75% LTV/CLTV/HCLTV	

### FLORIDA LIMITED REVIEW ELIGIBILITY FOR ATTACHED UNITS IN ESTABLISHED PROJECTS

Florida Limited Review Attached Units in Established Condo Project Maximum LTV/CLTV/HCLTV Ratios		
Occupancy	Fannie Mae	Freddie Mac
Principal Residence	Less than or equal to 75/90/90% LTV/CLTV/HCLTV	
Second Home	Less than or equal to 70/75/75% LTV/CLTV/HCLTV	
Investment Property	Less than or equal to 70/75/75% LTV/CLTV/HCLTV	

### FULL REVIEW

#### FULL REVIEW SUBMISSION REQUIREMENTS

Full review requires the submission of the following items:

- Condominium Questionnaire
- Budget

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- HOA insurance showing \$1,000,000 liability coverage
- Fidelity coverage for project with over 20 units
- Appraisal
- Recorded Declaration and Bylaws (only required for new projects)
- HOA Master Hazard Policy

See *Project Review Submission Instructions*, [Doc. #3253](#) for more information on project approval.

### **FLORIDA PROJECT REVIEW REQUIREMENTS FOR ATTACHED UNITS IN NEW, NEWLY CONVERTED, ESTABLISHED PROJECTS**

Florida Full Review Attached Units for New, Newly Converted and Established Projects Maximum LTV Ratios		
Occupancy Type	New, Newly Converted PERS Approved	Established Approved by Fannie Mae and Full Review (with or without CPM)
Principal Residence	97% (DU)	
Second Home	90%	
Investment Property	85%	

### **FANNIE MAE TYPE S/FREDDIE MAC ESTABLISHED PROJECTS**

- Control of the HOA has been turned over to the unit owner from the developer
- All common elements and amenities must be completed and not subject to additional phasing or add-ons
- See [Conversions](#) section, Type S for Fannie Mae requirements
- Project Conveyance:

Percentage of Project required to be Conveyed to Unit Purchasers	
Fannie Mae	90%
Freddie Mac	75%

- Exceptions to Percentage of Units Conveyed
  - Fannie Mae- A new project may be reviewed as an established project with less than 90% of the units sold to unit purchasers, provided the deficit is the result of the developer holding back units for rent. The following requirements must be met:
    - Construction is 100% complete; and
    - The project is not subject to any additional phasing or annexation, and the HOA has been turned over to the unit owners; and
    - The developer's share of the units held back for rental is no more than 20% of the project's total units; and
    - HOA fees are paid current in developer-held units; and
    - There are no active or pending special assessments in the project.

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- Freddie Mac- A project may be reviewed as established, with a Project Waiver Request, with less than 75% of the units sold provided the developer is holding the units for rent. The following requirements must be met:
  - The developer has owned those units a minimum of 10 years; and
  - The project otherwise meets the completion and project control requirements to be classified as an established project.
- Occupancy Requirements:

Occupancy Requirements for Attached Units in Established Projects Total Units Required to be conveyed as Principal Residence or Second Home		
Occupancy Type	Fannie Mae	Freddie Mac
Owner Occupied	None	
Second Home		
Investment Property	50% <sup>1</sup>	

1. Fannie Mae- Financial institution-owned REO units that are for sale (not rented) are considered owner-occupied when calculating the 50% owner-occupancy ratio requirement

### **FANNIE MAE TYPE S PERS APPROVAL**

May use this process for projects that do not meet Fannie Mae Project Standards

### **FANNIE MAE TYPE R/FREDDIE MAC NEW PROJECTS**

- New projects are projects in which less than 90% for Fannie Mae (or 80% if meets new [Fannie Mae Type S](#) additional requirements) or 75% for Freddie Mac of the total units have been conveyed to the unit purchasers and/or the HOA is still controlled by the developer.
- Projects that are not fully complete, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condominium.
- The legal phase must be 100% complete. All units must be constructed to the buyers' preference stage.
- Please refer to [Conversions](#), Type R section for additional requirements
- Pre-sale requirement:
  - At least 50% of the total units in the project must have been sold (or must be under contract to be sold) to principal residence purchasers or second home purchasers; or
  - For a specific phase, or phases, in a new project, at least 50% of the total units in the subject phase(s) considered together with all prior phases must have been sold (or must be under contract to be sold) to principal residence purchasers or second home purchasers.
    - For the purpose of calculating owner-occupancy, a single building can only have one legal phase regardless of whether the condo project is comprised solely of that single building or multiple buildings. Legal phases are defined by the project documents
    - Freddie Mac- construction or marketing phases for the convenience of the developer are not necessarily legal phases and are not eligible

### **TYPE R (NEW PROJECTS) THAT REQUIRE FANNIE MAE (PERS/TYPE T) APPROVAL**

#### **Fannie Mae**

Projects that are newly converted, non-gut rehabilitation must be Fannie Mae (PERS) approved that contain more than four attached residential units, and are only eligible for delivery to Fannie Mae.

#### **Fannie Mae and Freddie Mac**

- All new and newly converted attached unit projects located in Florida
- Please refer to [Conversions](#), Type R section for additional requirements
- Please refer to [Projects Consisting of Manufactured Homes](#) section for additional requirements.

### **CONDOMINIUM PROJECT LEGAL DOCUMENT REVIEW REQUIREMENTS FOR UNITS IN NEW OR NEWLY CONVERTED PROJECTS**

The table below provides requirements for the review of the condominium project's legal documents for units in new and newly converted condominium projects containing more than four residential units.

<b>Condo Project Legal Document Review Requirements – For Units in New or Newly Converted Condo Projects</b>	
Limitations on Ability to Sell/Right of First Refusal	Any right of first refusal in the condo project documents will not adversely impact the rights of a mortgagee or its assignee to: <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>
Rights of Condo Mortgagees and Guarantors	The project documents must give the mortgagee and guarantor of the mortgage on any unit in a condo project the right to timely written notice of: <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> <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>
First Mortgagee's Rights Confirmed	No provision of the condo project documents gives a condo unit owner or any other party priority over any rights of the first mortgagee of the condo unit pursuant to its mortgage in the case of payment to the unit owner of insurance proceeds or condemnation awards for losses to or a taking of condominium units and/or common elements.

## Conventional Condominium Guidelines

Condo Project Legal Document Review Requirements – For Units in New or Newly Converted Condo Projects	
Amendments to Documents	<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 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.</li> </ul>

### **FANNIE MAE TYPE T CONDOMINIUM**

Type T projects are condominium projects that are reviewed and approved by Fannie Mae, including those approved through PERS. Please refer to [Conversions](#), Type R section for additional requirements.

### **SMALL CONDOMINIUM PROJECTS 2 TO 4-UNITS**

Project review is waived for new and established condominium projects that consist of no more than four units. The following requirements will apply:

- Project has the required project-related property and flood coverage
- The project is not **transient housing (e.g. condo-hotel, motel)**, houseboat project, or a timeshare or segmented ownership project
- When an appraisal is obtained, it must meet all applicable appraisal requirements
- Property is not a manufactured home
- Freddie Mac- the project may consist of no more than one commercial unit.

### **FHA – APPROVED CONDO REVIEW ELIGIBILITY**

Fannie Mae accepts delivery of FHA mortgage loans in FHA-approved condominium projects that appear on the FHA-approved condominium list. For conventional mortgage loans, Fannie Mae and Freddie Mac will accept delivery of mortgages in established projects on the FHA-approved list provided the approval was completed by FHA HUD Review and Approval Process (HRAP) rather than through an FHA Direct Endorsement Lender Review and Approval Process (DELRAP). FHA condominium project approval is not acceptable for conventional mortgage loans secured by units in new or newly converted condominium projects or projects in which lender is aware of any circumstances that would make the project ineligible.

## Conventional Condominium Guidelines

Lenders may search for FHA-approved condominium projects by location, name, or project status online at [HUD.gov](https://www.hud.gov) (will show HRAP approved) or through CPM. Must be a Fannie Mae approved Seller/Service to access CPM.

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

### ADDITIONAL CONDOMINIUM WARRANTIES

- Project or legal phase is physically completed including all units, common areas, amenities, and facilities.
- Delinquent HOA Fees – No more than 15% of the unit owners are more than 60 days delinquent in payment of homeowners' dues or assessments.
- Leasehold projects must meet agency guidelines. See the Leaseholds section of the conventional underwriting guidelines for more information.
- See [Project Budget](#) section for additional requirements.
- Freddie Mac-project to remain in full compliance with applicable state laws and regulations, the requirements of the relevant jurisdiction and all other applicable laws and regulations.

### COMMERCIAL SPACE

No more than 35% of a condominium or co-op project or 35% of the building in which the project is located be commercial space or allocated to mixed-use. This includes commercial space that is above and below grade. 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.

#### **Fannie Mae:**

Projects located in flood zones with commercial space greater than 25% of the project's square footage, including any commercial parking facilities, may need supplemental or private flood insurance policies to meet Fannie Mae's requirements for flood insurance. Coverage under the National Flood Insurance Program may provide inadequate coverage for projects with commercial space in excess of 25%.

### ***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 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)
- 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:



## Conventional Condominium Guidelines

If the commercial or mixed-use space is...	Then its square footage is included in the calculation of commercial space percentage	
	Fannie Mae	Freddie Mac
Retail and commercial space located within the project (e.g. restaurants)	Yes	
Rental apartments, hotels, or similar space even though space may have residential characteristics	Yes	
Space that is non-residential in nature and owned by a private individual or entity outside the HOA structure (e.g. private-fitness club that is membership based)	Yes	
Commercial Parking Facilities that are not designated for residential unit owners	No	No *See <a href="#">Project Budget</a> for limitations
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 (e.g. office space owned by the HOA but leased to a private business.)	Yes	
Owned and controlled by a project HOA other than the subject property's HOA that shares the same master HOA with the subject property's HOA and the commercial space is co-located in the project's building(s) that contain(s) the residential units	Yes	
Owned, controlled, or operated by a private entity that is co-located in the building(s) that contain(s) the project's residential units (e.g. specific floors designated for rental apartments and commercial use with other floors consisting of condo project units)	Yes	
Owned, controlled, or operated by a private entity that is NOT co-located in the building(s) or common elements as declared in the project legal documents that contain(s) the project's residential units	No	Yes
Owned and controlled by a project HOA other than the subject property's HOA that shares the same master HOA with the subject property's HOA BUT the commercial space is located in a building that is separate from the building(s) containing the project's residential units	No	

### TRANSIENT HOUSING/CONDO-HOTEL

Please refer to the *Condo Hotel Evaluation Point Scale*, [Doc. #3260](#) for assistance in determining if a project is eligible or otherwise considered ineligible as **transient housing or a** condo-hotel. The project must be reviewed and approved by the Condo Review Department.

If the unit owners in resort locations (either individually or through a rental company) rent their units on a short-term basis, this alone does not indicate the project to be considered a Condo-Hotel. All characteristics of the project and related project information should be analyzed including project documents (e.g. by-laws, project budgets and financial statements), offering statements, marketing material, web sites, contracts for sale and appraisal reports.

## Conventional Condominium Guidelines

Characteristics Defining a Project as a Condo-Hotel Project or HOA operated or managed as a hotel, motel or similar entity		
Characteristic	Fannie Mae	Freddie Mac
Licensed as a hotel, motel, or similar entity	✓	✓
Restrict owner's ability to occupy the unit during any part of the year.	✓	✓
Require owners to make their units available for rental pooling (daily or otherwise)	✓	✓
Legal documents require unit owners to share profits from the rental of units with the HOA, management company, resort or hotel rental company	✓	N/A
A conversion of a hotel, or similar entity, unless the project was a gut rehabilitation and the resulting units no longer have the characteristics of a hotel	N/A	✓
Hotel Type Services (see <i>Condo Hotel Evaluation Point Scale</i> , <a href="#">Doc. #3260</a> for limitations)	✓	✓

### CONVERSIONS

#### **TYPE R CONVERSION**

Acceptable new conversion projects are not eligible to be underwritten by any Delegated Channel. The LTV and CLTV for Type R conversion properties will be capped at 10% less than maximum financing for the loan product. For example, if the product allows 95% LTV/CLTV, condominium conversions will be capped at 85% LTV/CLTV. Florida projects over 80% LTV, refer to MI company website for details and restrictions

A new gut rehabilitation conversion is when the building is brought down to the shell and all HVAC and electrical components have been replaced.

#### **Freddie Mac**

For a Condominium Project that was created by conversion of a building(s) with a prior use the following requirements must be met:

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

### **TYPE S CONVERSION**

#### **Fannie Mae**

- A satisfactory engineer's report is required if the project has been converted in the most recent three years. It must comment favorably on sound transmission, the structural integrity of the project and the condition and remaining useful life of the major project components, such as heating and cooling systems, plumbing, electrical systems, elevators, boilers, and roofs. The report must state the project is free of environmental hazards.
- An engineer's report is not required if a Limited or Streamlined Review is performed. All construction/rehab work must be complete.

### INSURANCE REQUIREMENTS

For all policy requirements please refer to *Hazard Insurance Requirements*, [Doc. #4602](#) and *Flood Insurance – Broker and Non-Delegated* [Doc. #4603](#) for coverage requirements

### INELIGIBLE PROJECTS

Projects containing any of the following characteristics are not eligible for full, limited, or streamline review:

- Condominium projects that include weekly and/or daily rentals are not acceptable if the HOA is involved in rental of units
- The project has blackout dates restricting the owners' use
- Timeshare or segmented ownership projects
- Houseboat projects
- Continuing care – Any project that operates either wholly or partially, as a continuing care community are ineligible. The 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. 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.
- Mandatory membership fees and recreational leases – projects with mandatory upfront or periodic membership fees for the use of recreational facilities, included but not limited to country clubs, golf courses, tennis clubs, etc., owned by an outside party, including the developer or builder, are ineligible. Membership fees paid for the use of recreational amenities owned exclusively by the HOA or master association are acceptable. Projects subject to recreational leases are also not eligible.
- Multi-dwelling unit condominiums –the owner holds title to more than one dwelling unit, with ownership of all of his/her units evidenced by a single deed and mortgage are not eligible.
  - If the subject is a combined unit, it must have been done legally so there is only one parcel ID number and the amended governing documents for the project must have been recorded to show the new number of units and ownership percentages to be eligible.
- Condominium projects that represent a legal, but non-conforming use of land if zoning regulations prohibit rebuilding the improvements in the event of partial or full destruction
- Any project where the owner's association pays the property taxes for the individual units
- Common interest apartments or Own Your Owns
- Projects without an established HOA

## Conventional Condominium Guidelines

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- See [Commercial Space](#) section for requirements
- Projects in which more than 15% of income is from sources other than dues and assessments
  - Fannie Mae - Non-incidental income from the following sources is permitted provided the income does not exceed 15% of the project's budgeted income:
    - income from the use of recreational amenities or services owned by the HOA for the exclusive use by unit owners in the project or leased to another project according to a shared amenities agreement (as noted below), or
    - income from the leasing of units in the project acquired by the HOA through foreclosure.
    - The single-entity ownership limits (described in [Single-Entity Ownership](#) section) will apply to the number of units owned and rented by the HOA.
- A project for which the homeowners association or developer, if the project has not been turned over to the unit owners, is a party to current litigation, arbitration, mediation or other dispute resolution process, and the reason for the dispute involves the safety, structural soundness or habitability of the project. Refer to [Minor Litigation](#) section for additional details.
- Flagstar will not lend in projects where its exposure exceeds 30% of the units in projects with more than 4 units. For 2 to 4-unit projects, Flagstar will lend on more than one unit on a case by case basis.
- New projects where the seller is offering sale/financing structures in excess of investors eligibility policies for individual mortgage loans. These excessive structures include, but shall not be limited to builder/developer contributions, sales concessions, HOA or principal and interest payment abatements, and/or contributions not disclosed on the Closing Disclosure.
- See [Single-Entity Ownership](#) section for requirements
- See [Shared Amenities](#) section for requirements
- Projects in which an auction has taken place to sell original units. Projects must qualify for a Type S Review.
- If the project has been identified as being affected by environmental hazards and an environmental hazard assessment indicates unacceptable condition(s)
  - Refer to Fannie Mae Selling Guides for Phase I and Phase II assessments and unacceptable hazards.
- See [Transient Housing/Condo-Hotel](#) section for requirements
- When Flagstar is aware the project does not meeting state or local jurisdiction laws and/or regulations

### LIVE-WORK PROJECTS

Live-work projects are projects that permit individual residential unit owners to operate and run a small business from their residential unit. Units in projects that permit live-work arrangements are eligible provided the project complies with all applicable local zoning, program, or statutory requirements for live-work projects and the nature of the project is primarily residential.

### MINOR LITIGATION

Projects in which the HOA is named as a party to pending litigation or engaging in pre-litigation (e.g. arbitration or mediation), or the project sponsor or developer is named as a party to pending litigation or engaging in pre-litigation that relates to the safety, structural soundness, functional use or habitability of the project are ineligible.

## Conventional Condominium Guidelines

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If it is documented, and retained in file, that the reason for the pending litigation or pre-litigation involves minor matters that do not affect the safety, structural soundness, functional use or habitability of the project, the project may be eligible as indicated below.

### **FANNIE MAE**

The project is eligible provided the minor litigation meets at least one of the following:

- Non-monetary litigation including, but not limited to neighbor disputes or rights of quiet enjoyment;
- Litigation for which the insurance carrier has agreed to provide the defense, and the amount is covered by the HOA's or co-op corporation's insurance;
- The HOA or co-op corporation is the plaintiff in the litigation and upon investigation and analysis the lender has reasonably determined the matter is minor and will result in an insignificant impact to the financial stability of the project;
- The reasonably anticipated or known damages and legal expenses are not expected to exceed 10% of the project's funded reserves;
- The HOA or co-op corporation is seeking recovery of funds for issues that have already been remediated, repaired, or replaced and there is no anticipated material adverse impact to the HOA or co-op corporation if funds are not recovered;
- Litigation concerning localized damage to a unit in the project that does not impact the overall safety, structural soundness, habitability, or functional use of the project; or
- The HOA or co-op corporation is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA or co-op assessments.

Litigation that involves personal injury or death does not meet Fannie Mae's criteria for minor litigation unless:

- The claim amount is reasonably anticipated or known,
- The insurance carrier has agreed to provide the defense, and
- The reasonably anticipated or known damages are covered by the HOA's or co-op corporation's insurance.

Construction defect litigation in which the HOA or co-op corporation is the plaintiff are not considered a minor matter unless the HOA or co-op corporation is seeking recovery of funds for issues that have already been remediated, repaired, or replaced. In addition, there is no anticipated material adverse impact to the HOA or co-op if the funds are not recovered.

### **FREDDIE MAC**

The project is eligible provided the minor litigation meets at least one of the following:

- The litigation amount is known, the insurance company has committed to provide the defense and the litigation amount is covered by the insurance policy
- If the litigation amount is unknown a copy of the complaint, or the most recent amended complaint, along with an attorney letter that supports the litigation involves minor matters is required. The attorney letter must state:
  - the reason for the litigation; and
  - that the insurance company has committed to provide the defense; and
  - that any potential monetary judgment against the HOA, or settlement with the HOA, including punitive damages, will likely be covered by the HOA's insurance policy. If the

## Conventional Condominium Guidelines

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attorney indicates the matter will not likely be covered by the HOA's insurance policy, then the project is ineligible; or

- The matter involves:
  - A non-monetary neighbor dispute or right of quiet enjoyment, or
  - The HOA is the plaintiff in a foreclosure action or action for past due HOA assessments, or
  - The HOA is the plaintiff in the litigation seeking reimbursement for expenditures made to repair the project's component(s) which may have included items that related to the safety, structural soundness, functional use or habitability of the project, the repair permanently resolved the defect or issue and the expenditures did not significantly impact the financial stability or future solvency of the HOA.
- The valid estimation of or known litigation amount is not expected to exceed 10% of the project's funded reserves, provided that this does not violate the applicable jurisdiction's laws and regulations.

### PROJECT BUDGET

The following HOA projected budget requirements must be met:

- The budget must be adequate and consistent with the nature of the project.
- The budget must be for the current fiscal year.
- The budget must provide for the annual funding of replacement reserves for capital expenditures and deferred maintenance equal to at 10% of the budgeted income of the amount is required, regardless of the amount of money the HOA has currently collected for reserve funding. The budget must also provide for the adequate funding for insurance deductible amounts.
  - Incidental income on which the project does not rely for ongoing operations, maintenance or capital improvements, income collected from utilities typically paid by the individual unit owners, income allocated to reserve accounts and special assessment income may be excluded from the reserve calculation.
  - Freddie Mac-No more than 10% of the HOA budgeted income may be generated from renting or leasing of commercial parking spaces.
- Freddie Mac Only: When the project's budget does not have a line item allocating at least 10% of the budgeted income to reserves for capital expenditures and deferred maintenance, an acceptable Reserve Study in lieu of the 10% may be used provided all the following conditions are met:
  - The reserve study must have been completed within 36 months of the project review
  - Be prepared by an independent third party that has specific expertise in completing reserve studies. This may include a professional with reserve study credentials, a construction engineer, a CPA who specializes in reserve studies, or professional with demonstrated knowledge of and experience in completing reserve studies, and
  - The reserve study demonstrates that the project has adequate funded reserves that provide financial protection for the project equivalent to the standard reserve requirements, and
  - The reserve study demonstrates that the project's funded reserves meet or exceed the recommendations included in the reserve study, and
  - The reserve study must meet the following requirements:
    - All major components and elements of the project's common areas for which repair, maintenance, or replacement is expected, and
    - The condition and remaining useful life of each major component, and



## Conventional Condominium Guidelines

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- An estimate of the cost of repair, replacement, restoration, or maintenance of major components, and
- And estimate of the total annual contributions required to defray costs (minus existing reserves funded for this purpose), including inflation, and an analysis of existing funded reserves, and
- A suggested reserve funding plan.
- These requirements for a budget review, replacement reserves, and reserve study are not applicable to 2 to 4-unit projects.

### **Freddie Mac New Project Budget Requirements**

For New Projects Freddie Mac requires the budget complies with the following:

- The HOA assessments must begin once the developer has ceased to pay operating expenses attributable to the project, whether or not all units have been sold. When any unit owners other than the developer pay assessments, the developer must pay the assessments attributable to the unsold units;
- No more than 10% of the HOA budgeted income may be generated from renting or leasing of commercial parking spaces.
- The budget (or projected budget if the project has not been turned over to the unit owners) must be consistent with the nature of the project;
- Appropriate assessments must be established to manage the project;
- There must be appropriate allocations for line items pertinent to the type and status of the project;
- If recently converted, the developer must have initially funded a working capital fund, through contributions made by the developer and/or purchases of the units, in an amount consistent with the estimated remaining life of the common elements;
- There must be adequate funding for insurance deductible amounts;
- At least 10% of the budget must provide funding for replacement reserves for capital expenditures and deferred maintenance based on the project's age, estimated remaining life and replacement cost of major elements; and
- If the budget does not provide a replacement reserve of at least 10% a reserve study may be used or contributions to a working capital fund may be used:
- Project Budget relying on contributions to a Working Capital Fund for New Projects:
  - The Project Documents require the purchaser of a Condominium Unit to pay a non-refundable and non-transferable assessment to a working capital fund which must be established for the periodic maintenance, repair and replacement of the Common Elements
  - The assessment must be equal to a minimum of at least two months of the HOA fees attributable to the Condominium Unit and be due and payable at closing
  - The developer is in control of the HOA

### PROJECTS CONSISTING OF MANUFACTURED HOMES

When determining the eligibility of condominium, Coop or PUD projects consisting of manufactured homes on the basis of a Full Review, the property and project must meet the additional eligibility requirements described in the following table.

Additional Requirements for Condo Projects Consisting of Manufactured Home Units



## Conventional Condominium Guidelines

- Certain manufactured home projects must be submitted to PERS. Lenders must perform a pre-PERS submission review to confirm the project meets the Full Review and other requirements.
- The condominium project must meet all Full Review requirements, as applicable.
- CPM should not be relied upon to complete the Full Review because it does not contain all the requirements that apply to condo projects consisting of manufactured homes.
- The project must not contain campgrounds or other facilities for transient or mobile units.
- The project legal documents must require a provision for land-lease “hold-out” units to be converted into the condominium structure upon transfer, sale, or refinance of property. Land lease “hold-out” units are limited to 25% or less of the total units in the project.
- Land-lease hold-out units are units where the structure is owned by an individual, but the land is leased from the HOA or project sponsor. These units were not converted to condo ownership when the project converted to a condominium regime.

### SINGLE ENTITY OWNERSHIP

A project meets the definition of single-entity ownership when a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project.

Units currently subject to any rental or lease arrangement must be included in the calculation. This includes lease arrangements containing provisions for the future purchase of units such as lease-purchase and rent-to-own arrangements.

### **MAXIMUM SINGLE INDIVIDUAL OR A SINGLE ENTITY OWNERSHIP (SUCH AS AN INVESTOR GROUP, PARTNERSHIP OR CORPORATION)**

Maximum Single Individual or Single Entity Ownership Such as an Investor Group, Partnership or Corporation		
Number of Units in Project	Fannie Mae	Freddie Mac
2-4 units	N/A	
5-20 units	Maximum 2 units	
21 or more	Maximum 20%	Maximum 25%

The following may be excluded from the single-entity ownership calculation:

- Units that are owned by the project sponsor or developer and are vacant and being actively marketed for sale; or
- Units that are controlled or owned by a non-profit entity for the purpose of providing affordable housing, units held in affordable housing programs (including units subject to non-eviction rent regulation codes), or units held by higher-education institutions for a workforce housing program.

**Single-Entity Ownership on Purchase Transactions** The single-entity ownership requirement may be waived when the transaction is a purchase transaction that will result in a reduction of the single-entity ownership concentration. In such instances, all the following requirements must be met:

- Units owned by the single entity represent no more than 49% of the units
- Evidence is required that the single entity is marketing units for sale to further reduce single-entity ownership:

## Conventional Condominium Guidelines

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- Fannie Mae with the goal of reducing the concentration to 40% or less of the project units
- Freddie Mac with goal of reducing the concentration to 25% or less
- The single entity is current on all HOA assessments, and
- There are no pending or active special assessments in the project.

### SHARED AMENITIES

Leased amenities in a project are not acceptable. Unit owners must have sole ownership interest in, and rights to use the project facilities, common elements, and limited common elements, except as noted below.

Permitted only when two or more HOAs share amenities for the exclusive use of the unit owners. Examples include club houses, recreational and fitness facilities, and swimming pools. The association must have an agreement in place governing the arrangements for the shared amenities that include:

- A description of the shared amenities subject to the arrangement; and
- A description of the terms under which units owners in the project may use the shared amenities; and
- Provisions for the funding, management, and upkeep of the shared amenities; and
- Provisions to resolve conflicts between the association over the amenities

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.

### **CONVENTIONAL CONDOMINIUM OVERLAYS**

The Conventional Condominium Guidelines, include but not limited to, the following overlays to Fannie Mae or Freddie Mac Selling Guides:

### CONDO PROJECT EXPOSURE

Flagstar will not lend in projects where its exposure exceeds 30% of the units in projects with more than 4 units. For 2 to 4-unit projects, Flagstar will lend on more than one unit on a case by case basis.