

WM Condo & PUD Guidelines for Conventional Loans

Fannie Mae Project Classification and Warranty Codes

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| Eligible Condominium Types ✦ |
| Q – Limited Review Est (Established project or Established 2-4 unit project) |
| S – Expedited Est with or without CPM (Established project or Established 2-4 unit project) |
| T – Fannie Mae PERS , Unexpired 1028, or Special Approval Designation for FL condos |
| P – Limited Review New (New detached condo projects) |
| Eligible PUD Types ✦ |
| E – Established PUD |
| F – New PUD |

Freddie Mac Project Classification and Warranty Codes

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| Eligible Condominium & PUD Types ✦ |
| Streamlined Review (Established project or Established 2-4 unit project) |
| Established Project – (Full Review) |
| 2-4 units (Established) |
| Detached Project |
| Reciprocal Review (Approved through Fannie Mae PERS or CPM) |
| Established PUD |

✦ **The underwriter must indicate the applicable warranty code on the 1008**

✦ **NEW PROJECTS MAY BE CONSIDERED (Fannie Mae Type R and Freddie Mac New Project Review), MUST BE REVIEWED BY WINTRUST MORTGAGE.**

WM General Eligibility Requirements

- Project documents (questionnaire) cannot be more than 180 days old on the date mortgage note is signed.
- WM reserves the right to limit its overall concentration in any specific project.
- Individual sellers may sell no more than the greater of five units or 20% of the total units in a specific project to the Investor in a 12 month period.

Ineligible Condo Project Types

- Projects in which individual units are operated as a commercial hotel or motel.
- Projects with any of the following hotel/resort characteristics are ineligible:
 - Projects that include registration services and offer rentals of units on a daily basis;
 - Projects with room service, maid service, central key systems, and other hotel-type characteristics.
 - Projects with names that include the words “hotel” or “motel”;
 - Projects that restrict the owner’s ability to occupy the unit;
 - Projects with mandatory rental pooling agreements that require the unit owners to either rent their units or to give a management firm control over the occupancy of the units. These formal agreements between the developer, HOA, 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.

- Projects with non-incidental business operations owned or operated by the owners' association such as, but not limited to, a restaurant, spa, health club, etc. (10% of income can come from non-incidental business operation.)
- Projects with mandatory upfront or periodic membership fees for the use of recreational amenities, such as country club facilities and golf courses, owned by an outside party (including the developer or builder). Membership fees paid for the use of recreational amenities owned exclusively by the HOA or master association are acceptable.
- Projects that have documents on file with the Securities and Exchange Commission, or projects where unit ownership is characterized or promoted as an investment opportunity.
- Projects where the unit owners will not have the sole ownership in, and rights to the use of, the project's facilities, common elements, and limited common elements once control is turned over to the unit owners.
- Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize the property. (Common interest apartments or community apartment projects, projects with mandatory pooling agreements.)
- Timeshare, fractional or segmented ownership projects.
- Houseboat projects.
- Projects that do not meet requirement for live-work projects (Fannie/Freddie guidelines).
- Any project that permits a priority lien for unpaid common expenses in excess of Fannie Mae's priority lien limitations. (Fannie Mae files only.)
- Projects containing manufactured housing that have not been approved by Fannie Mae through the PERS process.
- Multi-dwelling unit condominiums – projects that permit an owner to hold title (or stock ownership and the accompanying occupancy rights) to more than one dwelling unit, with ownership of all of his or her owned units (or shares) evidenced by a single deed and financed by a single mortgage (or share loan).
- Projects that represent a legal, but non-conforming, use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction.
- **Projects in which the HOA is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation. Projects where the HOA is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA dues, are not considered ineligible.**
- Projects where commercial space comprises more than 25% of the total square footage of the project.
- Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project:
 - Projects with 2 to 4 units – 1 unit
 - Projects with 5 to 20 units – 2 units
 - Projects with 21 or more units – 10%

Units currently subject to any lease arrangements must be included in the calculation. This includes lease arrangements containing provisions for the future purchase of the units such as lease-purchase and lease-to-own arrangements. Units are not included in the calculation if they are owned by the developer/sponsor and are vacant and being actively marketed for sale.

- Projects in which the property seller offers sales/financing structures in excess of the maximum allowable contributions for individual loans. Examples include rent-backs or leasebacks, payments of PITI or HOA assessments for any period of time, and undisclosed builder/developer contributions.
- Projects structured as Continuing Care Retirement Communities (CCRC's) where residents contract in advance for a lifetime commitment from the facility to care for them, regardless of the future health or housing needs. (Not to be confused with age-restricted 55+ communities.)
- Projects that do not have all applicable insurance coverage.

- New or recently-converted projects in Florida, unless approved by Fannie Mae (unexpired 1028, PERS, or Special Project Designation only, no CPM approvals)

Fannie Mae Review Types

Fannie Mae Limited Review Est (Q):

To be eligible under the Limited Project Review process, a project must meet all of the following eligibility criteria:

- The project is not an Ineligible Project and meets all WM General Eligibility Requirements as defined above.
- Project must be established (90% sold out, turned over and not subject to additional phasing).
- The units, common areas, and facilities are 100% complete, and the developer retains no ownership control over the common elements or amenities.
- The unit must be a primary residence or a second home.
- The maximum LTV/CLTV is dependent upon DU findings. (See following chart.)
- Project is covered by required insurance.
- Investor Owned Unit Limitation:
 - No limitation, however projects not majority owner-occupied should demonstrate professional management and/or consideration should be given to budgeting and the percentage of owners late with HOA dues and assessments.
- If WM has targeted the project with specific marketing efforts or is named as the preferred lender by either the developer or the HOA, the project is ineligible for Streamlined Review and another project review process must be utilized.

Attached Condo Unit – Limited Review of Established Projects

DU™ Approve Recommendations:

| <i>Occupancy:</i> | <i>LTV/CLTV:*</i> | <i>Florida</i> |
|-------------------|--------------------|--------------------|
| Primary Residence | 90%/90% | 75%/75% |
| Second Home | 75%/75% | 70%/70% |
| Investment | Not Allowed | Not Allowed |

All other DU™ Recommendations including Expanded Approval Recommendations:

| <i>Occupancy:</i> | <i>LTV/CLTV:*</i> |
|-------------------|--------------------|
| Primary Residence | 80%/80% |
| Second Home | 75%/75% |
| Investment | Not Allowed |

*Check for investor bans on Limited Review or LTV/CLTV restrictions in Florida

■ **Documentation needed:**

- Limited Review Condominium Questionnaire
- Appraisal
- Master Certificate of Insurance*
- General Warranty of Project Eligibility**

Fannie Mae Limited Review for Detached Units (Type P or Q) - Site Condos:

To be eligible under the limited review for Detached Units:

- Project is not an Ineligible Project and meets all WM General Eligibility Requirements as defined above.
- Appraiser must comment on, and reflect on the appraisal report, any effect that buyer resistance to the condo form of ownership has on the market value of the individual unit.
- If the project is new, the appraiser must use as a comparable sale at least one detached condo unit, which may be located either in a competing project or in the subject project, if the condo is offered for sale by a builder other than the one that built the subject unit.
- Mortgage is secured by a single detached unit in a condo project.
- The property is either covered by:
 - The type of hazard and flood insurance coverage required for single-family detached dwellings, if project documents allow; or
 - The project's master hazard and flood insurance policies, if the condo unit consists only of the air space for the unit and the improvements and site are considered to be common areas or limited common areas.
- All other condominium insurance requirements must be met.

- **Documentation needed:**
 - Limited Review Condominium Questionnaire
 - Appraisal
 - Master Certificate of Insurance*
 - General Warranty of Project Eligibility**

Fannie Mae Expedited Review (S) – for all Established Projects, including 2-4 Unit Projects:

The Expedited Review process is followed when the transaction does not meet the Limited Review guidelines.

To be eligible under the Expedited Established Project Review, a project must meet all of the following eligibility criteria:

- The project is not an Ineligible Project and meets all WM General Eligibility Requirements as defined above.
- Project is established (90% sold out, turned over and not subject to additional phasing).
- The units, common areas, and facilities within the subject legal phase have been completed per the appraisal, and the developer retains no ownership control over the common elements or amenities.
- No more than 15% of the total units in a project are 60 days or more past due on their HOA dues.
- The project budget must be adequate. At least 10% of the budget provides funding for replacement reserves for capital expenditures and replacement cost of major common elements. In addition, adequate funding must be available for insurance deductible amounts. Lenders can review project's reserve study if the budget doesn't meet 10% reserve funding requirement. (Budget review is not required for 2-4 unit projects.)
- The project must be located on one contiguous parcel of land, although it may be divided by a public street.
- The structures within the project must be a reasonable distance from each other.
- Common areas and facilities – such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.

- The project must have all applicable insurance coverage.
- Investor Owned Unit Limitation:
 - No limitation for primary residences or second homes. 50% of the units conveyed must be primary residences or second homes before an investment loan is eligible.
 - Projects not majority owner-occupied should demonstrate professional management and/or consideration should be given to budgeting and the percentage of owners late with HOA dues and assessments.
 - Real Estate Owned (REO) units that are for sale (not rented) may be considered as owner-occupied in the calculation of the project owner-occupancy requirements.
- All but one unit in a 2-4 unit project must be owner occupied or a second home to be able to use CPM type of review.
- **Documentation needed:**
 - Full Review Condominium Questionnaire
 - Appraisal
 - Master Certificate of Insurance*
 - Current budget
 - General Warranty of Project Eligibility**

Fannie Mae Review (T) (see PERS section): Project acceptance relates to any condo project that Fannie Mae has reviewed and approved. This list (*Condo, Co-op, PUD Eligibility* > select name of State) is found on Fannie Mae's website (www.efanniemae.com). Proposed/New Construction Projects can be approved by Fannie Mae using PERS (Project Eligibility Review Service). This classification primarily applies to proposed or new projects that are still under construction. It also applies to projects that do not meet the presale requirements for Limited or Expedited Review or which exceed the normal commercial space limitation.

As of 1/07/2010, Fannie Mae has established a Special Approval Designation for Established Florida Condo Projects which no longer meet Fannie Mae's eligibility requirements, potentially limiting access to mortgage financing. This process is provided for purchase transactions and refinances of Fannie Mae-owned or – securitized mortgage loans under Fannie Mae's standard mortgage eligibility requirements. The list of currently approved projects can be found at efanniemae.com > *Condo, Co-op, PUD Eligibility* > *Special Approval Designation List*

- **Documentation needed:**
 - Appraisal
 - Master Certificate of Insurance*
 - A printout from www.efanniemae.com – *Condo, Co-Op, and PUD Eligibility*, showing the project acceptance has not expired. This printout must be provided in the file at the time of submission.
 - General Warranty of Project Eligibility**

How to check the List of Accepted Projects:

- Go to <https://www.efanniemae.com/home/index.jsp> > *Condo, Co-Op, PUD Eligibility*
- Click on state name or the Special Approval Designation List
- Check list for the condo project name,
- Print out List of Accepted Projects and add to loan file

Fannie Mae Attached PUD – for Established (Type E) and New (Type F) Projects

To be eligible under the Lender Full Review for Attached PUDs, a project must meet all the following eligibility criteria:

- Any project that permits a priority lien for unpaid common expenses in excess of Fannie Mae’s priority lien limitations is ineligible.
- **Projects in which the HOA is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation. Projects where the HOA is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA dues, are not considered ineligible.**
- The unit securing the mortgage is 100% complete.
- The project does not consist of single-width manufactured housing units.
- The individual unit securing the mortgage satisfies Fannie Mae’s insurance requirements for PUD projects.

- **Documentation needed:**
 - Master Certificate of Insurance and/or individual unit insurance, as applicable*
 - Commercial General Liability Coverage for \$1 million required
 - General Warranty of Project Eligibility**

Freddie Mac Review Types

Freddie Mac Streamlined Review - Established Projects or Established 2-4 Unit Projects:

To be eligible under the Streamlined Project Review, a project must meet all of the following eligibility criteria:

- The project is not an Ineligible Project and meets all WM General Eligibility Requirements as defined above.
- Project must be established (90% sold out, turned over and not subject to additional phasing).
- The units, common areas, and facilities are 100% complete, and the developer retains no ownership control over the common elements or amenities.
- The unit must be an owner-occupied primary residence or second home.
- The maximum LTV/CLTV is dependent upon LP findings. (See following chart.)
- Project is covered by required insurance.
- There are no manufactured homes in the condominium project.
- Investor Owned Unit Limitation:
 - No limitation, however projects not majority owner-occupied should demonstrate professional management and/or careful consideration must be given to budgeting and the percentage of owners late with HOA dues and assessments.
- If WM has targeted the project with specific marketing efforts or is named as the preferred lender by either the developer or the HOA, the project is ineligible for Streamlined Review and another project review process must be utilized.

Attached Condo Unit – Streamlined Review of Established Projects

LP™ Accept Recommendations:

| <i>Occupancy:</i> | <i>LTV/TLTV:</i> | <i>Florida*</i> |
|-------------------|---------------------|---------------------|
| Primary Residence | 90%/90% | 75%/75% |
| Second Home | 75%/75% | 70%/70% |
| Investment | Not Eligible | Not Eligible |

All other LP™ Recommendations:

| <i>Occupancy:</i> | <i>LTV/TLTV:</i> | <i>Florida*</i> |
|-------------------|---------------------|---------------------|
| Primary Residence | 80%/80% | 75%/75% |
| Second Home | 75%/75% | 70%/70% |
| Investment | Not Eligible | Not eligible |

■ **Documentation needed:**

- Limited Review Condominium Questionnaire
- Appraisal
- Master Certificate of Insurance*
- General Warranty of Project Eligibility**

Freddie Mac Established Project Review: The Established Review process is followed when the transaction does not meet the Streamlined Review guidelines, and the Investor does not allow the reciprocal review process for warranting projects that may appear on the Fannie Mae PERS List, or approved through Fannie Mae’s CPM (Condo Project Manager). Underwriters will perform this function manually.

To be eligible under Established Project Review, a project must meet all the following eligibility criteria:

- The project is not an Ineligible Project and meets all WM General Eligibility Requirements as defined above.
- The project must meet all the same guidelines listed under Fannie Mae Expedited Review for Established Projects.
- There are no manufactured homes in the condominium project.
- Project is covered by required insurance.

■ **Documentation needed:**

- Completed Condominium Questionnaire – Full Review
- Appraisal
- Master Certificate of Insurance*
- Current budget
- General Warranty of Project Eligibility**

Freddie Mac 2 to 4-Unit Project Review: The 2-4 Unit Review process is followed when the transaction does not meet the Streamlined Review guidelines, and the Investor does not allow the reciprocal review process for warranting projects that may appear on the Fannie Mae PERS list or that may be approved through Fannie Mae’s CPM (Condo Project Manager). Underwriters will perform this function manually.

To be eligible for 2 to 4-Unit Project Review, a project must meet all the following eligibility criteria:

- The project is not an Ineligible Project and meets all WM General Eligibility Requirements as defined above.
- All but one unit in the project has been conveyed to purchasers who occupy their unit as a primary residence or second home.
- All units and common elements are complete (including common elements owned by a Master Association).
- There are no manufactured homes in the condominium project.
- Project is covered by required insurance.

- **Documentation needed:**
 - Limited Review Condo Questionnaire
 - Appraisal
 - Master Certificate of Insurance*
 - General Warranty of Project Eligibility**

Freddie Mac Detached Project (Site Condos): For projects comprised solely of detached, 1-unit condo dwellings (no manufactured homes).

To be eligible under the Detached Project review process, a project must meet all the following eligibility criteria:

- The project is not an Ineligible Project and meets all WM General Eligibility Requirements as defined above.
- The condominium project must not include manufactured homes.
- The appraiser must use similar detached condominium comparable sales from the same project or from similar Detached Condominium projects in the same market area. The appraiser may use detached comparable sales that are not located in a condominium project only if the appraiser supports the use of such sales in the appraisal report and reflects any effect that the condominium form of ownership has on the market value and marketability of the subject property.
- Project is covered by required insurance.

- **Documentation needed:**
 - Completed Condominium Questionnaire – Limited Review
 - Appraisal
 - Master Certificate of Insurance*
 - General Warranty of Project Eligibility**

Reciprocal Project Review for Fannie Mae-Accepted Projects:

To be eligible under Reciprocal Project Review process for Fannie Mae-Accepted projects (PERS or CPM-approved), a project must meet all the following eligibility criteria:

- The project complies with all applicable Fannie Mae eligibility requirements and lender warranties.
- If using PERS approval, this approval must be final. Conditional PERS approval and Fannie Mae Special Approval designations will not be accepted.

- Any terms and conditions set forth in the acceptance have not expired, and have not been rescinded or modified in any way.
- The Mortgage file contains documentation of Fannie Mae's acceptance (e.g. a copy of the appropriate web page showing that the Project is a Fannie Mae-accepted project or a CPM acceptance certificate).
- Project meets the requirements of the project type. (New, Established, 2-4, etc.)
- Project is covered by required insurance.
- CPM approval is not acceptable for Florida projects.

- **Documentation needed:**
 - Completed Condominium Questionnaire – Full Review
 - Budget – not required for 2-4 unit projects
 - Appraisal
 - Master Certificate of Insurance*
 - Evidence of Fannie Mae PERS or CPM approval
 - General Warranty of Project Eligibility**

Freddie Mac PUD

A Planned Unit Development project must meet all the following eligibility criteria:

- The project does not consist of single-width manufactured housing units.
- The unit securing the mortgage is 100% complete.
- The individual unit securing the mortgage satisfies Freddie Mac's insurance requirements for PUD projects.
- **Projects in which the HOA is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation. Projects where the HOA is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA dues, are not considered ineligible.**
- The individual unit securing the mortgage satisfies Fannie Mae's insurance requirements for PUD projects.

- **Documentation needed:**
 - Master Certificate of Insurance and/or individual unit insurance, as applicable*
 - Commercial general liability coverage for \$1 million required
 - General Warranty for Project Eligibility**

***Insurance Requirements:**

Master Insurance

- Hazard: blanket all risk policy with 100% of the insurable replacement cost, deductible not to exceed 5% of policy face amount per building.
- General liability of \$1,000,000 per occurrence is required for condos and PUDs.
- Borrowers are required to obtain a 'walls-in' Hazard Insurance coverage policy (commonly known as HO-6) unless the lender can document the master insurance policy of HOA covers the interior of the unit and any improvements. The HO-6 policy must provide coverage as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event. The standard requirement for a maximum 5% deductible also applies. Borrowers must qualify with the payment for HO-6 coverage in DTI

ratios, but the HO-6 coverage is not escrowed at closing.

- PUD projects must maintain a property insurance policy covering the common elements, and evidence of the individual unit's coverage must be provided in the file, if the project does not maintain a blanket policy covering both the units and the common elements.
- Coinsurance – policies with coinsurance can create additional risk for an HOA in the event of a loss if the amount of the coverage is less than the full insurable value. Master property policies that provide coverage at 100% of the insurable replacement cost of the project improvements, including the individual units, alleviate the risk of a coinsurance penalty being applied in the event of a loss. If the policy has a coinsurance clause, inclusion of an Agreed Amount Endorsement or selection of the Agreed Value Option (which waives the requirement for coinsurance) is considered acceptable evidence that the 100% insurable replacement cost requirement has been met. If an Agreed Amount/Agreed Value provision is used, the Agreed Amount must be no less than the estimated replacement cost. If the policy includes a coinsurance clause, but the coinsurance provision is not waived, the policy is still eligible if evidence acceptable to the lender confirms that the amount of coverage is at least equal to 100% of the insurable replacement cost of the project improvements. This evidence (documentation) must be maintained by the lender.
- Confirm the HOA has legal obligation to maintain adequate insurance and that the current HOA budget includes sufficient reserves to pay premium. Condominium project insurance master or blanket policies containing either of the following are prohibited:
 - 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.
- Flood Insurance:
 - HOA must maintain flood insurance policy for each building that is located in an SFHA.
 - Stand-alone flood insurance dwelling policies for an attached individual condo unit are not acceptable. A master condo flood insurance policy must be maintained by the HOA, subject to coverage requirements below.
 - The master flood policy must be at least equal to the lower of:
 - 80% of the replacement cost (Fannie Mae), the building's replacement cost (Freddie Mac) or
 - The maximum insurance available from NFIP per unit (which is currently \$250,000).
 - The master flood policy must be at least 80% of the replacement cost of the building, even if the unit coverage is \$250,000 per unit; otherwise the loan cannot be delivered to Freddie Mac.

Fidelity Insurance

Evidence of fidelity insurance coverage is required for all condo projects that have 21 or more units. There is no requirement for PUD projects.

The fidelity insurance policy should cover the maximum funds that will be in custody of the owners' association or its management agent at any time, but no less than the sum of three

months of assessments on all units in the project.

Fidelity doesn't need to be verified on limited reviews.

Note: Fidelity (aka *crime* or *employee dishonesty*) insurance is a type of insurance that a condominium obtains to protect itself against economic loss from dishonest acts (claims that allege employee dishonesty, embezzlement, forgery, robbery, computer fraud, wire transfer fraud, counterfeiting, and other criminal acts) of anyone who either handles (or is responsible for) funds that the association or corporation holds or administers, whether or not that individual receives compensation for services. The HOA must carry its own insurance coverage. A management company's own fidelity coverage, though advisable, does not meet this requirement.

****General Warranty**

The lender represents and warrants that it reviewed the project to determine that it met the required eligibility criteria within the three months that preceded the date of the note and mortgage for that unit. The lender also warrants that it is not aware of any change in circumstances since its review of the project that would result in the project not satisfying out eligibility criteria.

Fannie Mae Project Eligibility Review Services (PERS)

Full details on the process are available on Fannie Mae's website at
<https://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/condogls/pers.jsp>