



Announcement 08-34

December 16, 2008

Amends these Guides: Selling

Project Eligibility Review Service and Changes to Condominium and Cooperative Project Policies

Introduction

Announcement 07-18, *Lender Delegation of Project Review Processes and Related Changes for Condominiums, Cooperatives, and Planned Unit Developments (PUDs)*, communicated Fannie Mae's intention to fully delegate the project review process for condominiums, cooperatives, and PUDs to lenders. It also notified lenders that Fannie Mae would continue to monitor its project standards and make additional changes as warranted in the future. In that light, Fannie Mae is introducing a new Project Eligibility Review Service (PERS), which is being made available to lenders for the review of new and newly converted condominium projects. Furthermore, PERS will be required for new and newly converted condominium projects located in the state of Florida. Fannie Mae is also making several changes to its project standards policies for condominium and cooperative projects. All of the changes in this Announcement related to condominium projects pertain only to attached projects; Fannie Mae's requirements for detached condominium projects remain unchanged.

This Announcement amends the *Selling Guide*, Part XII, Project Standards. Except as otherwise stated, all provisions of Part XII of the *Selling Guide*, Announcement 07-18, and Announcement 08-01, *Miscellaneous Changes* continue to apply to mortgages secured by properties in condominium, cooperative, and PUD projects.

Effective Dates

All applicable effective dates are outlined at the end of this Announcement. The changes apply to all mortgage loans delivered to or guaranteed by Fannie Mae, including mortgages originated pursuant to any negotiated contract in the lender's Master Agreement.

Following is a brief summary of the changes outlined in this Announcement:

- **PERS - Project Eligibility Review Service:** introduction of a new project review service option. Lenders now have the option to submit new and newly converted condominium projects to Fannie Mae for review to determine eligibility. Lender Full Review and Condo Project Manager™ (CPM™) Expedited Review are still available for new and newly converted condominium projects except those located in Florida.
- **Requirements for attached condominium projects in Florida:** PERS approval will be required for all new and newly converted condominium projects located in Florida. Additionally, Fannie Mae is reducing the maximum loan-to-value (LTV) ratios for mortgage loans secured by units in established condominium projects in Florida that are eligible for Limited Review, the CPM Expedited Review, or the FHA-Approved Project Review process. Note that there are no LTV ratio eligibility changes for loans secured by units in projects utilizing the Lender Full Review process.
- **General policy changes regarding project eligibility requirements:** introduction of new or revised eligibility requirements for pre-sale, delinquent homeowner's association (HOA) dues, fidelity insurance, hazard insurance, non-residential space, and legal document review for established, new, and newly converted condominium projects. In addition, cooperative project eligibility requirements are being amended to align with changes to IRS Code Section 216.
- **Additional ineligible projects:** addition of three new ineligible project characteristics to Fannie Mae's list of ineligible projects, including projects with excessive sales/financing structures, projects with excessive non-residential space, and projects where a single entity owns an excessive percentage of units.
- **Clarification of "spot loan" availability under the Limited Review process:** clarification of when a "spot loan" secured by a unit in an established project is eligible for the Limited Review process.
- **Clarification of owner-occupancy ratio requirements:** clarification of how units that are currently owned by financial institutions as Real Estate Owned (REO) should be treated for determining the owner-occupancy ratio.
- **Condominium association project insurance:** clarification of Fannie Mae's requirements for "master" or "blanket" project hazard insurance policies.

PERS – Project Eligibility Review Service

Lender feedback has indicated that Fannie Mae's project acceptance review service, retired with Announcement 07-18, was important to lenders and business partners in their ability to provide financing for units located in condominium projects. In response to this feedback, Fannie Mae is introducing a new, more comprehensive Fannie Mae project review option. Lender delegated project review using CPM Expedited Review or Lender Full Review is still available except for new condominiums and newly converted condominium projects located in Florida (see section below). The Limited Review process remains available for established projects that meet the applicable LTV and occupancy requirements regardless of geographic location.

Lenders submitting condominium projects to PERS must ensure that the developer, builder, management company, and/or homeowner's association 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.

Effective Date

Effective January 15, 2009, lenders will have the option to submit new or newly converted condominium projects to the Fannie Mae PERS.

Process Overview

1. Lender performs a basic review to determine if the project satisfies eligibility requirements prior to submission to PERS.
2. Lender completes a project submission package, which includes a Project Eligibility Review Service Document Checklist (Form 1030) and Application for Project Approval (Form 1026). These forms are posted on eFannieMae.com.
3. Lender submits the complete project package via email, including all relevant supporting documentation, to PERS_Projects@fanniemae.com
4. A member of the project standards team will review the project package to determine if the project is eligible for approval.
5. Upon completion of the review, Fannie Mae will issue one of the following decisions via email: Conditional Project Approval, Final Project Approval, Ineligible, or Suspension of the Application.
6. Fannie Mae will inform lenders of the specific review fee that will be assessed for each PERS submission. Lenders will be billed for PERS review fees in their "Monthly Technology Invoice."
7. PERS-approved projects will be posted on eFannieMae.com. Conditional Project Approval decisions will expire after six months and Final Project Approval decisions will expire one year after issuance.
8. PERS-reviewed projects determined to be ineligible for delivery to Fannie Mae will also be identified on eFannieMae.com.

Review Fees

Lenders will be charged a fee for any project submitted to Fannie Mae's PERS as follows:

- **Optional review:** The base review fee for a new project is \$1,200 plus \$30 for each unit in the project or legal phase up to a maximum of \$15,000 per project.
- **Mandatory review:** The base review fee is waived and only the \$30 per unit fee applies for a new or newly converted condominium project located in Florida up to a maximum of \$15,000 per project.
- **Subsequent phase:** The greater of \$600 or \$30 for each new unit in additional legal phases of a previously approved project.

- **Extensions:** The greater of \$500 or \$30 for each unit for the legal phase or project. Conditional and final extensions will be granted as appropriate for a maximum of six months.

Note: The applicable project review fee will be assessed regardless of decision.

Examples

1) 100 unit single phase project – Optional PERS Submission

Review fees: \$1200 + \$30 per unit (100 units x \$30 = \$3,000) total review fees = \$4200

2) 100 unit single phase project – Mandatory PERS Submission

Review fees: \$30 per unit x 100 units = \$3,000

Delivery Codes for PERS Approved Projects

When a lender delivers a mortgage for purchase or securitization that is secured by a unit in a condominium project approved via PERS it must identify the project review type code as Type T – Fannie Mae Review.

Reminder: Use of Special Feature Code for Detached Condominiums

As a reminder, Fannie Mae currently requires the delivery of Special Feature Code 588 for mortgage loans in detached condominium projects. In light of the new requirements for attached projects outlined in this Announcement, the use of this code is imperative to ensure accurate monitoring of condominium projects.

Requirements for Attached Condominium Projects in Florida

There are currently excessive unsold inventories of condominium project units in Florida resulting from the increase in building new condominium projects and the conversion of apartments to condominium ownership that occurred during the last several years. The increase in the number of units available is one of the factors that caused home prices to reach historical lows, particularly in the condominium market. As part of an ongoing review of business activities, Fannie Mae assessed the performance of mortgage loans secured by condominiums located in Florida and found that the number of loans currently delinquent or in default is at an all time high. As a result, Fannie Mae is modifying some of the terms under mortgage loans secured by attached units in condominium projects located in Florida will be accepted.

PERS Requirements for Certain Projects in Florida

PERS will be required for new and newly converted condominium projects consisting of attached units located in Florida. Accordingly, the following lender delegated review types will no longer be accepted for loans secured by such projects in Florida: Lender Full Review, Limited Review, CPM Expedited Review, and FHA- approved projects.

All new or newly converted Florida condominium projects that have been submitted to CPM and received a “Certified by Lender” recommendation or “Owner-Occupied and Second Home” recommendation as of January 15, 2009, will be valid until expiration. Recertifications will not be permitted. Thereafter, lenders that desire to lend against such units in projects in Florida must submit the applicable projects to PERS on or after January 15, 2009. Lenders who have recently approved projects under the Lender Full Review process and have valid loan applications in their pipeline must contact their account team by January 15, 2009 to determine pipeline coverage. Projects with a Conditional Final Project Acceptance or Final Project Acceptance will continue to be valid until the expiration date.

Project Review LTV Ratio Requirements for Condominium Projects in Florida

The following table outlines the project review LTV ratio requirements for loans secured by units in condominium projects in Florida. These requirements are effective for mortgage loan applications dated on or after January 15, 2009,

Project Review LTV Requirements for Attached Projects in Florida					
Established Condominium Projects					
	PERS Approved	Lender Full Review	CPM Expedited Review	Limited Review	FHA Approved Projects
Principal Residence	97% - DU 95% - Non-DU	97% - DU 95% - Non-DU	75%	75%	75%
Second Home	90%	90%	70%	70%	70%
Investor	85%	85%	Not eligible	Not eligible	Not eligible
New and Newly Converted Condominium Projects					
Principal Residence	97% - DU 95% - Non-DU	Not eligible	Not eligible	Not eligible	Not eligible
Second Home	90%	Not eligible	Not eligible	Not eligible	Not eligible
Investor	85%	Not eligible	Not eligible	Not eligible	Not eligible

Note: The existing higher LTV ratios will remain available for loans secured by units in established projects approved pursuant to PERS and Fannie Mae’s Lender Full Review process.

General Policy Changes Regarding Project Eligibility Requirements

Pre-Sale Requirements for Attached Units in New and Newly Converted Condominium Projects

Announcement 07-18 states under the Lender Full Review process at least 51 percent of the total units in attached condominium projects or subject legal phase must have been

conveyed or be under a bona fide contract for purchase to principal residence or second home purchasers.

Fannie Mae is increasing the pre-sale eligibility requirement for attached new or newly converted condominium projects reviewed under the Lender Full Review process. Accordingly, at least 70 percent of the total units in the project or subject legal phase must have been conveyed or be under a bona fide contract for purchase to principal residence or second home purchasers.

CPM Expedited Review will continue to have more flexible presale requirements for attached new or newly converted condominium projects.

Delinquent HOA Dues for Units in Attached Condominium Projects

Announcement 07-18 states that when using CPM Expedited Review and Lender Full Review for an established project consisting of attached units, no more than 15 percent of the *condominium/association fee payments* can be more than one month delinquent.

Fannie Mae is updating its delinquent HOA dues policy for the CPM Expedited Review and Lender Full Review processes to require that no more than 15 percent of the *total units* in a project can be 30 days or more past due on the payment of their condominium/association fee payments. This new policy applies to the review of both new and established attached condominium projects.

Fidelity Insurance for Units in Attached Condominium Projects

The *Selling Guide*, Part XII, Chapter 5, Section 504, Fidelity Insurance, states fidelity bond/fidelity insurance is required for new condominium projects with 20 or more units reviewed using the CPM Expedited Review, Lender Full Review, and FHA-approved project review processes. Fannie Mae is updating this policy to require fidelity bond/fidelity insurance for new and established condominium projects with more than 20 units. This new policy applies to all condominium project review types including the Limited Review process.

Hazard Insurance for Units in Attached Condominium Projects Including 2-4 Unit Projects

The *Selling Guide*, Part XII, Chapter 5, Insurance Requirements require that lenders verify that hazard insurance for all condominium projects with attached units, including two- to four- unit projects, covers fixtures, equipment, and other personal property inside individual units if they will be financed by the mortgage.

The updated policy now requires that the borrower obtain a “walls-in” coverage policy (commonly known as HO-6 policy) unless the lender can document that the master policy provides the same interior unit coverage. The master policy must include replacement of

improvements and betterment coverage to cover any improvements that the borrower may have made to the unit.

The HO-6 insurance policy must provide coverage in an amount that is no less than 20 percent of the condominium unit's appraised value. In the event such coverage can not be obtained, the lender should call the Fannie Mae Project Standards Department at the phone number listed at the end of this Announcement. The standard requirement for a 5 percent deductible applies.

Cooperative Project Commercial Space and IRS Code Section 216

The *Selling Guide*, Part XII, Section 501.02 limits the cooperative corporation's income from commercial space to 20 percent of its total income. The updated policy limits non-residential use in the cooperative project to no more than 20 percent of the project's total square footage and eliminates the income limitation.

Review of the Condominium Project's Legal Documents

Established Condominium Projects and all Two- to Four-Unit Projects

Announcement 08-01 provided clarification regarding legal document review for condominium projects. Currently, lenders must represent and warrant that the project's legal documents comply with the legal requirements for established condominium projects and established and new two- to four-unit condominium projects.

Fannie Mae is updating this policy to eliminate this representation and warranty requirement altogether for established condominium projects and established and new two-to-four unit condominium projects.

New Condominium Projects (excluding New Two-to Four-Unit Projects)

Announcement 08-01 clarified that a qualified attorney engaged by the lender must review the legal documents for all new condominium projects that are not two- to four-unit projects, and determine that the documents are in compliance with Fannie Mae's legal requirements.

Fannie Mae is updating this policy to make the attorney review requirement optional for all review processes with the exception of PERS. Going forward, it will be mandatory for lenders to represent and warrant that the condominium project's legal documents are in compliance with Fannie Mae's legal requirements.

Projects submitted to PERS

A qualified attorney engaged by the lender must review the legal documents for all condominium projects submitted to PERS and determine that the documents are in compliance with the legal requirements as described in Announcement 08-01, Attachment 1. 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. The lender must complete Fannie Mae Form 1054 and attach the attorney review as part of the PERS submission process. Lender must retain all legal documents and make available to Fannie Mae upon request.

Additional Ineligible Projects

Fannie Mae is adding three new characteristics to the list of ineligible project types currently identified in the *Selling Guide*, Part XII, Section 102: Ineligible Projects. Fannie Mae considers condominium projects with the following characteristics to be ineligible for delivery to Fannie Mae:

- New projects where the seller is offering sale/financing structures in excess of Fannie Mae's eligibility policies for individual mortgage loans. These excessive structures include, but shall not be limited to, builder/developer contributions, sales concessions, HOA or principal and interest payment abatements, and/or contributions not disclosed on the HUD-1 Settlement Statement.
- Projects where more than 20 percent of the total space is used for non-residential purposes.
- Projects where a single entity (the same individual, investor group, partnership, or corporation) owns more than 10 percent of the total units in the project.

Clarification of "Spot Loans" Under the Limited Review Process

Fannie Mae received a number of lender questions about the following provision in Announcement 07-18 related to use of the Limited Review process:

"Our Limited Review process ... is intended to be used on a 'spot loan' basis and must not be used to deliver multiple mortgages within the same condominium project to Fannie Mae. Lenders must use one of the other project review methods described in this Announcement to deliver multiple mortgages from a given project."

Based upon the number of questions that were received, the following clarification is necessary:

- The Limited Review process is intended to be used on a "spot loan" basis, meaning that lenders may originate loans that arise through the ordinary course of business.
- A lender may originate more than one loan in a particular project under the Limited Review process provided that the project is an established project and meets the requirements for Limited Review set forth in Announcement 07-18.
- However, if the lender has targeted the project with specific marketing efforts or is named as a preferred lender by either the developer or the project's home owner's association, the project is ineligible for Limited Review and the lender must use one of the other project review processes.

Clarification of Owner-Occupancy Ratio Requirements

Fannie Mae requires that established condominium projects consisting of attached units have an owner-occupancy ratio of at least 51 percent at the time the loan is originated (purchase or refinance) if the mortgage loan being delivered is secured by an investment property. Established projects where borrowers will occupy the unit or use the unit as a second home are not subject to any owner-occupancy ratios.

Due to current market conditions, many condominium projects are experiencing higher numbers of financial institution- owned REO units, which many lenders may be counting as non-owner-occupied under Fannie Mae's current requirements.

Fannie Mae is clarifying its condominium project owner-occupancy ratio policy to include REO units that are for sale (not rented) as owner-occupied units in the owner-occupancy ratio.

Projects where a borrower is an investor and the project does not meet the owner-occupied ratio of 51 percent will only be eligible if the lender submits the project to Fannie Mae for review under PERS and the project is approved or as a single-loan project eligibility waiver and Fannie Mae approves the waiver based on its review of the overall risk of the project.

Condominium Association Project Insurance Clarifications

Selling Guide, Part XII, Section 501: Hazard Insurance; and *Servicing Guide*, Part II, Section 205.01: Amount of Coverage

Fannie Mae is clarifying the requirements for master or blanket project insurance (hazard, windstorm, and flood) for condominiums. Lenders must review the entire condominium project insurance policy to ensure that the owners' association maintains a master or blanket type of insurance policy for only the project in which the individual condominium unit will be financed. The following are not permitted:

- a blanket policy that covers multiple unaffiliated condominium associations or projects, or
- a self insurance arrangement whereby the owners' association is self insured or has banded together with other unaffiliated associations to self insure all of the general and limited common elements of the various associations.

As a reminder, condominium association project insurance must cover 100 percent of the insurable replacement cost of the project improvements, including the individual units in condominium project. Coverage does not need to include land, foundations, excavations, or other items that are usually excluded from insurance coverage. Fannie Mae expects lenders to verify hazard insurance (including wind and flood insurance, if applicable) coverage at the project level as part of their review of a project. Lenders must verify that

each condominium association is covered by an individual policy before it delivers a mortgage loan on an individual unit in a condominium project.

Effective Dates

The chart below outlines the effective dates for the changes described in this Announcement.

Topic	Effective Date
PERS is available for optional submissions (exception - certain Florida projects)	January 15, 2009
PERS is mandatory for new and newly converted attached condominium projects in Florida	January 15, 2009
CPM Projects in Florida with “Certified by Lender” or “Owner-Occupied and Second Home” recommendations obtained prior to January 15, 2009	CPM recommendations are valid until expiration
Florida Project Review LTV Ratio Requirements	Loan applications dated on or after January 15, 2009
General policy changes regarding project eligibility requirements	Loan applications dated on or after March 1, 2009
Additional ineligible projects	Loan applications dated on or after March 1, 2009
Clarifications: <ul style="list-style-type: none"> • “Spot loans” under the Limited Review process • Owner-occupancy ratio requirements • Condominium association project insurance 	Immediately

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Lenders who have questions about Announcement 08-34 should contact their Customer Account Team or the Fannie Mae Project Standards Department at 202-752-2916. Lenders that have CPM related questions should call 800-752-6440.

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