

*Announcement 07-07*

*June 29, 2007*

*Amends these Guides: Selling*

*Ineligible Condominium, Cooperative and PUD Projects*

## **Introduction**

In this Announcement, Fannie Mae is updating its requirements to clarify that loans secured by units in certain condominium, cooperative, and PUD projects are ineligible for sale to Fannie Mae. This Announcement is effective immediately and supersedes Announcement 06-12 in its entirety.

In this Announcement we are:

- Providing guidance to lenders when determining if a project is a condominium or cooperative hotel or motel;
- Adding three new project types to the Ineligible Projects List; and
- Reaffirming the lender's representation and warranty requirements for project reviews.

The changes in this Announcement amend Part XII, Project Standards, Chapter 1, General Project Eligibility, Section 102, Ineligible Projects, of the Fannie Mae Selling Guide.

## **Definition of a Condominium or Cooperative Hotel**

A condominium or cooperative hotel is any project that is managed and operated as a hotel or motel, even though the units are individually owned.

In addition to the above definition, Fannie Mae offers the following guidance to lenders to help them make the distinction between non-residential condominium or cooperative hotel-type projects that are ineligible and "second home" residential projects in resort locations.

Fannie Mae considers projects with any of the following characteristics to be hotel-type projects and therefore, ineligible:

- Projects that include registration services and offer rentals of units on a daily basis.
- Projects that restrict the owner's ability to occupy the unit.
- Projects with names that include the words "hotel" or "motel."
- Projects with mandatory rental pooling agreements that require the unit owners to either rent their units or give a management firm control over the occupancy of the unit. These formal agreements between the developer, homeowner's 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.

Fannie Mae will not purchase or securitize loans that are secured by individual units in projects that are operated as a commercial hotel or motel.

### **Identification of Condominium and Cooperative Hotels**

Fannie Mae frequently receives questions from lenders on how they can identify a condominium or cooperative hotel. The lender must perform a careful analysis of the project to determine the project's eligibility. Lenders have several sources of information on which they can rely. These include, but are not limited to, the appraisal, the contract for sale, and the applicable project's Web site.

The selection of the appraiser is a key element in obtaining an accurate appraisal report. The appraiser is expected to provide an accurate description of the project to include any characteristics that may be an indication that the project is ineligible. An appraiser who is not familiar with a specific real estate market may not have adequate information available to perform a reliable appraisal.

The appraisal report may identify project characteristics that do not definitively determine that the project is a condominium or cooperative hotel; however, it provides evidence that would require the lender to perform additional research. These project characteristics 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;
- The occupancy of the project. (The project may have few or even no owner occupants.); or
- Projects converted from a hotel or motel.

In addition to the appraisal, the contract for sale should be thoroughly examined to determine, among other information, if there are guaranteed rent-backs, references to rental pooling or management agreements, and SEC filing references and/or prospectus documents.

The Internet has become a common source for project and unit-specific information. The applicable project's Web site may contain information on the project type, amenities, and availability of units for rent.

### **Other Ineligible Project Types**

Selling Guide Part XII: Project Standards, Chapter 1, General Project Eligibility, Section 102, Ineligible Projects.

The following project types are added to the list of ineligible projects. Units within these project types are not eligible for purchase or securitization by Fannie Mae:

- Investment Securities – A project in which unit ownership is characterized or promoted as an investment opportunity; and/or projects that have documents on file with the Securities and Exchange Commission.
- Common interest apartments or community apartment projects – Any project or building that is owned by several owners as tenants-in-common or by a homeowners association in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building.
- A project with non-incident business operations owned or operated by the owners' association such as, but not limited to, a restaurant, spa, health club, etc.

### **Lender Representations and Warranties for Ineligible Projects**

*(The following Guide reference is based on the 2007 Fannie Mae Selling Guide which will be issued soon)*  
Selling Guide Part XII: Project Standards, Chapter 2, Condominium Project Review, Section 201, Lender-Delegated Limited Review and Section 202, Lender-Delegated Expedited Project Review.

When the lender performs a Lender-Delegated Limited Review or a Lender-Delegated Expedited Review, it represents and warrants that the project is not an ineligible project. Lenders must conduct a "manual" review of all projects certified by Condo Project

Manager™ (CPM™) to confirm that such accepted project is not one of the ineligible projects identified in this Announcement. We will not purchase or securitize a mortgage that is secured by an individual unit in an ineligible project regardless of the type of review performed.

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Lenders who have questions about this Announcement should contact their Customer Account Team.

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