
Conventional Lending Guide

Chapter 11 | Condo, PUD and Cooperative Project Approval

Condominium (Condo), and Planned Unit Development (PUD) projects present unique risks separate from the borrower's individual ability to qualify for a mortgage transaction. The market value of a given property and its long-term value stability is partially determined by the financial strength and other characteristics of the condo or PUD project overall.

For Octane requirements and guidance, refer to the Homeowner's Association (HOA) Job Aid located in Transaction Management>Transaction Management Training Material.

Cardinal Overlays to agency guidelines are highlighted in our signature **Riptide** color, and are also listed in the corresponding [Retail](#) or [TPO](#) Product Overlay Matrix available on the HUB.

Project Eligibility

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

- The financial stability and viability of the project
- The condition and marketability of the project
- Limitations on the unit owner's ability to control the decision-making for the project, occupy the unit, or utilize the project's amenities and common elements
- Dissolution of the project and the unit owner's resulting rights and responsibilities
- Project-level litigation
- Project-level misrepresentation and fraud
- The inability to cure a mortgage default due to restrictions in the project documents such as, but not limited to, right of first refusal provisions
- Insurance coverage that is inadequate to protect the project from unexpected loss

The project review is in addition to the review the underwriter completes for the borrower, the transaction terms, and the appraisal. Cardinal requires all condos and attached PUDs to be reviewed by

the Project Standards Group, to ensure that the project meets the applicable standards for project approval.

Project List

The CPM/HOA Database can be checked for project approvals.

If the Loan Product investor is US Bank, their Condominium Project List must be checked at the time the loan is locked to confirm the project is not declined. If a project is declined, the loan is not eligible for delivery until and unless the project is approved by US Bank.

Project Documentation

The documentation needed to complete a project review differs depending on the project and review type. Project documentation may include, but is not limited to, the following:

- Legal and recorded documents including the covenants, conditions, and restrictions (CCRs), bylaws, declaration of condominium (also referred to as Master Deed), articles of incorporation, or other similar documents that establish the legal structure of the project
- Project budgets, financial statements, and reserve studies
- Project construction plans
- Architects' or engineers' reports
- Completion reports
- Project marketing plans
- Environmental hazard reports
- Attorney opinions
- Appraisal reports
- Evidence of insurance policies and related documentation
- Condominium project questionnaires

Sources for project information include, but are not limited to, appraisers, HOAs, cooperative corporations, management companies, real estate brokers, insurance professionals, and project

developers. Underwriters are responsible for the accuracy of any information obtained from these sources.

Condominium Project Questionnaires

Cardinal uses the following forms to assist in the collection of documents and data needed in the review and determination process.

- Fannie Mae Full-Form - https://www.fanniemae.com/content/guide_form/1076.pdf
- Fannie Mae Short Form - https://www.fanniemae.com/content/guide_form/1077.pdf

Project Types

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

Project Type	Identification Criteria
Established condo project	<p>A project for which <i>all</i> of the following are true:</p> <ul style="list-style-type: none"> ● At least 90% of the total units in the project have been conveyed to unit purchasers; ● The project is 100% complete, including all units and common elements; ● The project is not subject to additional phasing or annexation; and ● Control of the HOA has been turned over to the unit owners. <p>A project may also be treated 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:</p> <ul style="list-style-type: none"> ● Construction is 100% complete; ● The project is not subject to any additional phasing or annexation, and the HOA has been turned over to the unit owners; ● The developer’s share of the units held back for rental is no more than 20% of the project’s total units; ● HOA fees are paid current in developer-held units; and

	<ul style="list-style-type: none"> There are no active or pending special assessments in the project.
New condo project	<p>A project for which one or more of the following is true:</p> <ul style="list-style-type: none"> Fewer than 90% of the total units in the project have been conveyed to unit purchasers (or 80% if it meets the exception noted in the row above); The project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo; The project is newly converted; The project is subject to additional phasing or annexation; or HOA is still in the developer's control.
Detached condo project	<p>A project comprised solely of detached units or that comprises a mixture of attached and detached units and may be a new or established project.</p>
Two- to four-unit condo project	<p>A project comprised of two, three, or four residential units in which each unit is evidenced by its own title and deed. A two- to four-unit condo project may be either a new or established project and may be comprised of attached and/or detached units.</p>
Manufactured home project	<p>A project consisting partially or solely of manufactured homes.</p>
Co-op project	<p>A project in which a corporation or trust holds title to the property and sells shares of stock representing the value of a single apartment unit to individuals who, in turn, receive a proprietary lease as evidence of title.</p>
Planned unit development (PUD) project	<p>A project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD unit owners. The unit owners in the project have title to a residential property (lot and structure) and an interest in the HOA that owns or manages the common area and facilities in the PUD.</p>

Horizontal Property Regimes	<p>This type of property is considered to be a condo project any time it is declared or filed as a horizontal property regime in accordance with local statutes.</p> <p>Exception is made, if the local statute provides for the horizontal property regime to be created as a PUD development and the project’s legal documents specifically state that the project is a PUD.</p> <p>Determination must be made whether a condo or PUD is applicable and the appropriate mortgage documents and appraisal forms will apply.</p>
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Project Review Methods

Cardinal will originate loans secured by units in condo and PUD projects that meet Cardinal’s eligibility requirements. To determine whether the project meets these requirements, a number of project review methods are available. The project review method is determined by:

- The number of units in the project (two- to four or more than four);
- The unit type (attached or detached);
- The project type (condo, cooperative, or PUD);
- The project status (new or established); and
- The program and transaction type.

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

Unit and Project Type	Project Review Method
Attached condo unit in a new or newly converted project	<ul style="list-style-type: none"> ● Full Review completed with Condo Project Manager (CPM), or ● Fannie Mae Review through the standard Project Eligibility Review Service (PERS) process
Attached condo unit in an established project	Based on the LTV, CLTV, and HCLTV ratios, occupancy, and location (projects in Florida), these projects may be reviewed using a Limited Review

	<p>Projects not meeting the Limited Review criteria must be reviewed using a:</p> <ul style="list-style-type: none"> • Full Review (with CPM), • FHA Project Approval (HUD Review and Approval Process only), or • Fannie Mae Review through the streamlined PERS process (for established condo projects)
Unit in a new or established two- to four-unit condo project	Project review is waived, with the exception of some basic requirements that apply
Unit in a PUD project	
Detached unit in a new or established condo project	
Unit in a cooperative project	<ul style="list-style-type: none"> • Full Review • Fannie Mae Review through the standard PERS process
Multi-width manufactured homes in an established condo project	Full Review (without CPM)
<ul style="list-style-type: none"> • New Condo or cooperative project that contains manufactured homes • Newly-converted non-gut rehabilitation condo and cooperative projects (projects with attached units only) that contain more than four residential units • PUD and condo projects consisting of single-width manufactured homes • New or newly converted condo project consisting of attached units located in Florida • Limited or shared equity cooperative projects, provided the limited or shared equity provisions are designed to preserve or promote access to affordable housing 	Must be approved by Fannie Mae through the PERS process. Cardinal will not initiate a PERS review

<p>Established condo or PUD projects consisting of multi-width manufactured homes that are subject to a community land trust, deed restriction, leasehold estate, or shared equity arrangement</p>	<p>Fannie Mae Review through the streamlined PERS process. Cardinal will not initiate a PERS review</p>
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Waiver of Project Eligibility Review

FNMA

Fannie Mae does not require a full project review for several types of projects or loan transactions, including:

- Detached condo units;
- Units in a two- to -four-unit condo project;
- Units in a PUD project;
- Fannie Mae to Fannie Mae limited cash-out refinances with LTV ratios < 80%; and
- High LTV refinance loans

Property Eligibility Requirements per [General Property Eligibility](#) must be met, and the project must not contain any characteristics deeming it ineligible per [Ineligible Projects](#). HOA insurance must still be obtained and reviewed.

Exception to the waiver policy: If the property is a manufactured home or the project contains any manufactured homes, such property or project is not eligible for a review waiver and must be reviewed based on the applicable manufactured home project review requirement.

Cooperative projects are not eligible for a project review waiver. See the Cooperative Project Approval section of the guide for further information.

Waivers will not be issued for significant deferred maintenance, failure to obtain a certificate of occupancy, failure to complete or pass a regulatory inspection, or projects subject to large special assessments.

Freddie Mac

Single Loan Exception

- Freddie Mac Condo Project Advisor®, accessible through Freddie Mac Loan AdvisorSM, allows a request for single loan exceptions (referred to as a Project Waiver Request (PWR)) for Established Condominium Projects that do not meet certain Condominium Project eligibility requirements. Approved PWRs are issued a Condo Project Advisor Feedback Certificate.
- The Condo Project Advisor feedback certificate must be maintained in the applicable Mortgage file.

General Eligibility

Established Condominium Project

- To be eligible for a PWR, the Condominium Unit Mortgage must be secured by a Condominium Unit in an Established Condominium Project.
- A Condominium Project that meets all other requirements for an Established Condominium Project, other than the 75% percentage conveyance to unit purchasers, may still be considered as an Established Condominium Project on a case-by-case basis if:
 - The developer retained more than 25% of the units for rental purposes; and
 - The developer has owned these units for a minimum of 10 years
 - Refer to Eligible Waiver Request Types in the [Compliance Loan Exception Policy](#)

Project Eligibility Categories

- The Condominium Project must comply with the project eligibility requirements for Established Condominium Projects detailed in [Section 5701.5](#) and all other applicable requirements in [Chapter 5701](#), except for the following Condominium Project eligibility categories:
 - Delinquent assessments – [Section 5701.5\(d\)](#)
 - Excessive commercial space – [Section 5701.3\(d\)](#)
 - Pending litigation – [Section 5701.3\(i\)](#)
 - Owner occupancy (referred to as 'Project Unit Occupancy' in Condo Project Advisor) – [Section 5701.5\(b\)](#)

- Reserves for capital expenditures and deferred maintenance – [Section 5701.5\(c\)](#)
- Excessive single investor concentration (referred to as 'Single Entity Ownership' in Condo Project Advisor) – [Section 5701.3\(j\)](#)

Submission Timing

- The PWR may be submitted at any time during the loan origination process, but must be submitted prior to the sale of the related Condominium Unit Mortgage to Freddie Mac ([suggest linking in procedure document for Single Unit Exceptions](#)).

Mortgage Identification

- An approved PWR is applicable to only the Mortgage identified on the Condo Project Advisor Feedback Certificate and is not applicable to any other Mortgage secured by a Condominium Unit located in the same Condominium Project. The Mortgage identified will be the Mortgage in connection with which the Seller enters one of the following in the "Enter ID/Key" field in Condo Project Advisor:
 - The Loan Product Advisor key alphanumeric identifier
 - The Fannie Mae Desktop Underwriter key alphanumeric identifier (referred to as Casefile ID in Desktop Underwriter), or
 - The Doc File ID alphanumeric identifier issued in connection with submission of the appraisal data to the Uniform Collateral Data Portal

Delivery Requirements

- Condominium Unit Mortgages with approved PWRs, must be delivered to Freddie Mac within 180 days from the date of the Condo Project Advisor Feedback Certificate. If the Condominium Unit Mortgage is not delivered within 180 days from the date of the Condo Project Advisor Feedback Certificate, the Seller must submit a new PWR and obtain a new Condo Project Advisor Feedback Certificate prior to delivery.

Project Assessment Request (PAR)

- Freddie Mac Condo Project Advisor, accessible through Freddie Mac Loan Advisor, allows the submission of a Project Assessment Request (PAR) by entering a Condominium Project name in its Project Assessment Request data entry screen to obtain feedback (referred to as the PAR findings) regarding the project's compliance with the project review requirements that Condo Project Advisor assesses.

- The seller is not responsible for ensuring compliance with the project review requirements that Condo Project Advisor assesses if Condo Project Advisor finds that the project complies with the requirement(s) and the PAR findings are detailed on a Condo Project Advisor Feedback Certificate maintained in the Mortgage file.
- The PAR findings are applicable only to the Mortgage identified on the Condo Project Advisor Feedback Certificate and are not transferable to other Mortgages.
- The Mortgage must be secured by a Condominium Unit in an Established Condominium Project.
- Note: the form Condo Project Advisor Approval (CPA) should be added by using the transaction tag: uw_need_fhlmc_cpa.

Full details and requirements are outlined in the [Freddie Mac Single-family Seller Servicer Guide section 5701.1](#)

PAR Findings	
Project Certified Status	If Condo Project Advisor finds that the Condominium Project complies with all requirements it assesses for this status, Condo Project Advisor will assign a “Project Certified” status to the project. See the Project Certified section below for applicable requirements.
Green Status	If Condo Project Advisor finds that the Condominium Project complies with all the requirements it assesses, Condo Project Advisor will assign a “Green” status to the project.
Yellow Status	<p>If Condo Project Advisor finds that the Condominium Project does not comply with one or more of the requirements it assesses, Condo Project Advisor will assign a “Yellow” status to the project.</p> <p>If one of the project review requirements identified is that the project may not be an Established Condominium Project, the Seller must first determine that the project meets the Glossary definition of an Established Condominium Project.</p> <p>A Mortgage secured by a Condominium Unit in a Condominium Project with a “Yellow” status may be eligible for sale to Freddie Mac if it is determined that the project is an Established Condominium Project and the Seller fully analyzes the project review and general eligibility requirements identified on the Condo Project Advisor Feedback Certificate and determines the project complies with the requirement(s).</p>

<p>Incomplete Assessment Status</p>	<p>If Condo Project Advisor is unable to perform the assessment, Condo Project Advisor will assign an “Incomplete Assessment” status to the Condominium Project.</p> <p>A Mortgage secured by a Condominium Unit in a Condominium Project with an “Incomplete Assessment” status may be eligible for sale to Freddie Mac if the Seller fully analyzes all project review requirements and general eligibility requirements and determines the project complies with all the requirements.</p>
<p>Not Eligible Status (Effective February 26, 2024)</p>	<p>If Condo Project Advisor finds that a Condominium Project does not meet certain Condominium Project review and general eligibility requirements, Condo Project Advisor will assign a “Not Eligible” status to the project.</p> <p>Mortgages secured by a Condominium Unit in a Condominium Project that receive this status are ineligible.</p> <p>A Condominium Project without a “Not Eligible” status does not mean that the project complies with all of Freddie Mac’s project review and general eligibility requirements, or that Freddie Mac will purchase any Mortgage secured by a Condominium Unit in that project.</p> <p>For a Condominium Project without a “Not Eligible” status, Seller must ensure compliance with all applicable requirements.</p>
<p>Changes to PAR findings (Effective February 26, 2024)</p>	<p>For all PAR findings, including those submitted through the PCS review process, if a Seller becomes aware of any information that could impact, or that is inconsistent with, a project’s PAR findings, the Seller must contact Freddie Mac at ProjectInfo@FreddieMac.com and provide the specific information. Seller must notify Freddie Mac as soon as feasible but no later than five business days after Seller becomes aware of such information.</p> <p>A Condominium Project’s PAR findings (status and/or feedback messages) may change based on information assessed after Condo Project Advisor assigns a status to the project and after Seller last accessed Condo Project Advisor and obtained a project’s PAR findings.</p> <p>If the Seller or Related Third Party notified Freddie Mac of any information that could impact, or that is inconsistent with, a project’s PAR findings, then, prior to sale of a Condominium Unit Mortgage secured by a unit in that Condominium Project, the Seller must confirm the Condominium Project’s current PAR findings and ensure compliance with the requirement(s) specified on the Condo Project Advisor Feedback Certificate.</p>

Mortgage Identification

The PAR is applicable only to the Mortgage identified on the Condo Project Advisor Feedback Certificate and is not applicable to any other Mortgage secured by a Condominium Unit located in the same Condominium Project.

Documentation Requirements

The Condo Project Advisor Feedback Certificate must be maintained in the applicable Mortgage file. The Note Date of the applicable Mortgage must be within one year of the issue date of the Condo Project Advisor Feedback Certificate.

Delivery requirements

Mortgages with PAR findings must be delivered to Freddie Mac within 120 days after the Note Date. If the Mortgage is not delivered within 120 days after the Note Date, the Seller must submit a new PAR and obtain a new Condo Project Advisor Feedback Certificate prior to delivery.

Project Certified

Condo Project Advisor will provide a Feedback Certificate with a Project Certified status if the project meets the requirements assessed by Condo Project Advisor. The term “Project Certified” means that Condo Project Advisor is assessing only the requirements of the Glossary definition of an Established Condominium Project and Ineligible Condominium Projects.

Seller is not responsible for compliance with the project review requirements if the Condominium Project has a Project Certified status, and the PAR findings are detailed on a Condo Project Advisor Feedback Certificate maintained in the Mortgage file. The PAR findings are applicable only to the Mortgage identified on the Condo Project Advisor Feedback Certificate and are not transferable to other Mortgages.

In addition to complying with the requirements below, projects that receive a Project Certified status PAR finding must comply with the requirements for submission timing and Mortgage identification that apply to Mortgages with PAR findings.

Assessed Project Review Requirements for Condominium Projects with a Project Certified Status

Condo Project Advisor only assesses the project review requirements in the following sections for Condominium Projects with a Project Certified status:

Condo Project Advisor Assesses	
Freddie Mac Selling Guide Section	Project Review Requirements
Glossary	Definition of an Established Condominium Project
5701.3	Ineligible Projects
5701.5	Established Condominium Projects

Documentation Requirements for Mortgages with Project Certified status PAR findings

The Condo Project Advisor Feedback Certificate must be maintained in the applicable Mortgage file. The Note Date of the applicable Mortgage must be within 120 days of the issue date of the Condo Project Advisor Feedback Certificate.

Representations and Warranties

For a subject Mortgage secured by a Condominium Unit in a Condominium Project with a Project Certified status PAR finding, Freddie Mac will not exercise its remedies, including the issuance of repurchase requests, in connection with a breach of the Seller’s selling representations and warranties related to the project review requirements that Condo Project Advisor assessed, if Condo Project Advisor found the project complied with the requirement(s) and the PAR findings are detailed on a non-transferrable Condo Project Advisor Feedback Certificate maintained in the Mortgage file. Except as noted within this section, the Seller remains responsible for compliance with all other requirements of the Purchase Documents.

Delivery Requirements

Mortgages with Project Certified status PAR findings must be delivered to Freddie Mac within 120 days after the Note Date. If the Mortgage is not delivered within 120 days after the Note Date, the Seller must submit a new PAR and obtain a new Condo Project Advisor Feedback Certificate prior to delivery.

In connection with the sale of each Mortgage with a Project Certified status PAR finding, Seller must deliver “J97” as the Investor Feature Identifier.

FHA Approved Condo Projects

FNMA

Fannie Mae 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 condo project approval is not acceptable for mortgages secured by units in new or newly converted condo projects. The project must meet Fannie Mae’s criteria to be considered an established project:

- The project is not comprised of manufactured homes;
- The project meets the Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project described in [B4-2.1-01, General Information on Project Standard](#)
- The project is not an ineligible project as described in [B4-2.1-03, Ineligible Projects](#); and
- Any additional conditions noted by FHA have been met

Freddie Mac

Freddie Mac will purchase mortgages secured by a 1-unit residential dwelling in a Condominium Project that appears on the list of projects approved by FHA by the FHA HUD Review and Approval Process (HRAP) only, provided:

- The Condo Project meets the definition of an Established Condo Project
- The Condo Project is not an ineligible project (Section 5701.3)
- All general project eligibility requirements in Section 5701.2(b) must be met, and
- The mortgage must comply with all other applicable requirements of the Guide.

Project Approval

When warranting a project, the Condo project classification type must align with the underwriting method and market type (for example, if underwritten through LPA, must be warranted to a Freddie

Mac condo classification type; if underwritten through DU, must be warranted to a Fannie Mae classification type).

Project Code/Classification

Fannie Mae Code	Description
E	Established PUD
F	New PUD
P	Limited Review - New Condo Project
Q	Limited Review - Established Condo Project
R	Full Review - New Condo Project
S	Full Review - Established Condo Project
T	Fannie Mae Review—Condo project that received a Final Project Approval through PERS using the standard or streamlined process (including projects consisting of manufactured housing submitted under the standard process)
U	FHA/VA Approved Condo Project
V	Eligible for Condo Waiver
1	Full Review Coop Project
2	Full Review through PERS - Cooperative Project
Special Feature Code	Description
588	Detached Condo Used to identify detached units in a condo project
296	Project Eligibility Waiver Used to identify loans for which Fannie Mae has provided a project eligibility waiver
235	Manufactured Home Used to identify loans secured by a manufactured home
917	Site Condominium Used to identify a unit in a condo project that meets Fannie Mae’s definition of a site condo

Freddie Mac Classification	Description
Streamlined Review	Condo unit is an established condominium project. The project must meet general condo project review and eligibility requirements. LTV/TLTV limits apply
Established Project	The Condominium Project (all Condominium Units, Common Elements, and Amenities) and related facilities owned by any Master Association are complete and not subject to any additional phasing
New Project	Project and related facilities are not complete or are subject to additional phasing
Detached Project	The condominium project is comprised solely of detached condominium units
2-4 Unit Project	Project is comprised of at least two but no more than four 1-unit dwellings that are each separately owned with separate legal descriptions. The units may be attached, detached or semi-detached units or a mixture of attached, detached and/or semi-detached units
Reciprocal Review	Condominium unit is located in a Condominium Project which has a FNMA PERS or CPM approval, or appears on the list of projects approved by FHA

Octane - Detached Condominium

To allow AUS to read the correct Project Classification for detached Condo units, the following must be indicated in Octane>Property Screen:

Fannie Mae

Property Type will indicate Condominium Detached and Project Classification will indicate V Project Review Waived.

Freddie Mac

Property Type will indicate Single Family (detached) and Project Classification will indicate E PUD.

Document Retention for Project Eligibility

All of the project documentation needed to demonstrate that the project meets eligibility requirements, including any documentation relied upon to enter information into CPM, must be retained and made

available upon request, as long as lenders originate mortgages from the project, and until all mortgages originated in the project have been paid in full.

Expiration for Project Reviews

Project reviews must meet the following timeline requirement

Project Review Process Employed	Expiration of Project Review
Limited Review	Must have been completed within one year prior to the note date
Full Review for Established Projects	
Full Review for New Projects	Must have been completed 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

Current or Planned Special Assessments for Subject Unit

Any current or planned special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability. The loan file must be documented 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
- Borrower qualification with any outstanding special assessment payment

Financial documents necessary to confirm the association has the ability to fund any repairs must be obtained. 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 a determination cannot be made that there is no adverse impact, the project is ineligible.

Freddie Mac

In addition to the above, Freddie Mac will require:

- 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%
 - Calculation: $1 - (\text{actual YTD amount collected} \div \text{budgeted YTD amount}) \leq .05$
- Any documentation used to determine the eligibility of the special assessment, such as the income statement referenced above, must be retained and provided to Freddie Mac upon request
- As a reminder, special assessments with more than 10 monthly payments remaining must be included in the calculation of the monthly housing expense-to-income ratio and must be documented in the Mortgage file

Ineligible Projects

Cardinal will not originate mortgage loans that are secured by units in certain condo projects if those projects exhibit any of the following characteristics. All eligible projects must be created and remain in full compliance with state law and all other applicable laws and regulations of the jurisdiction in which the project is located.

The following are ineligible characteristics for Condos:

- Any condominium project designated as ineligible by the Agency.
- Investment securities - projects that have documents on file with the Securities and Exchange Commission (SEC) or where unit ownership is characterized or promoted as an investment opportunity.

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- Timeshare, fractional, or segmented ownership projects.
 - New projects where the seller is offering a sale or financing structures in excess of Cardinal's eligibility policies for individual mortgage loans.
 - These excessive structures include but are not limited to builder/developer contributions, sales concessions, HOA assessments, or principal and interest payment abatements, and/or contributions not disclosed on the settlement statement.
 - Projects with mandatory upfront or periodic membership fees for the use of recreational amenities, such as country club facilities and golf courses, owned by an outside party (including the developer or builder). Membership fees paid for the use of recreational amenities owned exclusively by the HOA or master association are acceptable.
 - Projects that are managed and operated as a hotel or motel, even though the units are individually owned. For further information, see the section below.
 - Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize the property.
 - Projects with property that is not real estate, such as houseboat projects.
 - Continuing care facilities.
 - Projects with non-incidental business operations owned or operated by the HOA including, but not limited to, a restaurant, spa, or health club. (See section below for additional detail and exceptions to this policy)
 - Projects that do not meet the requirements for live-work projects.
 - Projects in which the HOA or cooperative corporation is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project. For further information, see the section pending litigation.
 - Any project that permits a priority lien for unpaid common expenses in excess of Fannie Mae's priority lien limitations.
 - Projects in which a single entity owns more than the allowable percentage or number of units. See [Ownership by a Single Entity](#) for more information.
 - Multi-dwelling unit projects that permit an owner to hold title (or stock ownership and the accompanying occupancy rights) to more than one dwelling unit, with ownership of all of his or

her owned units (or shares) evidenced by a single deed and financed by a single mortgage (or share loan).

- The total space that is used for non-residential or commercial purposes may not exceed 35%.
- 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 not in full compliance with state law and any other applicable laws or regulations of the jurisdiction in which the project is located.

Projects in Need of Critical Repairs

Projects in need of critical repairs are those needing repairs or replacements that significantly impact the safety, soundness, structural integrity or habitability of the project's building(s), or the financial viability or marketability of the project.

These requirements apply to all loans secured by units in condo projects (condo loans) and all cooperative share loans secured by share ownership in a co-op project (co-op share loans) with five or more attached units, **regardless of the project review type**. The requirements also apply to loans eligible for delivery under the waiver of project review, or exempt from review.

Critical repairs include conditions such as:

- Material deficiencies, which if left uncorrected, have the potential to result in or contribute to critical element or system failure within one year;
- Any mold, water intrusions or potentially damaging leaks to the project's building(s);
- Advanced physical deterioration;
- Any project that failed to pass state, county, or other jurisdictional mandatory inspections or certifications specific to structural safety, soundness, and habitability; or
- Any unfunded repairs costing more than \$10,000 per unit that should be undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through a special assessment)

Examples of some items to consider include, but are not limited to, sea walls, elevators, waterproofing, stairwells, balconies, foundation, electrical systems, parking structures or other load-bearing structures.

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 project, then these requirements do not apply.

Routine repairs are not considered to be critical and include work that is:

- Preventative in nature or part of normal capital replacements (for example, focused on keeping the project fully functioning and serviceable); and
- Accomplished within the project's normal operating budget or through special assessments that are within guidelines

A project with an evacuation order due to an unsafe condition, either for a partial or total evacuation of the project's building(s), is ineligible until the unsafe condition has been remediated and the building(s) is deemed safe for occupancy.

Special Assessments for Critical Repairs

Special assessments may be current or planned. Obtain and review the following information for each special assessment to determine if it addresses a critical repair:

- What is the purpose of the special assessment,
- When was the special assessment approved and is it planned (approved by the unit owners, but not yet initiated by the board) or already being executed,
- What was the original amount of the special assessment and the remaining amount to be collected, and
- When is the expected date the special assessment will be paid in full

If the special assessment is associated with a critical repair and the issue is not remediated, the project is ineligible.

Inspection Reports

If a structural and/or mechanical inspection was completed within 3 years of the lender's project review date, the lender must obtain and review the inspection report. The report cannot indicate that any critical repairs are needed, no evacuation orders are in effect, and no regulatory actions are required.

If the inspection report indicates there are unaddressed critical repairs, the project is ineligible until the required repairs have been completed and documented accordingly. The lender must review an engineer's report or substantially similar document to determine if the repairs completed have resolved the safety, soundness, structural integrity, or habitability concerns of the project.

Documentation

Lenders may need to review a combination of documents to determine if a project meets physical condition requirements, starting with the information captured in the Homeowner's Association Certification - Limited Review or Homeowner's Association Certification - Full Review.

Examples of this documentation include, but are not limited to:

- HOA board meeting minutes,
- Engineer report(s),
- Structural and/or mechanical inspection reports,
- Reserve studies,
- A list of necessary repairs provided by the HOA or the project's management company,
- A list of special assessments provided by the HOA or the project's management company, and
- Other substantially similar documentation

CPM

CPM will be updated the weekend of Sept. 15, 2023, with new data elements related to critical repairs, material deficiencies, significant deferred maintenance, inspection reports, evacuation orders, and special assessments.

For all unexpired CPM project eligibility certifications, the lender must update the certification with the new data requirements for loan applications dated on or after Sept. 18, 2023. The new data requirements apply to all initial project review submissions to CPM on and after Sept. 18, 2023, regardless of the loan application date.

Loans with application dates prior to Sept. 18, 2023 for which the lender has an unexpired project review in CPM completed prior to that date, may be underwritten in accordance with the unexpired CPM certification.

Pending Litigation

Fannie Mae and Freddie Mac

Projects where there is pending litigation need to be reviewed carefully as the outcome of the litigation can affect the safety and soundness of the project improvements or the financial soundness of the HOA overall.

If the project is in dispute either by litigation, arbitration, or mediation where the reason involves the safety, structural soundness, or habitability of the project, the project is ineligible. The project is eligible if pending litigation involves minor matters with no impact on the safety, structural soundness, habitability, or functional use of the project. The project is eligible provided the litigation is limited to one of the following categories:

- Non-monetary litigation involving neighbor disputes or rights of quiet enjoyment
- Litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the HOA's 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
- 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. Documentation to support the litigation meets criteria for minor litigation must be obtained (E-mail or letter from HOA or managing agent or their attorney detailing what current litigation involves, litigations current status, and whether insurance carrier is defending)

Note: Litigation that involves personal injury or death does not meet Fannie Mae's criteria for minor litigation unless all of the following are met:

- The claim amount is reasonably anticipated or known and described within a valid estimate, summary document or other written document,
- 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 is 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.

Higher Ground Litigation

Fannie Mae

FNMA will accept loans secured by units in condominium projects in Nevada subject to Higher Ground Litigation; loans may be processed and warranted according to standard procedures,

Freddie Mac

Freddie Mac will accept loans secured by units in condominium projects in Nevada subject to Higher Ground Litigation, however, a single unit project exception must be submitted through Cardina's Project Underwriter.

Ownership by a Single Entity

No individual, or a single entity such as an investor group, partnership or corporation may own more than the following total number of units in the project:

Units in Project	Number of Units Permitted FNMA	Number of Units Permitted Freddie Mac
Less than 5	N/A	1
5 to 20 units	2 units	2 units
21 or more units	No more than 20% of the total number of units in the project	No more than 25% of the total number of units in the project

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, 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, with the goal of reducing the concentration
- The single entity is current on all HOA assessments; and
- There are no pending or active special assessments in the project

When units are owned by the developer or sponsor are currently subject to any lease arrangement which may or may not include a provision for a future purchase of the unit, those units are included in the calculation of total units.

Vacant units owned by the developer or sponsor that are vacant and being actively marketed for sale are not included in the calculation of total units.

Non-Incidental Business Arrangements

Fannie Mae transactions only:

A project is ineligible if the HOA is receiving more than 10% of its budgeted income from the active ownership and/or operation of amenities or services available to unit owners and the general public.

Non-incidental income from the following sources is permitted as long as income does not exceed 15% of the project's budgeted income from:

- income from the use of recreational amenities or services owned by the HOA for the exclusive use of 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.

Income earned by the homeowners' association that is the result of lease agreements with telephone, cable, and internet companies is not considered non-incidental income. The 15% cap (relative to the project's operating budget) does not apply to this type of income.

Hotel or Motel Conversions

Hotel or motel conversions (or conversions of other similar transient properties) are eligible for Fannie Mae, Freddie Mac or Non-Conforming transactions if:

- The project meets the requirements of an established project
- The project all the requirements for full gut rehabilitation project
- All units are residential dwelling units with no hotel or motel units remaining

Projects Subject to Split Ownership Arrangements

Projects subject to Split Ownership Arrangements are ineligible project types. These projects have covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to use the property.

These types of properties include, but are not limited to, the following:

- "Common interest" apartments or community apartment projects that are projects or buildings owned by several owners as tenants-in-common or by an association in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment in the building
- Projects that restrict the owner's ability to occupy the unit, even if the project is not being operated as a motel or hotel
- Projects with mandatory or voluntary rental pooling agreements that require unit owners to either rent their units or give management firm control over the occupancy of the units. These are formal agreements between the developer, association, and/or the individual unit owners that obligate the unit owner to rent the property on a seasonal, monthly, weekly, or daily basis. In many cases, the agreements include blackout dates, continuous occupancy limitations, and other such use restrictions. In return, the unit owner receives a share of the revenue generated from the rental of the unit.

Hotel and/or Condotel Characteristics

Projects with the following characteristics are considered hotel or condotel projects and are not eligible projects:

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- The project is managed and operated as a commercial hotel, even if the units are owned individually
 - If the project restricts the owner's ability to occupy the unit
 - The project legal documents refer to "condominium hotel" or "condotel" (if the project name includes the name of a "branded" hotel, this is an indication that the project is likely a condotel)
 - The project operates or advertises itself as a hotel, resort, inn, motel, lodge or similar type of hospitality entity such as:
 - Including the terms hotel, resort, inn, motel or lodge in its name
 - Has a website that presents itself as a hotel, resort, inn, motel, lodge or similar type of hospitality entity
 - Has units available or advertised for rent through a web site that offers travel services
 - The project is located at the same address or within the same project as a hotel, resort, inn, motel, lodge or similar type of hospitality entity
 - The project has affiliation or agreement with a hotel, resort, inn, motel, lodge or similar type of hospitality entity and the entity offers rental management or registration services for any unit owner within the project
 - The project is located in a resort area
 - The Condominium Project, the homeowners association (HOA) and/or the HOA's property management company or agent facilitates, receives revenue from, or pays expenses or taxes for hotel type services or the renting of Condominium Units on a transient basis
 - Unit owners of the project share common elements including amenities with a hotel, resort, inn, motel, lodge or similar type of hospitality entity Hotel type operations including but not limited to:
 - Access to individual units is controlled through a centralized key system
 - There are restrictions on interior decorating or furnishings, or the units are sold "fully furnished," or the purchasers must choose from a list of "approved" furniture, floor and wall coverings for the units
 - Units have interior doors that adjoin other units
 - Units contain lockable storage closets, cabinets, safes and mini-bars

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- Room service or food and beverage services are available to unit owners
 - Signage is present indicating whether there are vacancies
 - On-site hotel-type registration services supporting daily rentals is present
 - Advertising for rental rates in the project are evident
 - A central telephone system is present in the project
 - Daily unit-cleaning service
 - Units in the project do not contain full-sized kitchen appliances
 - Franchise agreements are present
 - Owner-occupancy rates are low with either have few or even no owner occupants
 - Revenue-sharing agreements that allow the unit owners to receive either:
 - A share of the net rental income applicable to the individual owner's unit
 - A share of the income from the net aggregate income produced from the rental of the units in the project or rental pool (or other commercial activities of the project)

To ensure that the project is not a Hotel/Resort (condotel) Project, the underwriter must review the resources listed below as part of their due diligence and include this documentation in the loan file delivered:

- All Project legal and recorded documents and exhibits
- Internet websites, especially websites for the project itself, the project developer, the entity marketing the project if other than the project developer, and press releases about the project. Printouts of the results of Internet searches must be retained in the loan file
- Sales Contract
- Appraisal report

A thorough examination must be conducted on the appraisal, contract for sale, and other documents to determine if there are guaranteed rent-backs, references to mandatory rental pooling or management agreements, and SEC filing references and prospectus documents.

The project's website may contain information on the project type, amenities, and the availability of units for rent. Internet searches may identify unit owners offering their units for short-term rentals within the subject property's project. As long as the project is not being operated as a hotel or motel and the units

are not subject to mandatory rentals or to optional leasing programs to a hotel or motel, then the advertising of a unit for short-term rental by the unit owner does not, alone, constitute the project as a hotel or motel. The underwriter is responsible for fully evaluating the project to understand if the practice of offering short-term rentals by unit owners is organized in such a way that the project's predominant use is to operate as a hotel or motel.

Projects with Property that are NOT Real Estate

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

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

Continuing Care Communities

Units in a project that operates, either wholly or partially, as a continuing care community are ineligible for financing by Cardinal. These communities or facilities are residential projects designed to meet specialized health and housing needs and typically require residents to enter into a lifetime contract with the facility to meet all future health, housing, or care needs. These communities may also be known by other names, such as life-care facilities.

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

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

Commercial Space and Mixed-Use

No more than 35% of a condo or co-op project or 35% of the building in which the project is located may be commercial space or allocated to mixed-use. This includes commercial space that is above and below grade. (Fannie Mae requires that projects located in Special Flood Hazard Areas 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.)

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. Rental apartments and hotels located within the project must be classified as commercial space even though these may be considered "residential" in nature. Commercial parking facilities can be excluded from the commercial space calculation.

Freddie Mac

The project budget must provide that the homeowner's association must not receive more than 10% of its budgeted income from the renting or leasing of commercial parking facilities.

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

Non-residential square footage includes:

- retail and commercial space, and
- space that is non-residential in nature and owned by a private individual or entity outside of the HOA structure.

Examples include, but are not limited to:

- rental apartments,
- hotels,
- restaurants, and
- private membership-based fitness facilities

Non-residential square footage excludes amenities that are:

- residential in nature;

- designated for the exclusive use of the residential unit owners (such as, but not limited to, a fitness facility, pool, community room, and laundry facility); and
- owned by the unit owners or the HOA

The following table shows which commercial or mixed-use space must be included in the calculation of the percentage of commercial space.

If the commercial or mixed-use space is	Then its square footage is included in the calculation of commercial space percentage
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 Example: 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 Example: <ul style="list-style-type: none"> ● floors 1 to 4 consist of hotel and retail, ● floors 5 to 7 consist of privately-owned and -managed rental apartments, and ● the remaining floors consist of the 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
Owned and controlled by a project HOA other than the subject property’s HOA that shares the same master HOA with the subject property’s HOA BUT the commercial space is located in a building that is separate from the building(s) containing the project’s residential units	No

Live-Work Projects

Live-work projects are projects that permit individual residential unit owners to operate and run a small business from their residential unit. Units in projects that permit live-work arrangements are eligible provided the following additional requirements are met:

- The overall character of the project is residential
- Live-work units must be limited to residential units that are occupied as primary residences in which the unit owner is the owner and operator of the small business
- The live-work unit must be primarily residential in character with minimal space designated to or modifications made to accommodate the unit owner's commercial activity
- The commercial use must be consistent with the residential nature of the project
- The project documents must permit commercial use and state what types of commercial use are acceptable
- The project must conform to any applicable local ordinances governing the structure and operation of live-work projects including limitations on the number of live-work units or the percentage of live-work unit space permitted

Additional Requirement for Freddie Mac and Non-Conforming: The primary use of the live-work condominium unit must be residential and the non-residential use is secondary, in addition to the overall character of the project.

The live-work component of the project must be considered and adequately addressed in the appraiser's assessment of the property. All of the following requirements must be met:

- The appraisal must include an adequate description of the live-work characteristics of the project and the unit
- The market value of the unit is primarily a function of its residential characteristics, rather than of the business use or any special business-use modifications that were made
- The future marketability of the unit will not be negatively impacted by the business use or any special business-use modifications that have been made

Multi-Unit Dwelling Projects

Condo and Co-op projects that contain multi-dwelling units are not permitted. These projects allow an owner to hold title (or share ownership and the accompanying occupancy rights) to a single legal unit

that is subdivided into multiple residential dwellings within the single legal unit, with ownership of the unit (or shares) evidenced by a single deed and financed by a single mortgage (or share loan). The subdivided units are not separate legal units. This restriction applies regardless of whether the unit owner maintains one or more of the subdivided units as rental units or uses one or more of the subdivided units as accessory or lock-out units. PUD's containing multi-dwelling units are eligible for financing.

This provision does not apply to condo or cooperative projects that allow an individual to buy two or more individual legal units with the intent of structurally and legally combining the units for occupancy as a single-unit dwelling. To be eligible for financing units in these types of projects all of the following requirements must be met:

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

Combined Condominium Unit Requirements

When individual adjoining units are combined to function as one contiguous living space the following requirements apply for Conforming and Non-Conforming transactions secured by units that have been previously combined to function as one contiguous living space provided construction has been completed and the combined units meet all other requirements

Requirements

- Appraisal report must be prepared based on the combination of units with all work completed
- Combined unit must functionally appear as one unit
- Written permission from the Condominium Association to combine the units is required
- Condominium must assign a single unit designation (mailing address) to the newly combined single unit

Priority of Common Expense Assessments

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

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

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

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

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

Shared Amenities

For all project reviews, shared amenities are permitted when two or more HOAs share amenities for the exclusive use of the unit owners. The associations must have an agreement in place governing the arrangement for shared amenities that include the following:

- Description of the shared amenities subject to the arrangement

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- Description of the terms under which unit owners in the project may use the shared amenities
 - Provisions for the funding, management, and upkeep of the shared amenities, and
 - Provisions to resolve conflicts between the associations over the amenities

Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools.

Project Eligibility Review Service (PERS)

As an alternative to the standard project approval documentation, Cardinal may accept a FNMA PERS Final Project Approval along with the following documentation:

- Copy of the state list from Fannie Mae indicating the approval
- Insurance Declaration Page
- Flood Determination Certificate
- Flood Insurance form (if applicable)
- Documentation of annual HOA dues

PERS approval can be documented by copying the PERS Final Project Approval list for the applicable state located at [efanniemae.com](https://www.efanniemae.com). PERS approval is valid for up to 180 days. Cardinal will not initiate a PERS review.

Environmental Hazard Assessments

An environmental hazard assessment is required for condo and cooperative projects if an environmental problem is identified during project underwriting or due diligence. If environmental problems are identified, the problems must be determined to be acceptable by Cardinal's Credit Committee. A copy of the assessment must be retained in the loan file.

Phase I Assessment

A Phase I assessment is used to quickly determine whether adequate information exists to evaluate the environmental status of a property. A Phase I assessment is a screening process that focuses on reviewing the available documentation, interviewing people who are knowledgeable about the site operations, and inspecting the site, the building, and adjoining properties. Cardinal will not conduct onsite inspections; therefore, if the available documentation indicates there is a potential environmental

hazard, an environmental assessment by a qualified consultant must be obtained. Cardinal will not initiate such an assessment.

Phase II Assessment

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

The consultant may not be affiliated with the buyer or seller of the property or a firm engaged in a business that might present a conflict of interest. The consulting firm's personnel must have adequate and appropriate education and training to carry out the required duties.

Cardinal does not specify an exact format for the consultant's report. Any report that is thorough and professionally prepared will be acceptable. The report must include:

- Include a full description of the sampling procedure
- Include the laboratory results
- Include the consultant's recommendations
- Follow all regulatory standards and good management practices at all times, especially when physical sampling and laboratory analysis are involved
- Include a certification in the report that:
 - The assessment was performed diligently and in accordance with all regulatory and good management standards; and
 - to the best of the consultant's knowledge, the results are complete and accurate
 - Include the signature of an officer of the consulting firm that conducted the work

Kinds of Testing and Sampling for Phase II Assessments

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

- Investigating the status of any enforcement actions related to neighboring properties under the Superfund or Resource, Conservation, and Recovery Acts

- Testing for underground storage leaks
- Sampling and analyzing the soil
- Sampling and analyzing the groundwater
- Testing soil or facilities that are suspected as being contaminated by polychlorinated biphenyls
- Sampling and analyzing bulk asbestos and developing related abatement and maintenance programs, if necessary

Unacceptable Environmental Hazards

The existence of one or more unacceptable environmental conditions generally will result in a project being ineligible. However, if the underwriter believes that the relative risk is minimal or can be managed, an exception from Cardinal's Credit Committee and the applicable investor may be requested.

Examples of unacceptable environmental conditions include, but are not limited to:

- A property that is (or has been) used as a landfill or other solid, hazardous, or municipal waste disposal site
- A property that is (or has been) used for activity related to the storage of oil, hazardous waste, or other toxic substances—except that the property may have been used for the storage of small quantities of hazardous substances that are generally recognized as appropriate for residential uses and maintenance of the property
- A property that is the subject of outstanding environmental or public health litigation or administrative action from private parties or public officials
- A high-risk neighboring property that has evidence of hazardous waste spills or soil or groundwater contamination on or around its site
- A property that has documented soil or groundwater contamination and/or a documented tank leak that is leaking at more than 0.05 gallons per hour (which is the National Fire Protection Association's standard)
- A property with soil sampling that has values for metal in excess of the following concentration limits in parts per million (ppm):
 - chromium: 100 ppm
 - arsenic: 20 ppm

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- zinc: 350 ppm
 - cadmium: 3 ppm
 - lead: 100 ppm
 - nickel: 100 ppm
 - copper: 170 ppm
 - selenium: 20 ppm
 - A property that is contaminated from polychlorinated biphenyls (PCBs)
 - A property oil sampling that has values for other organic materials in excess of the following concentration limits in parts per million (ppm):
 - total volatile organics: 1 ppm
 - total hydrocarbons: 100 ppm
 - total petroleum hydrocarbons: 100 ppm
 - A property with groundwater sampling that has values for other organic materials in excess of the following concentration limits in parts per million:
 - total organics (volatiles and base neutrals): 0.10 ppm
 - total petroleum hydrocarbons: 1.00 ppm
 - A property with groundwater sampling that has values for metals in excess of the following concentration limits in parts per million:
 - arsenic: 0.05 ppm
 - lead: 0.05 ppm
 - boron: 1.00 ppm
 - mercury: 0.002 ppm
 - cadmium: 0.01 ppm
 - selenium: 0.01 ppm
 - chromium: 0.05 ppm

- silver: 0.05 ppm
- A property with high radon levels (e.g., above four picocuries per liter) that can be corrected only through large capital improvements or extensive ongoing maintenance programs that are beyond the financial or technical abilities of the HOA or cooperative corporation for the project
- A property that has conditions representing material violations of applicable local, state, or federal environmental or public health statutes and laws
- A property that is contaminated by friable asbestos-containing materials

Remedial Actions for Environmental Hazards

Properties that fail to meet a particular standard may be corrected through remedial actions and then retested. Remedial actions must be undertaken with the advice and written endorsement of a qualified environmental consultant. All remedial actions must be taken in accordance with all regulatory and good management standards. Any needed actions must be completed and certified by the original environmental consultant prior to Cardinal considering the project for approval. Any and all reports of completion must be reviewed by the Credit Committee before financing will be approved in the project.

Limited Review Process For Established Attached Condominiums

The following guidelines apply to both Fannie Mae's Limited Review and Freddie Mac's Streamline Review; requirements referenced under 'Limited Review' will apply to both agencies unless otherwise noted.

Unit and Project Types Eligible for Limited Review

To be eligible for a Limited Review, the unit securing the mortgage must be located in one of the following project types and meet the other criteria described below:

- An attached unit in an established condo project

General Requirements

Limited project reviews may be performed on conventional transactions (Fannie Mae and Freddie Mac) including High Balance, and Non-conforming products.

- An Established condo project must meet all of the following requirements:

- The control of the homeowner's association must have been turned over to the homeowners
- All units, common elements, and amenities must be **100% complete**
- The project cannot be subject to additional phases, or annexation
- Non-conforming transactions must meet either Fannie Mae or Freddie Mac project standards
- At least 90% of the total units in the project must have been conveyed to the unit purchasers
- The project is not an ineligible project. Refer to the [Ineligible Projects](#) section
- Non-realty amenities such as boat docks or cabanas cannot be financed as part of a mortgage
- Subject property is not a manufactured home

Limited Review Ownership Requirements

To be eligible for a limited review, the project must meet the following requirements:

- Common areas and facilities (for example, recreational facilities and parking) must not be subject to a lease between the unit owners or the HOA and any other party
- The developer must not retain any ownership interest in the common elements, facilities, and amenities except as a unit owner
 - Fannie Mae and Non-Conforming loan products: Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable
 - Freddie Mac loan products: Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are not acceptable
- The unit owners are the sole owners of, and have the right to, the use of common elements including all buildings, roads, parking and amenities
- For all project reviews, shared amenities are permitted, see Shared Amenities
- Control of the homeowners' association has been turned over to the unit owners
- The unit owners must have:

- Undivided fee simple ownership of the land on which the project is located, or
- A leasehold interest in the land on which the project is located. Refer to the Leasehold Estates topic for additional information.

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

Investor Concentration Limits

The underwriter must confirm that the applicable MI company does not have any restrictions or that the subject property meets any restrictions if the LTV is greater than 80%.

Residential Requirements

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 developer must not retain any ownership interest in the common elements, facilities, and amenities except as a unit owner.

- For Fannie Mae and Non-Conforming loan products: Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable
- For Freddie Mac loan products: Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are not acceptable
- The unit owners are the sole owners of and have the right to the use of the common elements including all buildings, roads, parking, and amenities.

Commercial Space

Commercial use within the project should not exceed 35% of the total square footage for the project and should not interfere with residential use (this includes mixed-use and live-work condominiums). See

[Mixed or Commercial Income Use](#) for information on calculating the commercial space and additional considerations.

Live Work Requirements

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 following additional requirements in the [Live-Work Projects](#) sections are met.

Unpaid Homeowners Association Assessments (HOA)

To be eligible for project approval, the HOA covenants must state that any first mortgagee that obtains title to a unit pursuant to the remedies in the mortgage or through foreclosure will only be liable for the greater of six months (or the maximum amount permitted under applicable state law) of:

- The unit's unpaid regularly budgeted assessments or
- Any charges accrued before acquisition of the title to the unit by the mortgagee

Liabilities in excess of six months are acceptable for deed-in-lieu of foreclosure transactions; however, Cardinal will not agree to accept the additional liability.

If the Homeowners Association lien priority includes the costs of collecting unpaid assessments, Cardinal will not be liable for any fees or costs related to the collection of the unpaid assessments.

Limited Review Maximum LTV/CLTV

All States Except Florida		
Fannie Mae	Freddie Mac	Non-Conforming
Primary: 90/90% Second Home: 75/75% Investment: 75/75%	Primary: 90/90% Second Home: 75/75% Investment: 75/75%	Primary: 85/85% Second Home: 75/75% Investment: Not Eligible
Florida Properties		
Fannie Mae/Freddie Mac		Non-Conforming
Primary 75/90% Second Home 70/75% Investment 70/75%		Primary 75/75% Second Home 70/70% Investment Not eligible

Maximum allowed LTV/CLTV is the lower of the table above or Cardinal product guide. See the applicable Product Guide for credit characteristics of the transaction, including but not limited to FICO and DTI requirements.

Ineligible Transactions

- Refer to the [Ineligible Projects](#) for additional ineligible characteristics

Required Documentation

The following documentation is required to perform a limited review:

- Homeowner's Association Certification - Limited Review
 - Effective for TRID application dates on or after September 18, 2023, this questionnaire is **mandatory**.
 - This questionnaire is available in the system of record for the loan, or the Octane Library
- Individual Condominium Appraisal Report (Form 1073/465/466), if applicable
- Insurance Declaration Page
- Flood Determination Certificate

Environmental Hazard Requirements

An environmental hazard assessment is required for condominium projects if an environmental problem is identified through project underwriting or due diligence. If environmental problems are identified, the problems must be determined to be acceptable. Refer to Environmental Hazard Requirements for details

Full Review Process

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

Note: for applications dated on or after July 1, 2023, Fannie Mae will require the use of Condo Project Manager (CPM) for all condo projects being reviewed under the Full Review process to determine project eligibility (certain projects will remain exempt from the required use of CPM).

Unit and Project Types Eligible for A Full Review

A Full Review may be performed when the unit securing the mortgage is an attached unit located in one of the following project types:

- An established condo project
- A new or newly converted condo project

A Full Review may also be performed when the property securing the mortgage is a manufactured home in an established condo project that is not subject to a community land trust, deed restriction leasehold estate, or shared equity arrangement. These projects may also be reviewed by Fannie Mae through the PERS process.

Two- to-four unit condo projects reviewed using the Full Review process must comply with all requirements of the Full Review unless specifically stated otherwise.

Condo Project Manager

Condo Project Manager (CPM) may be used to assist in the Full Review of a project, (except for projects containing manufactured homes). CPM is a web-based tool designed to help the project underwriter determine if a project meets Fannie Mae's eligibility requirements. When CPM is used as part of the project review, the project underwriter must document the loan file with the CPM decision by including the unexpired CPM Certification in the file.

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

Project Underwriters may access the CPM on [Fannie Mae's website](#). Projects reviewed using CPM may be delivered to Freddie Mac; see the applicable review type and property type for any limitations.

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

Full Review of Established Condominium Projects

General Requirements

The subject property must be located in an established project and may not be proposed construction, new construction, or a new conversion.

The condominium project must meet the definition of an Established Project:

- Control of the homeowner's association must have been turned over to the homeowners, and
- At least 90% of the total units in the project must have been conveyed to the unit purchasers, and
- All units, common elements, and amenities must be complete.
- Non-realty amenities such as boat docks or cabanas cannot be financed as part of a mortgage
- The project is not an ineligible project. Refer to the [Ineligible Projects](#) section of the guide for more information.
- The subject unit in a condominium project must be available for immediate occupancy at the time of the closing of the Mortgage
- There may not be any manufactured homes in the project

Conversions

For a conversion, please see the Conversion Requirements in the New and Newly Converted section of the guide.

Ownership or Established Condominium Projects

The subject property can be a primary residence, second home, or an investment property. Refer to the Ownership by a Single Entity section. The unit owners must be the sole owners of and have the right to the use of the common elements including all buildings, roads, parking, and amenities.

The developer must not retain any ownership interest in the Common Elements, facilities, and amenities, except as a unit owner.

For Fannie Mae and Non-Conforming loan products: Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.

For Freddie Mac loan products: Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are not acceptable.

- The unit owners must have an undivided fee, simple ownership of the land on which the project is located, or a leasehold interest in the land on which the project is located. Refer to the Leasehold Estates topic for additional information.
- The borrowers must have marketable title to the condominium unit
- Parking spaces that are real property and are purchased as part of the condominium unit may be financed as part of the mortgage. Also, the cost of the parking space may be included when determining the sales price and loan-to-value ratio
- At least 90% of the total units in the project must be conveyed (sold and closed) to purchasers as primary residences or second homes

Shared Amenities

For all project reviews, shared amenities are permitted if the amenities meet the requirements in the [Shared Amenities](#) section.

Investor Concentration Limits/Owner Occupancy Requirements

The underwriter must confirm that the applicable MI company does not have any restrictions or that the subject property meets any restrictions if the LTV is greater than 80%.

Residential Requirements Established Condominium Projects

The condominium project must be located on one contiguous parcel of land, although a public street may run through the project, and the structures within the project should be within 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
- All projects must comply with Deed Restriction requirements: Collateral General Requirements/Property Resale (a.k.a. Deed or Inclusionary Zoning) Restrictions
- Separate metering of individual units is recommended but not generally required. For projects in which the units are not separately metered, the underwriter must:

- Determine that having multiple units on a single meter is common and customary in the local market where the project is located, and confirm that the project budget includes adequate funding for the utility payments
- The project cannot be subject to additional phasing or annexation

Commercial Space

Commercial use within the project should not exceed 35% of the total square footage for the project and should not interfere with residential use (this includes mixed-use and live-work condominiums).

Calculation of Commercial Space

See [Commercial Space and Mixed-Use](#) for information on how to calculate the commercial space and additional considerations.

Live-Work Requirements

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 following additional requirements in the [Live Work Projects](#) sections are met.

Budget Requirements

The project's operating budget must be consistent with the nature of the project, and appropriate assessments must be established to manage the project.

- The condo project budget must be for the current fiscal year
- There must be appropriate allocations for line items pertinent to the type and status of the condominium project
- At least 10% of the operating budget must provide funding for replacement reserves for capital expenditures and deferred maintenance based on the project's age and estimated remaining life, and the quality and replacement cost of major common elements
 - To determine whether the association has a minimum annual budgeted replacement reserve allocation of 10%, divide the annual budgeted replacement reserve allocation by the association's annual budgeted assessment income (which includes regular common expense fees).

- The following types of income may be excluded from the reserve calculation:
 - Incidental income on which the project does not rely for ongoing operations, maintenance, or capital improvements;
 - Income collected for utilities that would typically be paid by individual unit owners, such as cable TV or Internet access;
 - Income allocated to reserve accounts; and
 - Special assessment income
- Freddie Mac
 - An HOA must not receive more than 10% of its budgeted income from the rental or leasing of commercial parking facilities

Replacement Reserves Studies

Reserve studies may be used to determine the appropriate level of reserves the HOA must maintain to ensure the project's long-term success. Reserve studies will also provide useful information regarding the adequacy of the HOA's current reserve funds and offer recommendations to meet funding goals in the event the HOA has under-reserved for its needs in the past.

- A reserve study can be used when the budget does not provide funding for 10% reserves when the reserve study meets the following conditions:
 - Was completed on the entire project within three years of the date of project review and approval
 - Was prepared by an independent third party that has specific expertise in completing reserve studies. This expertise may include any of the following:
 - A reserve study professional with reserve study credentials,
 - A construction engineer,
 - A certified public accountant who specializes in reserve studies, or
 - Any professional with demonstrated knowledge of and experience in completing reserve studies.

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- Demonstrates that the project's funded reserves meet or exceed the recommendations included in the reserve study
 - Verifies the project has adequate funded reserves that provide financial protection for the project equivalent to Fannie Mae and Freddie Mac standard reserve requirements
 - Must comment favorably on the project's age, estimated remaining life, structural integrity and the replacement of major components
 - Must meet or exceed the requirements set forth in any applicable state statutes
 - The reserve study must include:
 - An inventory of major components of the project,
 - Financial analysis and evaluation of current reserve fund adequacy, and
 - Proposed annual reserve funding plan
 - Note: If the underwriter relies on a reserve study that meets the requirements of this section, the project's budget must contain appropriate allocations to support the costs identified in the study.
 - When the budget review does not verify adequate funding for replacement reserves, insurance deductibles, and funds for utilities that are not separately metered, Cardinal may issue an approval under the Limited Review for Established Condominium Projects - Attached guidelines. The project and transaction must meet all Limited Review for Established Condominium Projects - Attached guidelines, and the following additional requirements must be met:
 - HOA's current reserve account bank statement must reflect funds that equal at least the aggregate of:
 - 10% of the current income; and
 - Insurance deductibles; and
 - Funds for utilities that are not separately metered; and
 - Any projected losses reflected on budget
 - There must be adequate funding for insurance deductible amounts if the insurance is paid by the homeowners association

- Confirm that the project budget includes adequate funding for utility payments, if utilities are not separately metered.

Unpaid Homeowners Association Assessments

To be eligible for project approval, the HOA covenants must state that any first mortgagee that obtains title to a unit pursuant to the remedies in the mortgage or through foreclosure will only be liable for the greater of six months (or the maximum amount permitted under applicable state law) of:

- The unit's unpaid regularly budgeted assessments or
- Any charges accrued before acquisition of the title to the unit by the mortgagee

Liabilities in excess of six months are acceptable for deed-in-lieu of foreclosure transactions; however, Cardinal will not agree to accept the additional liability.

If the Homeowners Association's lien priority includes the costs of collecting unpaid assessments, Cardinal will not be liable for any fees or costs related to the collection of unpaid assessments.

When greater than 15% of the total number of units in a project are 60 or more days delinquent on the payment of their Homeowners Association assessments, Cardinal may issue an approval under the Limited Review for Established Condominium Projects - Attached guidelines. The project and transaction must meet all Limited Review for Established Condominium Projects - Attached guidelines and the following additional requirements must be met:

- The HOA's current operating reserve account bank statement must reflect funds that equal at least the total dollar amount of delinquent dues

Legal Requirements

The condominium project has been created and exists in full compliance with all applicable State laws, the requirements of the jurisdiction in which the condominium project is located, and all other applicable laws and regulations.

When the project documents allow the Homeowners Association to retain first right of refusal (i.e. the right to provide a substitute buyers or to have the first option to purchase a unit), that right cannot be

exercised in any way that could be interpreted as unlawful discrimination, or impair the marketability of the units in the project.

Required Documentation

Required documents:

- Homeowner's Association Certification - Full Review
 - This questionnaire is available in the system of record for the loan, or the Octane Library
- Individual Condominium Appraisal Report (Form 1073/465/466)
 - Appraisal Report (Form 1004/70)
 - Forms 2055/1075/2070/2075 are ineligible
- HOA Budget
- Attached Condominium - Master Insurance Policy Declaration Page
- Declaration Page
- Flood Determination Certificate
- Copy of preliminary Title Insurance Policy

The project approval form must be retained in the loan file along with the completed 1008 indicating the Condo/PUD Certification Type and the CPM Number where applicable and the underwriter must sign and date the form.

Environmental Hazard Requirements

An environmental hazard assessment is required for condominium projects if an environmental problem is identified through project underwriting or due diligence. If environmental problems are identified, the problems must be determined to be acceptable. Refer to Environmental Hazard Requirements for details.

Full Review of New and Newly Converted Condominium Projects

General Requirements

A Full Review may be performed when the unit securing the mortgage is an attached unit located in a new or newly converted condo project.

New Condo Project

The condominium project meets the definition of a new or newly converted condominium project if any of the following applies:

- The project is newly converted
- The project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condominium
- Units have been conveyed to the unit purchasers:
 - Fannie Mae: Fewer than 90% of the total units in the project have been conveyed to the unit purchasers
 - Freddie Mac: Fewer than 75% of the total number of units in the project must have been conveyed to the unit purchasers
- Control of the homeowners' association may be with the builder/developer or turned over to the homeowners
- Project is subject to additional phasing

Other Requirements

- Non-realty amenities such as boat docks or cabanas cannot be financed as part of a mortgage
- The project cannot be an ineligible project. Refer to the Ineligible Characteristics for Condominiums
- While Cardinal will not initiate a Project Eligibility Review Service (PERS) review, Fannie Mae's PERS approval is required for the following:
 - All attached new or newly converted condominium projects in the State of Florida

- Any newly converted non-gut rehabilitation project containing 5 or more units
- Individual units in a new condominium project must be available for immediate occupancy at the time of loan closing
- There may not be any manufactured homes in the project

FNMA

The project, or the subject legal phase, must be “substantially complete” unless other completion arrangements have been approved by Fannie Mae through the PERS review process. There may not be more than one legal phase per building.

“Substantially complete” means

- A certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or subject phase; and
- All the units and buildings in the legal phase in which the unit securing the mortgage is located are complete, subject to the installation of buyer selection items, such as appliances

Fannie Mae does not require the installation of typical buyer selection items such as appliances, floor coverings, countertops, or light fixtures that are common and customary for the market, although buyer selections that involve the modification of a unit floor plan must be complete. Appropriate documentation must be obtained to verify that all buyer selection items for the unit being financed are properly installed prior to closing.

At least 50% of the total units in the project or subject legal phase must have been conveyed or be under contract for sale to principal residence or second home purchasers.

- For a specific legal phase or phases in a new project, at least 50% of the total units in the subject legal phase(s), considered together with all prior legal phases, must have been conveyed or be under contract for sale to the principal residence or second home purchasers
- For the purposes of this review process, a project consisting of one building cannot have more than one legal phase

Individual units in new condo projects must be available for immediate occupancy at the time of loan closing

If the project is part of a larger development, and the unit owners are required to pay monthly assessments of more than \$50 to a separate master association for that development, lenders must review the overall development plan for the master association to evaluate the acceptability of the project.

The overall development plan of the project must be reviewed, and the following must be acceptable:

- Consistency of future and existing improvements,
- Time limitations for expansion, and
- Reciprocal easements between legal phases.

For projects (or the subject legal phase) that are only substantially complete rather than 100% complete, lenders must determine that acceptable completion assurance arrangements that guarantee

the future completion of all project facilities, common elements, and limited common elements have been provided. These assurance arrangements may include:

- Cash deposits,
- Letters of credit,
- Assignments of certificates of deposit, or
- Assignments of other assets that can be easily converted to cash.

Similar arrangements must be provided to support assurances against construction and structural defects. The assurances must:

- Protect each unit against defects that become apparent within one year from the date of its settlement and
- Cover all common facilities for one year from the date on which units that represent at least 60% of the votes in the HOA have been transferred

The developer or sponsor should provide for and promote the unit owners' early participation in the management of the project

The project must meet Fannie Mae's Condo Project Legal Document requirements

Freddie Mac

Project Completion Requirements

- The subject legal phase (or the subject building) and any prior legal phases in which units have been offered for sale are substantially complete. "Substantially complete" indicates that the Common Elements are complete, and the units are complete subject to the selection of buyer preference items.
- For the purpose of determining project completion under section 5701.6, a single building can only have one legal phase regardless of whether the Condominium Project is comprised solely of that single building or multiple buildings. Legal phases are defined by the Project Documents. Construction or marketing phases developed for the convenience of the developer are not necessarily legal phases and are not eligible.

<p>Owner-occupancy Requirements for New Condominium Projects</p>	<ul style="list-style-type: none"> • At least 50% of the total units in the project (or at least 50% of the sum of the subject legal phase and prior legal phases) must have been conveyed or must be under contract to purchasers who will occupy the units as their Primary Residences or second homes. • For the purpose of calculating owner-occupancy under section 5701.6, a single building can only have one legal phase regardless of whether the Condominium Project is comprised solely of that single building or multiple buildings. Legal phases are defined by the Project Documents. Construction or marketing phases developed for the convenience of the developer are not necessarily legal phases and are not eligible
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Ownership

The subject property can be a primary residence, second home, or investment property. The developer must not retain any ownership interest in the common elements, facilities, and amenities except as a unit owner.

- For Fannie Mae and Non-Conforming loan products: Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable
- For Freddie Mac loan products: Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are not acceptable
- The unit owners are the sole owners of and have the right to the use of the common elements including all buildings, roads, parking and amenities
- At least 50% of the total units in the project must have been conveyed or under contract as primary or second homes
- Maximum 50% investment concentration
 - LTV's over 80%; Mortgage Insurance Companies may require a lower concentration limit
- The unit owners must have undivided fee simple ownership of the land on which the project is located, or a leasehold interest in the land on which the project is located. Refer to the Leasehold Estates topic for additional information.

Shared Amenities

For all project reviews, shared amenities are permitted if the amenities meet the requirements in the [Shared Amenities](#) section.

Master Association

The overall development plan for the master association must be reviewed to evaluate the acceptability of the project if a new project is part of a larger development, and the unit owners are required to pay monthly assessments of more than \$50 to a separate master association for that development.

When reviewing the overall development plan to determine the project's potential viability, the following must be evaluated:

- Consistency of future and existing improvements
- Time limitations for expansion
- Reciprocal easements between legal phases

These requirements do not apply to 2-4 unit or detached condominium projects.

Residential Requirements

- The project must be located on one contiguous parcel of land. The project may be divided by a public street
- The structures within the project must be within 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, or the subject legal phase, must be “substantially complete.” This means that:
 - A certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or subject phase, and
 - All the units in the building in which the unit securing the mortgage is located are complete, subject to the installation of buyer selection items, such as appliances, floor coverings, countertops, and/or light fixtures. However, buyer selections that involve the modification of a unit floor plan must be complete
 - All common elements, areas, and amenities must also be substantially complete

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- Project may be subject to additional phasing and add-ons
 - Project has demonstrated market acceptance (for example, projects over three years old not fully sold out warrant more in-depth review)

Commercial Space

Commercial use within the project should not exceed 35% of the total square footage for the project and should not interfere with residential use (this includes mixed-use and live-work condominiums).

Calculation of Commercial Space

Commercial use within the project should not exceed 35% of the total square footage for the project and should not interfere with residential use (this includes mixed-use and live-work condominiums). See [Commercial Space and Mixed-Use](#) for information on how to calculate the commercial space and additional considerations.

Live-Work Requirements

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 following additional requirements in the [Live Work Projects](#) sections are met.

Budget Requirements

Follow [Budget Requirements](#) guidelines

Replacement Reserve Study

Follow [Replacement Reserves Studies](#) guidelines

Unpaid Homeowners Association Assessments

To be eligible for project approval, the HOA covenants must state that any first mortgagee that obtains title to a unit pursuant to the remedies in the mortgage or through foreclosure will only be liable for the greater of six months (or the maximum amount permitted under applicable state law) of:

- The unit's unpaid regularly budgeted assessments or any charges accrued before acquisition of the title to the unit by the mortgagee.

Liabilities in excess of six months are acceptable for deed-in-lieu of foreclosure transactions; however, Cardinal will not agree to accept the additional liability.

If the Homeowners Association's lien priority includes the costs of collecting unpaid assessments, Cardinal will not be liable for any fees or costs related to the collection of unpaid assessments.

Legal Requirements

The following requirements must be met on new and newly constructed condominium projects.

- The condominium project has been created and exists in full compliance with the state law requirements of the jurisdiction where the condominium project is located and all other applicable laws and regulations
- Any right of first refusal in the condominium project documents will not adversely impact the rights of a mortgagee or its assignee to:
 - Foreclose or take title to a condominium unit pursuant to the remedies in the mortgage
 - Accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor
 - Sell or lease a unit acquired by the mortgagee or its assignee
- The project documents must give the mortgagee and guarantor of the mortgage on any unit in a condominium project the right to timely written notice of:
 - Any condemnation or casualty loss that affects either a material portion of the project or the unit securing its mortgage;
 - Any 60-day delinquency in the payment of assessments or charges owed by the owner of any unit on which it holds the mortgage;
 - A lapse, cancellation, or material modification of any insurance policy maintained by the homeowners' association; and
 - Any proposed action that requires the consent of a specified percentage of mortgagees
 - Note: For Freddie Mac and Non-Conforming loan products: In addition to the project documents, any applicable insurance policy may also be used to verify the timely written notices.

- No provision of the condominium project documents gives a condominium unit owner or any other party priority over any rights of the first mortgagee of the condominium unit pursuant to its mortgage in the case of payment to the unit owner of insurance proceeds or condemnation awards for losses to or taking of condominium units and/or common elements
- Required provisions related to amendments to project documents are as follows:
 - 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
 - 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
 - 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

Marketing Units in a Condominium Projects

Freddie Mac transactions only: When the project documents allow the Homeowners Association to retain first right of refusal (i.e., the right to provide a substitute buyers or to have the first option to purchase a unit), that right cannot be exercised in any way that could be interpreted as unlawful discrimination, or that could impair the marketability of the units in the project

The sales program developed for marketing units in a project must recognize and provide procedures for complying with all laws pertaining to the advertising and sale of real estate, the form and content of sales contracts and the method for handling deposits connected with the sale.

Maximum LTV/CLTV

See the specific product for limitations.

Presale Requirements

At least 50% of the total number of units in the project must have been conveyed or are under contract to purchasers (other than the developer or a successor to the developer) who occupy or who will occupy their unit as a primary residence or second home. Units that are closed and conveyed or under contract with bona fide purchasers (pre-sold) may be considered as sold

Presale may be based on individual phases if the project is not complete. In a condominium project subject to phasing or additions, a section or phase may be included with other sold sections or phases to meet the presale requirements. If, however, there is evidence that units in the subject phase are not selling at an acceptable rate, prior phases should not be included in determining the presale requirements. Discretion must be used when reviewing large phased projects if construction is still in the early stages

Legal phases are defined by the project documents. For a specific legal phase or phases in a new project, at least 50% of the total units in the subject legal phase(s), considered together with all prior legal phases, must have been conveyed or be under contract to be sold to the owner-occupant principal residence or second home purchasers

No one building can have more than one legal phase; this applies to projects consisting of one or multiple buildings

Conversion Requirements

All rehabilitation work involved in a conversion to a condominium project must be completed in a professional manner

Fannie Mae

- “Gut rehabilitation” refers to the renovation of a property down to the shell of the structure, including the replacement of all HVAC and electrical components (unless the HVAC and electrical components are up to current code).
- For a conversion that was legally created during the past three years, the architect’s or engineer’s report (or functional equivalent), that was originally obtained for the conversion must comment favorably on the structural integrity of the project and the condition and remaining useful life of the major project components, such as the heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc.
- **Note:** If the project is a newly converted non-gut rehabilitation project with more than four residential units, lenders must submit the project to Fannie Mae for review and approval

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 the Seller’s review and determination of project eligibility:

- For a conversion involving a Non-Gut Rehabilitation of 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
 - A Non-Gut Rehabilitation if more than three years have elapsed since the legal creation of the project

Completion and Construction Assurance Arrangements

It must be determined that acceptable completion assurance arrangements have been provided for new projects (or newly converted attached condominium projects) that are only substantially completed.

These include:

- cash deposits,
- letters of credit,
- surety bond
- assignments of certificates of deposit, or
- assignments of other assets that can be easily converted to cash

Similar arrangements must be provided to support assurances against construction and structural defects. The assurances should:

- Protect each unit against defects that become apparent within one year from the date of its settlement, and
- Cover all common facilities for one year from the time when units that represent 60% of the votes in the homeowners' association have been transferred

Unpaid Homeowners Association Assessments

To be eligible for project approval, the HOA covenants must state that any first mortgagee that obtains title to a unit pursuant to the remedies in the mortgage or through foreclosure will only be liable for the greater of six months (or the maximum amount permitted under applicable state law) of:

- The unit's unpaid regularly budgeted assessments or
- Any charges accrued before acquisition of the title to the unit by the mortgagee.

Liabilities in excess of six months are acceptable for deed-in-lieu of foreclosure transactions; however, Cardinal will not agree to accept the additional liability.

If the Homeowners Association's lien priority includes the costs of collecting unpaid assessments, Cardinal will not be liable for any fees or costs related to the collection of unpaid assessments.

Required Documentation

Documents required for review:

- Individual Condominium Appraisal Report (Form 1073/465/466)
- Condo Questionnaire
- Survey/Plat or drawing of the project
- Current Project HOA Budget
- Conditions, Covenants, and Restrictions (CC&R), Amendments, By Laws aka Project Legal Documents
- Insurance Declaration Page
- Flood Determination Certification
- Copy of preliminary Title Insurance Policy
- Architect's, engineer's, or functionally equivalent report if project conversion completed within three years

Smart Document Reference: 221.000 Homeowners Association CC&R

Insurance Requirements

Refer to the insurance requirements section of the guide for additional information and requirements.

Environmental Hazard Requirements

An environmental hazard assessment is required for condominium projects if an environmental problem is identified through project underwriting or due diligence. If environmental problems are identified, the problems must be determined to be acceptable. Refer to Environmental Hazard Requirements for details

Project Eligibility Review Service (PERS)

As an alternative to the standard project approval documentation, Cardinal may accept a PERS Final Project Approval along with the following:

- Copy of the state list from Fannie Mae indicating the approval

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- Insurance Declaration Page
 - Flood Determination Certificate
 - Flood Insurance form (if applicable)
 - Documentation of annual HOA dues

PERS approval can be documented by copying the PERS Final Project Approval list for the applicable state located in efanniemae.com.

Full Review of 2-4 Unit Condominium Projects

General Requirements

The condominium project must meet the definition of a 2-to 4-unit condominium project

Presale Requirements

Freddie Mac and Non-Conforming

At least 50% of the total units in the condominium project have been conveyed or under contract to purchasers (other than the developer) who will occupy their unit as a primary residence or second home. When LTV >80% MI investor concentration requirements may be lower than 50%.

Note: MI investor concentration requirements may be lower than 50%.

When LTV >80% MI presale requirements may be greater than Freddie Mac requirements.

Investor Concentration/Occupancy Requirements (Established Projects)

For investment property transactions in established projects at least 50% of the total units in the project must be conveyed to principal residence or second home purchasers. This requirement does not apply if the subject mortgage is for a principal residence or second home.

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

Conversion Requirements

Also refer to the Conversion Requirements set forth in the New and Newly Converted topic.

Partial non-gut rehabs are permitted on Freddie Mac transactions only.

Transaction Type	Requirements
<p>Fannie Mae and Non-Conforming</p>	<p>If the project is a newly converted non-gut rehabilitation project with more than four residential units, lenders must submit the project to Fannie Mae for review and approval.</p> <p>For newly converted non-gut rehabilitation projects, the following requirements apply when the project does not have a PERS approval:</p> <ul style="list-style-type: none"> ● Current Reserve Study prepared by a qualified, independent professional company and an Engineer's report, or functional equivalent, must comment favorably on the structural integrity of the project and the remaining useful life of the major project components ● Project budget must contain line items for the following: <ul style="list-style-type: none"> ○ Reserves that adequately support the costs identified in the Reserve Study, even if the study recommends budgeting reserves greater than 10% of the project's income ○ Funds to cover the total cost of any items identified in the Reserve Study or Engineer's report that need to be replaced within five years from the date of the study must be deposited in the HOA's reserve account, in addition to the amount stated immediately above ○ Utility contingency of at least 10% of the previous year's utility costs if the utilities are not separately metered <p>For any gut rehab conversion that was legally created during the past three years, the project approver validates an Architect's, Engineer's or functionally equivalent report:</p> <ul style="list-style-type: none"> ● Supports the project is structurally sound and the condition and remaining life of the major project components (roof, elevators and mechanical systems such as HVAC, plumbing, and electricity) are sufficient to meet the residential needs of the project ● Confirms that all necessary repair(s) and rehab work, if applicable, have been completed in a professional manner, and replacement reserves are identified for all capital improvements and noted as adequate by the party evaluating the project

<p>Freddie Mac and Non-Conforming</p>	<ul style="list-style-type: none"> ● All rehabilitation work involved in a conversion (non-gut rehabilitation and gut rehabilitation) to a condominium project must be completed in a professional manner ● For a new non-gut rehabilitation conversion legally created within the past three years, the licensed Engineer (or other appropriately state licensed individual) must state that: <ul style="list-style-type: none"> ○ Project is structurally sound, ○ Condition and remaining useful life of the major project components are sufficient to meet the residential needs of the project(major components include roof, elevators and mechanical systems such as HVAC, plumbing and electricity) <p>Note: A review of the licensed Engineer’s report (or other appropriately state licensed individual) is not required for conversions involving:</p> <ul style="list-style-type: none"> ○ projects that meet Established Criteria ○ a gut rehabilitation, and ○ newly converted two-to-four unit non-gut rehabilitation projects where: <ul style="list-style-type: none"> ■ All units and common elements are completed and; ■ All but one unit has been conveyed to unit owners who occupy their units and primary residence or second home
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Ownership Requirements

The subject property may be a primary residence, second home, or investment property.

- No single entity (the same individual, investor group, partnership, or corporation) may own more than one unit within the project
- The unit owners must have:
 - An undivided fee simple ownership of the land on which the project is located, or
 - A leasehold interest in the land on which the project is located. Refer to the Leasehold Estates topic for additional information.
- The unit owners are the sole owners of and have the right to the use of the common elements including all buildings, roads, parking, and amenities
- Common areas and facilities (for example, recreational facilities and parking) must not be subject to a lease between the unit owners or the HOA and any other party
- The developer must not retain any ownership interest in the common elements

Residential Requirements

Common areas and facilities such as recreational facilities and parking must be consistent with the nature of the project and competitive in the marketplace

All units, common elements, and facilities within the project must be 100% complete and not subject to additional phasing even when the project is a new or newly converted project.

Required Documentation

Required Documents

- Individual Condominium Appraisal Report (Form 1073/465/466).
 - A detached condominium may be appraised using Uniform Residential Appraisal Report (Form 1004/70)
 - Forms 2055/1075/2070/2075 are ineligible)
- Attached Condominium - Master Insurance Policy Declaration Page
- Flood Determination Certificate
- Copy of preliminary Title Insurance Policy
- HOA's Current Fiscal Year Budget is required when more than one unit is not conveyed or under contract to purchasers (other than the developer) who will occupy their unit as a primary residence or second home
- Condominium Questionnaire

Unpaid Homeowners Association Assessments

To be eligible for project approval, the HOA covenants must state that any first mortgagee that obtains title to a unit pursuant to the remedies in the mortgage or through foreclosure will only be liable for the greater of six months (or the maximum amount permitted under applicable state law) of:

- The unit's unpaid regularly budgeted assessments or
- Any charges accrued before acquisition of the title to the unit by the mortgagee.

Liabilities in excess of six months are acceptable for deed-in-lieu of foreclosure transactions; however, Cardinal will not agree to accept the additional liability.

If the Homeowners Association's lien priority includes the costs of collecting unpaid assessments, Cardinal will not be liable for any fees or costs related to the collection of the unpaid assessments.

Insurance Requirements

Refer to the insurance requirements section of the guide for additional information and requirements.

Environmental Hazard Requirements

An environmental hazard assessment is required for condominium projects if an environmental problem is identified through project underwriting or due diligence. If environmental problems are identified, the problems must be determined to be acceptable. Refer to Environmental Hazard Requirements for details

Planned Unit Development Requirements (PUD)

A Planned Unit Development (PUD) is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. For a project to qualify as a PUD for the purposes of this policy, all of the following requirements must be met:

- Each unit owner's membership in the HOA must be automatic and non-severable,
- The payment of assessments related to the unit must be mandatory,
- Common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners, and
- The subject unit must not be part of a condo or cooperative project.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in projects or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects. These projects

- Have no common property and improvements,
- Do not require the establishment of and membership in an HOA, and
- Do not require the payment of assessments.

PUD Project Types

Projects may contain either attached or detached units.

PUD projects are classified as either:

- Type E—established PUD projects in which the developer has turned over voting control of the HOA to the unit purchasers.
- Type F—new PUD projects in which the developer has not turned over voting control of the HOA to the unit purchasers.

PUD projects require approval by a Cardinal Underwriter

General Requirements

Detached PUD

- Confirm the project is a PUD
- If the PUD includes condominiums, follow both PUD standards and condominium standards for project approval
- A PUD Rider should be recorded with the mortgage

Attached PUD

- The Project may not consist of manufactured housing units
- The individual unit securing the mortgage is 100% complete
- Common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners
- If the Planned Unit Development includes condominium units and the subject property is a condo, then the condominium project review requirements must be followed
- A PUD Rider should be recorded with the mortgage

Required Documentation

- Appraisal (1004/70)

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- Insurance declaration page
 - Flood determination certification
 - Copy of preliminary title insurance report/policy (when needed to determine project type)
 - Master policy for flood insurance (if flood insurance is required)
 - Email or letter from HOA or Managing Agent with the following information (when not provided on appraisal):
 - Number of units
 - Description of common amenities
 - Description of recreational facilities

Unpaid Homeowners Association Assessments

To be eligible for project approval any first mortgagee that obtains title to a unit pursuant to the remedies in the mortgage or through foreclosure will only be liable for the greater of six months (or the maximum amount permitted under applicable state law) of:

- Unit's unpaid regularly budgeted assessments or
- Charges accrued before acquisition of the title to the unit by the mortgagee.

Liabilities in excess of six months are acceptable for deed-in-lieu of foreclosure transactions; however, Cardinal will not agree to accept the additional liability.

If the Homeowners Association's lien priority includes costs of collecting unpaid assessments, Cardinal will not be liable for any fees or costs related to the collection of the unpaid assessments

Leaseholds

Condominiums on a leasehold estate are permitted. Refer to the leasehold requirements section of [Chapter 10 | Property and Appraisal Requirements | Conventional Lending Guide](#) for additional information.

Resale Restrictions

Refer to the resale section of the guide for additional information and requirements.

Environmental Hazard Requirements

An environmental hazard assessment is required for condominium projects if an environmental problem is identified through project underwriting or due diligence. If environmental problems are identified, the problems must be determined to be acceptable. Refer to Environmental Hazard Requirements for details

PUD projects are not eligible for review using the PERS process unless they contain single-wide manufactured housing, which does require a PERS submission.

Cooperative Share Loans (Co-op)

A cooperative share loan is secured by a first lien on the cooperative interest granted to a shareholder in a cooperative corporation. The loan is secured by a perfected lien on the cooperative shares and an assignment of the proprietary lease. A cooperative share is the portion of the cooperative corporation that an individual shareholder owns and is evidenced by a stock or membership certificate or another form of contractual agreement. Cooperative share also refers to the evidence of such ownership in any form in which ownership is documented.

Cardinal offers Cooperative Share Loans through the use of FNMA/DU only. For loans utilizing Freddie Mac/LPA, refer to the [Chase Conforming Fixed Co-Op snapshot](#) and related material.

Glossary of Terms

- Cooperative Corporation
 - An entity that holds title to and governs a cooperative project in compliance with applicable law and the cooperative project documents
- Cooperative Housing Corporation
 - A cooperative corporation that meets the requirements of the Internal Revenue Code Section 216
- Cooperative Interest
 - A shareholder's ownership interest in the cooperative corporation that owns the cooperative project, and the right to occupy a specific cooperative unit granted through a proprietary lease. The ownership interest and occupancy right cannot be divided.
- Cooperative Project
 - Real estate owned by a cooperative corporation in fee simple
- Cooperative Project Documents

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- For each cooperative project, the documents that are enforceable by the cooperative corporation and pertain to the following:
 - Formation of the cooperative project
 - Rights and limitations of the sponsor/developer
 - Mortgagee rights
 - Operation and governance of the cooperative corporation
 - Insurance coverage, assessments, fees, rules, regulations and rights of shareholders
 - The cooperative project documents include but are not limited to the bylaws, articles of incorporation, and other governing documents, and recorded agreements, and public offering statement or offering plan, purchase agreement and similar documents
 - Cooperative Unit
 - A 1-unit dwelling located in a cooperative project
 - 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 include:
 - Material deficiencies which, if left uncorrected, have the potential to result in or contribute to critical element or system failure within one year
 - Any mold, water intrusions or potentially damaging leaks to the project's building(s) that have not been repaired
 - Advanced physical deterioration
 - Any project that failed to pass state, county, or other jurisdictional mandatory inspections and/or certifications specific to structural soundness, safety and habitability; or
 - Any unfunded repairs costing more than \$10,000 per unit that should be undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through a special assessment)
 - Examples include, but are not limited to, sea walls, elevators, waterproofing, stairwells, balconies, foundation, electrical systems, parking structures or other load-bearing structures
 - Gut Rehabilitation
 - The repair and restoration of an existing building(s) to its shell

- The rehabilitation involves all new mechanical equipment (such as heating, exhaust, insulation, roofing, plumbing and electrical)
- The renovations include new interiors, fixtures, appliances, and flooring for individual units and common areas
- Maintenance Fees
 - The monthly charge the shareholder pays to the cooperative corporation to cover the cooperative unit's pro rata share of maintenance and operating costs, including reserve funding but not including the cooperative project's debt and taxes
- Non-Gut Rehabilitation
 - The repair and restoration of an existing building(s) that does not involve substantial rehabilitation of the building(s) or individual units or the substantial replacement of mechanical equipment
- Pro Rata Share
 - The proportion of the blanket mortgage, second mortgage, or line of credit if applicable and the cooperative project's real estate taxes that are allocated to a specific cooperative unit
- Proprietary Lease
 - A contract or occupancy agreement between the cooperative corporation and shareholder that sets the conditions for a shareholder's right to occupy a specific cooperative unit, also referred to as an occupancy agreement
- Recognition Agreement
 - A contract between a cooperative corporation and mortgagee or a cooperative share loan that defines such parties' responsibilities and the remedies available to the Seller/Service in the event of default
- Shareholder
 - An individual or entity that owns an interest (cooperative share) in a cooperative corporation, also referred to as a tenant-stockholder or tenant-shareholder

Fannie Mae (FNMA) Requirements

Loan Eligibility for Co-op Share Loans

Co-op share loans finance the purchase or refinancing of the borrower's ownership interest in a co-op housing corporation and accompanying occupancy rights in a residential unit in a co-op project owned by

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

Co-op share loans are eligible provided borrowers occupy the property as a principal residence or second home. Investment properties are prohibited. For the applicable credit score, minimum reserve requirements, and maximum debt-to-income ratio requirements, refer to the [Retail Conforming Fixed and Adjustable Rate Fannie Mae Product Snapshot](#), or [TPO Conforming Fixed and Adjustable Rate Fannie Mae Product Snapshot](#).

Calculating the LTV Ratio for Co-op Share Loans

The method for calculating the LTV ratio for a co-op share loan is based on whether the borrower assumes their pro rata share of the blanket mortgage or does not. In those markets where the borrower assumes their pro rata share of the blanket mortgage, the LTV ratio is determined by dividing the original loan amount by the lower of

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

In those markets where the borrower does not assume their pro rata share of the blanket mortgage, then the LTV ratio is determined by dividing the original loan amount by the lower of

- The sales price for the co-op unit, or
- The appraised value of the co-op stock or shares and the related occupancy rights.

Co-op Share Loans Subject to Flip Tax

Co-op share loans secured by units in co-op projects that require the payment of a "flip tax" are eligible as long as the co-op project's legal documents permit the imposition of a flip tax and provide for one of the following:

- The lender is exempt from paying the flip tax if the lender acquires the co-op unit in foreclosure, in a transfer by the borrower in lieu of foreclosure, or any other transfer of the borrower’s interest in the co-op unit in full or partial satisfaction of the borrower’s obligations under the co-op share loan; or
- The flip tax is payable when the sales price of the co-op unit exceeds the existing unit owner’s purchase price (based on property appreciation) and then is assessed only on the amount of the appreciation in value (this flip tax is profit-based)

If the flip tax does not meet one of these requirements and is due whether or not the sales price exceeds the existing unit owner’s purchase price, then it may still be eligible as long as the amount of the flip tax is less than or equal to 5% of the value of the property (calculated as the lesser of appraised value or sales price) and it is calculated in one of the following ways:

- A flat fee,
- A fee per share,
- A percentage of the appraised value or sales price of the co-op unit, or
- A dollar amount per room

Request for Co-op Project Information

The Co-op Questionnaire and Checklist custom form in Octane includes the project information that may be used in the evaluation of the eligibility of a co-op project, and provides an efficient means of collecting basic project information from co-op project management agents, boards of directors, or sponsors/developers.

Eligibility Requirements for Co-op Projects

Full Review Eligibility Requirements For New and Established Co-op Projects
In order for a co-op share loan to be eligible for sale, the co-op project in which the secured unit is located must qualify as a cooperative housing corporation under Section 216 of the Internal Revenue Service Code.
The co-op housing project must

- Be designed principally for residential use;
- Consist of two or more units; and
- Be located in an area that has a demonstrated market acceptance for the co-op form of ownership, as reflected by the availability of similar comparable sales for co-op units in the market area

The project must be owned in fee simple

The co-op corporation must hold title to the property of the co-op project, including the dwelling units. A type of co-op project that does not meet these requirements is one in which the borrower, not the co-op corporation, owns their dwelling unit in the project. Co-op share loans in these projects are commonly referred to as “land-home” or “land-lease” co-op projects and are not eligible.

The co-op corporation must have good and marketable title to the property, including the dwelling units and amenities. The project premises must be free and clear of liens and encumbrances in accordance with [B7-2-05, Title Exceptions and Impediments](#).

The blanket project mortgage may be a market-rate FHA-insured mortgage or a conventional mortgage.

The blanket mortgage for the project may be a balloon mortgage. The remaining term may not be less than six months. If the balloon mortgage incorporates an adjustable-rate feature, and the remaining term is less than three years but not less than six months, the current interest rate may not be subject to an interest rate adjustment prior to the maturity date.

Fannie Mae purchases or securitizes co-op share loans regardless of whether Fannie Mae owns the blanket mortgage. However, if Fannie Mae owns an interest in the blanket co-op project mortgage, the maximum mortgage amount available to the borrower must be reduced by the portion of the unpaid principal balance of the blanket mortgage(s) that is attributable to the subject unit’s ownership interest.

The co-op project may not be an ineligible project type, regardless of the characteristics of the share loan. See [B4-2.1-03, Ineligible Projects](#).

The project must not be a manufactured housing project, unless the project is approved via the PERS process

The project must meet Fannie Mae's insurance requirements

Co-op projects may be newly constructed or conversions of existing buildings

All newly converted non-gut rehabilitation of co-op share projects must be approved through the PERS process.

A newly converted non-gut rehabilitation co-op project is defined as follows:

- A project for which the building has been recently converted from another use such as, but not limited to, apartment use, hotel building, or warehouse;
- The renovation work did not involve structural or functional changes, such as the replacement of all HVAC and electrical components and was limited to cosmetic or design changes such as painting, flooring, and appliances; and,
- The project meets the criteria for being a new project because any of the following conditions exist with respect to the status of the project:
 - fewer than 90% of the stock or shares have been sold to purchasers;
 - the developer or sponsor is in control of the co-op corporation;
 - the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a co-op; or
 - the project is subject to additional phasing or annexation

The following newly converted projects may be reviewed by the lender through the standard co-op review process rather than being submitted to PERS:

- Any non-gut rehabilitation conversion project that was converted at least three years prior to the co-op share loan note date that is considered “newly converted” solely because more than 20% of the stock or shares are owned by the sponsor as described in the single entity ownership provisions in [B4-2.3-05, Geographic-Specific Co-op Project Considerations](#); and
- Two- to four-unit non-gut rehabilitation conversions

All units, common areas, and facilities within the project must be 100% complete. The project cannot be subject to additional phasing or annexation.

All construction and rehabilitation for the project must be completed in a professional manner prior to closing.

Phase I and II environmental hazard assessments are not required for co-op projects unless the lender identifies an environmental problem through the performance of its project underwriting and due diligence.

In the event that environmental problems are identified, the problems must be determined to be acceptable, as described in [E-2-02, Suggested Format for Phase I Environmental Hazard Assessments](#).

Stock, share, or other contractual agreement evidencing ownership, and the accompanying occupancy rights that represent at least 50% of the total number of stock or shares in the co-op corporation and the related occupancy rights of units in the project must have been sold and conveyed (or, for new construction, must be under contract for sale) to principal residence purchasers.

The project's most recent operating budget, audited financial statements, or corporate tax returns must:

- Be consistent with the nature of the project,
- Provide for adequate cash flow to service the current debt and operating expenses, and
- Provide for adequate replacement and operating reserves

If the most recent budget is not available, the lender may rely on a review of the co-op corporation's most recent audited financial statements or corporate tax returns to determine that the financial requirements in this section have been met.

The project must have a good financial record, with no more than 15% of the owners being more than 60 days past due in the payment of their financial obligations to the co-op corporation.

Note: This includes payment of each special assessment.

If the project is a recipient of subsidies or similar benefits (such as tax or assessment abatements) that will terminate partially or fully within the next three years, the lender must evaluate the impact the expiration of such benefit will have on the project. If the benefit is scheduled to expire within three years from the note date, the lender must include the higher monthly fees in the borrower's monthly liabilities for debt-to-income ratio qualifying purposes.

The project and share loan documentation must comply with any specific legal requirements established for the state in which the project is located.

The units in the project must be owned in fee simple.

The co-op corporation must have the sole ownership interest in the project's facilities, common elements, and limited common elements, except as noted below.

Shared amenities are permitted only when two or more residential projects share amenities for the exclusive use of the unit owners. The associations or corporations must have an agreement in place governing the arrangement for shared amenities that includes the following:

- A description of the shared amenities subject to the arrangement;
- A description of the terms under which unit owners in the project may use the shared amenities;
- Provisions for the funding, management, and upkeep of the shared amenities; and
- Provisions to resolve conflicts between the residential projects regarding the amenities.

Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools.

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 co-op corporation and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.

Freddie Mac (FHLMC) Requirements

Cooperative Project Review Requirements

The cooperative project, the cooperative unit, and cooperative share loan must comply with all eligibility and legal requirements outlined in this section and the Freddie Mac Selling Guide.

Expiration of the Project Review

- **Established Cooperative Project:** Within one year prior to the Note date

- New and Newly Converted Cooperative Project: Within 180 days prior to the Note date

General Cooperative Project Eligibility Requirements

- The project must have insurance that complies with the Insurance requirements outlined in this chapter
- The cooperative unit and project must be covered by a title insurance policy
- The project must be designed primarily for residential use
- The cooperative share loan must be delivered to Freddie Mac within 120 days after the Note date. If not, the project must be updated with full project review and eligibility determination

Ineligible Cooperative Projects

- Any cooperative corporation that does not own the land on which the project is located in fee simple
- Any project that is a cooperative hotel or similar type of transient housing
- Project with multi-dwelling units
- Project with excessive commercial or non-residential space
 - Defined as a project in which more than 35% of its total above and below grade square footage (or more than 35% of the total above and below grade square footage of the building in which the cooperative project is located) is used as commercial or non-residential space.
 - The division of the total commercial or non-residential square footage by the total square footage of the project or building will determine the total amount of commercial or non-residential space.
 - In calculating the amount of commercial or non-residential space, a determination must be made of the total square footage of the project (or the building in which the project is located), the square footage of the commercial or non-residential space, and the residential space square footage.
 - The table below illustrates what must be included or may be excluded from the calculation:

Type of Commercial or Non-Residential Space	Include in Calculation?
Retail and other commercial or non-residential space (i.e. restaurants and stores)	Yes
Residential rental apartments, hotels, motels and other similar types of space, although such space may have residential characteristics	Yes

Non-residential space that the cooperative corporation does not own, but that is owned by a private individual or entity outside of the cooperative corporation (i.e. private fitness facilities that are membership-based rather than owned by the corporation for the sole use of the shareholders)	Yes
The total square footage of commercial or non-residential space even when the cooperative corporation representing the shareholders is different from the association representing the commercial owners	Yes
Commercial parking facilities	No
Project amenities and facilities that are residential in nature, owned by the cooperative corporation and allocated for the sole use of the shareholders	No

- Tenancy-in-Common project
- Timeshare project with segmented ownership
 - An arrangement under which a shareholder receives an interest in real estate and the right to use a unit, amenities, or both, for a specified period and on a recurring basis (such as the 15th week of the year), or ownership that is for a limited period (such as for the subsequent five years)
- Houseboat cooperative project
- Ownership and use of common elements
 - The cooperative corporation must be the sole owner of and the shareholders must have the sole right to the use of the common elements, including all buildings, roads, parking, facilities and amenities. The sponsor/developer must not retain any ownership interest in the common elements, facilities and amenities, except as a holder of unsold shares.
 - Exception: A project with shared amenities is eligible if two or more projects share the amenities (e.g., recreational or fitness facilities, swimming pools and clubhouses) for the sole use of the shareholders. The cooperative corporation must have an agreement specifying:
 - A description of the shared amenities and the terms of the shareholders' permitted use of the shared amenities,
 - How the shared amenities will be funded, managed and maintained; and
 - The method for resolving disputes between the projects regarding the shared amenities.
 - The common elements, including amenities such as parking and recreational facilities, must not be subject to a lease between the cooperative corporation (as lessee) and the sponsor/developer or any affiliate of the sponsor/developer (as lessor).
 - Parking provided under commercial leases or permit arrangements with parties unrelated to the developer are acceptable.

- Project in litigation
 - Exception: If a determination is made that the pending litigation or Alternative Dispute Resolution (ADR) proceeding involves only minor matters that do not affect the safety, structural soundness, functional use or habitability of the project, the project is eligible if the litigation or ADR proceeding is limited to 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;
 - The litigation amount is unknown, but a copy of the complaint or the most recent amended complaint and an attorney letter is provided that supports the determination that the litigation involves minor matters.
 - The attorney letter must state:
 - The reason for the litigation,
 - That the insurance company has committed to provide the defense, and
 - That any potential monetary judgment against the cooperative corporation, or settlement with the cooperative corporation, including punitive damages will likely be covered by the corporation's insurance policy.
 - The matter involves any of the following:
 - A non-monetary neighbor dispute or right of quiet enjoyment, whether litigated or in an ADR proceeding, or
 - A dispute in which the corporation is the plaintiff in a foreclosure action; or
 - A dispute in which the corporation is the plaintiff in the litigation or a party to an ADR proceeding and is seeking reimbursement for expenditures made to repair the project's component(s). The expenditures may have included items that related to the safety, structural soundness, functional use or habitability of the project, provided that the repair permanently resolved the defect or issue, and the expenditures did not significantly impact the financial stability or future solvency of the cooperative corporation
 - The estimated or known amount in the dispute in the litigation or ADR proceeding is known and is not covered by the insurance policy but is not expected to exceed 10% of the project's funded reserves, provided that use of the project's funded reserves to pay for project litigation or dispute resolution does not violate the applicable jurisdiction's laws and regulations.
- Project with excessive single-investor concentration
 - Any project in which a single entity owns cooperative shares that represent more than the following:

Number of Units in the Project	Total Number of Units Owned by Individual or Single Entity
Two to Four	One
Five to 20	Two
21 or More	20%

- For purchase transactions, a project with single investor concentration greater than specified above will be eligible provided:
 - The purchase transaction will result in a reduction of the single investor concentration
 - The single investor must not own more than 49% of the units in the project
 - Obtain evidence that the single investor is marketing units for sale with the goal to decrease the single investor concentration to 20% or less of the units in the project
 - The single investor is current on all maintenance fees and assessments, and
 - There are no planned or current special assessments in the project
- The following may be excluded from the single investor concentration calculation:
 - Vacant cooperative units being actively marketed by the sponsor/developer (or holder of unsold shares). Any units leased by the sponsor/developer must be included in the calculation of the developer’s percentage of ownership.
 - Units that a non-profit entity controls or owns for the purpose of providing affordable housing
 - Units held in affordable housing programs (including units subject to a non-eviction rent regulation codes), and
 - Units retained for workforce housing by higher-education institutions
- When a sponsor/developer (or holder of unsold shares) has been prevented from selling cooperative interests because of the need to comply with rent control or tenant-protection laws, the 20% single entity ownership limitation may be increased to 49% if the following requirements are met:
 - The cooperative interests owned by the sponsor/developer in excess of 20% must be subject to rent control or tenant-protection laws,
 - Documentation must be retained evidencing that the cooperative units retained by the sponsor/developer (or holder of unsold shares) are subject to rent control or tenant-protection laws, and
 - One of the following is met:
 - Document that the rental income from the tenant-protected and/or leased cooperative units owned by the sponsor/developer is sufficient to

cover the pro rata share of the project's financial obligations that are applicable to the tenant-protected, leased and vacant units; or

- If the rental income from the tenant-protected and/or leased units owned by the sponsor/developer is not sufficient to cover the pro rata share of the project's financial obligations that are applicable to the tenant-protected, leased and vacant units, the sponsor/developer (or holder of unsold shares) must have demonstrated the ability and willingness to meet any shortfall in the payment of the pro rata share of the project's financial obligations that are applicable to the tenant-protected, leased and/or vacant units. In such cases, the sponsor/developer (or holder of the unsold shares) must:
 - Be current on all financial obligations for the project and on all financial obligations relating to any other project in which the sponsor/developer (or holder of unsold shares) owns or holds more than 10% of the shares
 - Have sufficient funds to meet any shortfall in the payment of the pro rata share of the project's financial obligations that are applicable to the tenant-protected, leased and vacant units; and
 - Provide financial statements of the cooperative corporation that indicate financial stability for the project with no negative impact to the project due to sponsor/developer (or holder of unsold shares) ownership
- Continuing Care Retirement Community (CCRC)
 - The project is ineligible if operating as a CCRC in which residents contract in advance for a lifetime commitment from the facility to care for them, regardless of future health or housing needs.
- Project comprised of manufactured homes
- Project with mandatory dues or similar membership fees for use of amenities such as clubhouses or recreational facilities
- Limited equity cooperative project
 - The project is ineligible if it limits gains from appreciation upon resale of the cooperative shares associated with the cooperative unit.
 - Projects located on land owned by Community Land Trusts are also ineligible.
- Leasing cooperative
 - Leasing of both the land and the improvements to the cooperative project including common elements, even if the cooperative corporation owns part of the building is ineligible
- Sponsor/developer interest in project, except for its interest in any unsold units
- Project in need of critical repairs as defined in the Glossary of Terms

- For both current and planned (i.e. shareholders approved but the board has not initiated collection yet) special assessments, a full review must be completed for each special assessment to determine if the funds are for a critical repair:
 - The purpose of the special assessment,
 - When the special assessment was approved,
 - The original amount of the special assessment,
 - The amount remaining to be collected, and
 - The expected date the special assessment will be paid in full
- If a structural and/or mechanical inspection has been completed within 3 years of the project review date, a copy of that inspection must be provided for review. There must not be any critical repairs needed, as well as no current evacuation orders or similar regulatory actions.
- Projects in need of critical repairs remain ineligible until the required repairs and/or inspection report have been completed and documented.
- 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 project, then this project eligibility requirement does not apply.
- This requirement does not apply to routine repairs, defined as not critical and includes work that is preventative in nature or part of normal capital replacements (e.g., focused on keeping the project fully functioning and servable) and accomplished within the project's normal operating budget or through special assessments that are within guidelines.
- Review of several different documents may be necessary to determine if critical repairs are present, including but not limited to:
 - Cooperative board meeting minutes
 - Engineer's reports
 - Structural and/or mechanical inspection reports
 - Reserve studies
 - List of necessary repairs provided by the cooperative corporation or management company, and/or
 - Other substantially similar documentation.
- Project with an evacuation order due to an unsafe condition
 - The project will remain ineligible until the unsafe condition has been remediated and the building(s) is safe for occupancy

Project Eligibility

Cooperative Project Completion Requirements

The cooperative project, including all units and common elements within the project, must be complete and cannot be subject to additional phasing or annexation.

Owner Occupancy Requirements

Cooperative interests (i.e. both ownership and the accompanying occupancy rights) that represent at least 50% of the total number of cooperative units in the project must have been sold and conveyed or, for new cooperative projects must be under contract for sale to shareholders who occupy their units as a primary residence or second home.

Project Budget Requirements

The cooperative budget must meet all of the following requirements:

- Financial strength and viability of the project must be determined. If the most recent budget is not available, a review of the cooperative corporation's most recent audited financial statements or corporate tax returns must be completed.
 - The documentation must support adequate cash flow to service the current debt and operating expenses, and provide for adequate replacement and operating reserves
 - For an existing building that is converted to a cooperative project and is undergoing or has undergone a non-gut rehabilitation, the sponsor/developer must have contributed to the replacement reserve fund for the expired life of the components that were used prior to the conversion of the building(s).
- Negative cash flow of the project
 - Must not exceed 5% of the project's annual operating budget as demonstrated by the most recent audited financial statements, provided that the prior year's cash flow was not negative by more than 5%.
 - The negative cash flow must be attributable to an isolated expense, or the project must have supplemental income from sources, such as stock transfer fee/ flip taxes or assessments, that demonstrates the project has adequate cash flow to service all obligations.
 - If the negative cash flow is attributable to tenant-protected, leased and vacant units, the sponsor/developer (or holder of unsold shares) must:
 - Be current on all financial obligations for the subject project and on all financial obligations relating to any other project in which the sponsor/developer (or

holder of unsold shares) owns or holds more than 10% of the cooperative shares;

- Not have pledged any cooperative shares of the project as security for any loan other than to secure the financing obtained to acquire the project; and
- Provide financial statements of the cooperative corporation that indicate financial stability for the project with no negative impact to the project due to negative cash flow related to sponsor/developer (or holder of unsold shares) ownership.

Financial Obligations of Project

The cooperative project must have good financial management including the following:

- The cooperative corporation has not been 30 or more days delinquent in the last 12 months on any payments due under any underlying blanket mortgage, or for taxes, insurance and other financial obligations
- No more than 15% of the shareholders are more than 60 days delinquent in the payment of maintenance fees and assessments
- No more than 15% of the shareholders are more than 60 days delinquent in the payment of each special assessment

Market Acceptance

The cooperative project must be located in an area in which there is a demonstrated market acceptance of the cooperative form of ownership.

Minimum Number of Cooperative Units

The cooperative project must consist of two or more 1-unit dwellings

Subsidies or Other Benefits for Cooperative Project

If the cooperative project is the recipient of any subsidies or similar benefits (e.g., tax or assessment abatements) that will be reduced or eliminated within three years of the Note date of the cooperative share loan, the impact must be evaluated that the elimination of such benefits will have on the project must be completed and include any higher monthly fees in a borrower's monthly liabilities when qualifying the borrower for the share loan.

Requirements for the Underlying Blanket Mortgage for Project

The blanket mortgage for the cooperative project may be either a conventional mortgage or an FHA-insured mortgage that has an interest rate that is at the market rate and not at a subsidized or otherwise reduced rate.

If the blanket mortgage is a balloon mortgage, the remaining term cannot be less than six months, or has an adjustable-rate feature, and the remaining term is less than two years but not less than six months, the current interest rate may not be subject to an interest rate adjustment.

Prior Cooperative Project Financing

The cooperative project's blanket mortgage must be in compliance with the requirements imposed by the mortgagee of the underlying blanket mortgage. If the blanket mortgage includes a due-on-encumbrance clause and the project is located in a state in which share loans are considered to be an encumbrance on the project, the mortgagee of the blanket mortgage must consent to the cooperative share loan.

Cooperative Share Loan Eligibility

Occupancy

LTV Calculation

[Borrower Qualification](#)

[Maximum Pro Rata Share](#)

[Subordinate Financing](#)

[Stock Transfer Fee \(Flip Tax\)](#)

[Cooperative Share Loan Lien Priority](#)

[Cooperative Corporation's Approval](#)

[Cooperative Housing Corporation](#)

Differences Between Fannie Mae (FNMA) and Freddie Mac (FHLMC)

There are several areas within the cooperative guidelines where FNMA and FHLMC differ as identified in the table below.

Topic	Fannie Mae (FNMA)	Freddie Mac (FHLMC)
Blanket/Underlying Mortgage	<ul style="list-style-type: none"> • May be a balloon mortgage, but the remaining term may not be < 6 months. • If balloon mortgage is an ARM and remaining term is < 3 years but is >= 6 months, the current rate may not be subject to an interest rate adjustment prior to the maturity date • When FNMA owns the blanket/underlying mortgage on the building, the maximum co-op share loan available to the borrower must be reduced by the portion of the unpaid principal balance of the blanket mortgage(s) that is attributable to the subject unit's Pro Rata Share (subject unit's ownership interest) 	<ul style="list-style-type: none"> • When the blanket/underlying mortgage is a balloon mortgage, the remaining term cannot be < 6 months • If blanket/underlying mortgage is an ARM with a remaining term < 2 years but >= 6 months, the current interest rate may not be subject to an interest rate adjustment
Combining Two	Not permitted	Permitted via Purchase or Refinance

Co-op Units at Closing		transactions														
Ground Lease	Not permitted <ul style="list-style-type: none"> However, a Project Eligibility Waiver can be submitted to Fannie Mae to review the ground lease as an exception 	Not permitted														
Housing Development Fund Corporations (HDFC)	Must have PERS Approval	Not permitted														
Land Co-ops or Land Homes	Must have PERS Approval	Not permitted														
Pro Rata Share	Permits up to 35% <ul style="list-style-type: none"> Can go to 40% with compensating factors 	Permits up to 40%														
Single Entity Maximum: Number/Percentage Permitted for Market Rate Units	<table border="1"> <thead> <tr> <th>Project Units</th> <th>Number or % of units permitted by Single Entity</th> </tr> </thead> <tbody> <tr> <td>5 to 20</td> <td>2 units</td> </tr> <tr> <td>>= 21</td> <td>20%</td> </tr> </tbody> </table>	Project Units	Number or % of units permitted by Single Entity	5 to 20	2 units	>= 21	20%	<table border="1"> <thead> <tr> <th>Project Units</th> <th>Number or % of units permitted by Single Entity</th> </tr> </thead> <tbody> <tr> <td>2 to 4</td> <td>1 unit</td> </tr> <tr> <td>5 to 20</td> <td>2 units</td> </tr> <tr> <td>>= 21</td> <td>20%</td> </tr> </tbody> </table>	Project Units	Number or % of units permitted by Single Entity	2 to 4	1 unit	5 to 20	2 units	>= 21	20%
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2 to 4	1 unit															
5 to 20	2 units															
>= 21	20%															
Subletting	Not permitted	Permitted														
Year End (YE) Loss	One of the last two years may have a YE loss < 5%	Last two years may have a loss < 5%														

Condominium, PUD, and Cooperative Insurance Requirements

Insurance must cover 100% of the insurable replacement cost of project improvements, including **common elements** and the individual units for condo and cooperative projects, **as of the current insurance policy effective date**. Extended Replacement Cost coverage, under which the insurer agrees to pay more than the property’s insurable replacement cost, is acceptable. An insurance policy that

includes either of the following endorsements will ensure full insurable value replacement cost coverage:

- a Guaranteed Replacement Cost Endorsement; or
- a Replacement Cost Endorsement

The policy must protect against the perils customarily covered for similar projects, including those covered by the standard “all risk” or “special form coverage” endorsement or the “broad form” covered causes of loss.

Project insurance policies that provide coverage for general and limited common elements of unaffiliated projects is not acceptable. Insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable for property insurance policies covering project developments. **In addition, policies that limit, depreciate, reduce or otherwise settle losses at anything other than a replacement cost basis are not acceptable.**

General Requirements

The HOA must maintain a property insurance policy, with premiums being paid as a common expense. The policy must cover all of the common elements except for those that are normally excluded from coverage, such as land, foundation, and excavations. Fixtures and building service equipment that are considered part of the common elements, as well as common personal property and supplies, should be covered.

Individual insurance policies are also required for each unit in a PUD project. If the project’s legal documents allow for blanket insurance policies to cover both the individual units and the common elements, the blanket policy is acceptable in satisfaction of insurance requirements for the units.

Fannie Mae

Fannie Mae does not require lenders or servicers verify master property insurance coverage on PUD common elements when units located within a PUD are covered by individual property insurance policies maintained by their respective owner(s).

Freddie Mac

Freddie Mac does not require verification of insurance for the Common Elements in a PUD and ground lease community, or verification if a master or blanket insurance policy provides insurance coverage for Common Elements.

Insurance Company Ratings

The insurance company furnishing an insurance policy on a condominium, whether the homeowner's or the master casualty policy must have an acceptable rating by:

- A.M. Best
- Fannie Mae - Rating of "B" or better for financial strength
- Freddie Mac - Rating of "B/III" or "A/VIII" for a non-US insurer
- Demotech, Inc. - Rating of "A"
- Standard and Poor's - Rating of "BBB"

Hazard insurance policies underwritten by Lloyd's of London or Hawaiian Insurance and Guaranty Company are acceptable even though they are not rated by one of the acceptable agencies. Coverage through state insurance pools is also acceptable if there is no other coverage available.

Maximum Allowable Deductible

Per Occurrence

The maximum allowable deductible for all required property insurance perils is 5% of the master property insurance coverage amount. **The HOA operating reserve accounts must include funds to cover the deductible amounts for the HOA.**

Per Occurrence Multiple Deductibles

When a master property insurance policy includes multiple deductibles, such as a separate deductible that applies to windstorms, or a separate deductible that applies to a specific property element such as the roof, the total amount for such deductibles applicable to a single occurrence must be no greater than 5% of the insurance coverage amount.

Per Occurrence Per Unit

A per unit master property insurance policy deductible is permitted when the sum of the applicable per unit deductibles is greater than 5% of the coverage amount and all of the following requirements are met:

- The master property insurance policy has a per unit deductible for named perils specific to a geographic area where such coverage is common and customary; and
- The borrower's individual property insurance policy includes
 - coverage for the applicable peril(s);
 - coverage for master property insurance policy deductible assessments levied on the unit owner by the HOA or co-op corporation for the applicable peril(s); and
 - loss assessment coverage in an amount sufficient to cover assessments in excess of 5% of the master property insurance policy coverage amount, divided by the number of units.

Endorsement Requirements

Removed guidance and included in the Special Coverage Requirements for Project Developments section.

Named Insured and Mortgagee Clause Requirements

The insurance policy must include the standard mortgagee clause:

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P.O. Box 961292
Fort Worth TX 76161-0292

Acceptable Evidence of Master Insurance Coverage

Acceptable evidence of master insurance coverage for a unit in a PUD, condo, or cooperative project includes:

- A copy of the current master policy, and
- Any endorsements, and

- A certificate of insurance showing the individual unit securing the loan is covered under the policy

When required, a master property insurance policy must be maintained with premiums paid as a common expense by the HOA or co-op corporation, as applicable. The policy must cover all insurable property elements. Common personal property and supplies should be covered, if applicable.

Coverage Options Attached Condominiums, Attached PUD's and Detached Condominiums

A homeowner can provide insurance protection from either an individual insurance policy or a master insurance policy provided by the homeowners' association (HOA) using one of the following options:

- If the HOA provides a master policy that includes full insurance protection for the individual unit (both exterior and walls-in, including improvements and betterments) as well as the common areas, then the borrower does not require additional HO-6 insurance.
- If the HOA provides a master policy that includes coverage for the exterior of the unit as well as the common areas, then the borrower must provide the HO-6 walls in the policy.
- If the HOA provides a master policy that includes only the common areas or no master policy and has no common areas*, then the borrower must provide coverage for both the exterior and interior HO-6 (walls-in) of the unit and the appraisal must confirm that there are not common areas.
- If the HOA does not provide master policy coverage for the individual unit, then HO-3 coverage is appropriate.

Either the master policy or the individual unit policy must provide adequate liability coverage in addition to structural coverage.

Insurance Coverage - Individual Condo Units and Detached PUD's

Legal Recorded Document - When a condominium's legal documents allow hazard insurance to be held by individual unit owners.

Amount of Coverage Required

An insurance policy that includes either of the following endorsements will ensure full insurance value replacement cost coverage:

- Guaranteed replacement cost coverage or similar verbiage as stated in the declarations page (e.g., dwelling replacement coverage, extended replacement cost), or
- 100% of the insurable value of the improvements as established by the insurer

When an insurance policy does not reflect replacement cost coverage, the insurance agent may verify the policy includes replacement cost coverage or adequate insurable value in an email or with an endorsement to the policy. The verified insurable value must be no less than the amount of coverage on the policy.

Named Insured

Attached Condominiums

The named insured is the Homeowners Association (HOA). The policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured when a condominium's legal documents allow.

Detached Condominiums and PUD's

The named insured is both the borrower and the Homeowners Association (HOA). The policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured when a condominium's legal documents allow.

Fannie Mae

- One to four unit properties and individual units in a project development:
 - The individual property or flood insurance policy must name all persons holding title to the subject property as named insured to ensure the borrower(s) has full rights to the policy and Fannie Mae's interest or ability to receive benefits is not impaired

Acceptable Terms

The hazard insurance policy may have a term of one year, the life of the loan, or in Florida, only six (6) months.

Loss Payee Clause

The policy must contain the standard mortgagee clause and must name Cardinal and its successors and assigns as mortgagee of record.

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P. O. Box 961292

Fort Worth TX 76161-0292

Evidence of Coverage

If the transaction is a purchase, a new hazard policy and a paid receipt for the first year's premium to evidence proof of insurance on purchase transactions is required. If the closing agent collects and pays for the first year's premium, Closing Disclosure must reflect the amount disbursed in lieu of providing the receipt.

If the transaction is a refinance, either a copy of the existing policy, certified by the insurance agency with an endorsement to Cardinal, or a new hazard policy and proof of payment for the first year's premium.

The existing policy must have a minimum of 30 days remaining at the time the loan is closed by Cardinal. Although a policy may have more than 30 days remaining when a project is reviewed and approved, there must still be at least 30 days remaining when the loan is closed.

Certificate of Insurance

Certificates of Insurance or Memorandums of Insurance are acceptable proof of hazard insurance providing the certificate is on the insurance company's letterhead and contains the following information:

- Mortgagor's name(s)
- Property address
- Policy number
- Effective date

-
- Expiration date
 - Coverage amount
 - Premium amount
 - Agent's signature
 - Paid receipt for the first year's premium

Binders

60- or 90-day binders are acceptable on PUD's (except when not allowed by state law) providing there are at least 30 days of coverage remaining at the time the loan is closed and the binder includes:

- Mortgagor's name(s)
- Property address
- Amount of coverage
- Agent's signature
- Underwriting company name
- Premium amount
- Paid receipt for the first year's premium

Hazard Insurance - Master or Blanket Coverage

Master property insurance policies should be written on a "Special" coverage form, or equivalent.

Effective with TRID Application date on or after 6.1.2024

The master property insurance policy must provide for claims to be settled on a replacement cost basis. Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable. Policies that limit, depreciate, reduce or otherwise settle losses at anything other than a replacement cost basis are also not acceptable.

Master property insurance coverage policies covering project developments should be written on a "Special" coverage form or equivalent.

At a minimum, the coverage must include the perils covered by a commercial "Broad" coverage form, as listed:

- Fire
- Lightning
- Explosion
- Windstorm
- Hail
- Smoke
- Aircraft or Vehicles
- Riot or Civil Commotion
- Vandalism
- Sprinkler leakage
- Sinkhole Collapse
- Volcanic action
- Falling objects
- Weight of snow, ice or sleet
- Water damage

If a master property insurance policy excludes or limits coverage of any of the required perils, the HOA or co-op corporation must obtain an acceptable stand-alone property insurance policy which provides adequate coverage for the limited or excluded peril.

Common Elements

The homeowner's association (HOA) must maintain a policy that covers the replacement cost of the project improvements, including individual units (If a condo project) , and common elements, including:

- Fixtures
- Building service equipment
- Common personal property
- Supplies

Coverage does not need to include these:

-
- Land
 - Foundations
 - Excavations
 - Other items that are usually excluded from insurance coverage

Special Requirements for Condo Projects

Additional insurance policy requirements for condo projects are as follows:

- Any Insurance Trust Agreement is recognized.
- The right of subrogation against unit owners is waived.
- The insurance is not prejudiced by any acts or omissions of individual unit owners that are not under the control of HOA.
- The policy must be primary, even if a unit owner has other insurance that covers the same loss.

Policies Covering Multiple Projects

Except as described below, unaffiliated projects may not share a master property insurance policy. Each project must maintain its own policy that meets Agency requirements

If a property insurance policy that covers multiple unaffiliated projects provides a dedicated coverage amount for each individual covered project, the policy structure may provide equivalent coverage to the specified Agency's coverage amount requirements. The coverage amount dedicated to the subject project must be sufficient to cover the full replacement cost value of the project improvements including the common elements and residential structures and the policy must clearly state that each association is a named insured.

The insurance policy and any other associated documents must be reviewed to adequately evaluate the insurance coverage. The HOA or co-op corporation must be protected in the same manner as if it maintained a master property insurance policy. The coverage of each insured project cannot be affected by any actions or omissions of unaffiliated projects covered by the same policy. Additionally, all other master property insurance requirements for project developments must be met.

The file must contain justification on how it was determined the applicable policy provides acceptable coverage as detailed above. A copy of the policy, along with the lender's or servicer's documentation must be maintained in the loan file.

Detached PUD's with no Common Areas

An individual insurance policy is acceptable in lieu of a master policy for detached PUDs with no common areas, elements, public ways (for example, private streets, sidewalks, pathways), commercial spaces or other areas under the supervision of the HOA.

Absence of common areas can be verified through the appraisal report or directly with the HOA

Individual Coverage Allowances

Fannie Mae and Non-Conforming loan transactions only:

When a project's legal documents allow for individual unit insurance policies, then an individual insurance policy is acceptable in lieu of a master policy.

Not Allowed

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 is not allowed. Nor is master or blanket insurance for unaffiliated condo associations or projects (defined as covering multiple condo associations that are not under the same master association and do not share the use of common facilities). Separate projects under development by the same developer or affiliated developers may be considered affiliated as long as the developer is in control of the association.

Number of Units Condo Projects

For condo projects where there is a master/blanket hazard policy, the project master insurance policies must include a description of the units insured under the master policy (such as a range of units), and correctly reflect the total number of completed units in the project

If the project is not fully completed, the master policy must clearly reflect the total number of units insured and the subject property unit must be included in the range covered by the policy.

An email from the Insurance Agent indicating the borrower's unit number is insured under the master policy is acceptable as long as the master policy reflects the total number of units insured.

Amount of Coverage

The policy must provide for one of the following:

Replacement Cost Endorsement, under which the insurer agrees to pay up to, but no more than, 100% of the property's insurable replacement cost.

Extended Replacement Cost – The insurer agrees to pay more than the property's insurable replacement cost.

Guaranteed Replacement Cost Endorsement, under which the insurer agrees to replace the property up to a specified percentage over the policy limit or agrees to replace the property regardless of the cost.

The policy or declarations page should state the type, amount, and effective date of the coverage.

Cancellation of Modification Requirements

The policy must provide for at least ten days written notice to the HOA or insurance trustee before the policy can be canceled or substantially modified.

An email from the insurance agent confirming the above information is also acceptable.

Coinsurance Clause

~~When the policy includes a coinsurance clause, an Agreed Amount Endorsement to waive the requirement for coinsurance is required. A policy with a coinsurance clause that does not contain this endorsement or similar language may result in less than replacement cost coverage being present.~~

~~If the policy includes a coinsurance clause, Cardinal requires an Agreed Amount Endorsement to waive the requirement for coinsurance. When the hazard policy includes a coinsurance clause, and an Agreed Amount Endorsement is not available, the policy is still eligible if an email is received from the insurance agent confirming that the amount of Hazard coverage is at least equal to 100% of the insurable replacement cost of the project improvements per the most recent project insurance appraisal.~~

~~For Freddie Mac and Non-Conforming loan products, when the hazard policy contains a coinsurance clause and an Agreed Amount Endorsement is not available, the policy is still eligible if an email is received from the insurance agent verifying there is no Agreed Amount Endorsement.~~

Named Insured

Homeowners' association or legal project name is the named insured on the Master or Blanket insurance policy. When a condominium's legal documents permit it, the policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured.

HO-6 "Walls In" Individual Homeowner and Master Insurance

An HO-6 ("Walls-In") policy covers all of the individually owned interior structural parts of the building and the interior finish (including betterments and improvements)

For condominiums, the "walls-in" coverage can be provided by either an individual insurance policy provided by the homeowner or as part of the master policy provided by the HOA.

HO-6 Policy Requirements

A homeowner must maintain a policy of HO-6 "Walls In" insurance if the master insurance policy for the project does not provide coverage. The policy must cover all of the individually owned interior structural parts of the building and the interior finish (including fixtures and appliances).

The policy or declarations page should state the type, amount, and effective date of the coverage.

Coverage

The policy must protect against all these perils:

- Fire and lightning
- Windstorm or hail
- Explosion
- Civil commotion or riot
- Damage caused by:
 - Aircraft
 - Vehicle
 - Smoke

- Vandalism or malicious mischief
- Theft
- Volcanic Eruption

Amount of Coverage and Deductible Amount

The minimum HO-6 coverage, as determined by the insurer, must be sufficient to repair the unit to its condition prior to a loss claim event.

The maximum allowable deductible is 5%.

When the HO-6 coverage is listed as “personal property,” verbally verify with the insurance agent coverage is sufficient to repair the unit to its condition prior to the loss claim event.

For individual policies a verbal verification with a certification that contains the following is acceptable to document the coverage is acceptable.

- Date of call
- Insurance company name
- Agent name
- Phone number or email address of insurance company/agency contact
- Policy/Binder number
- Whether coverage is sufficient to repair the unit to its condition prior to the loss claim event
- Name and title of employee that contacted the insurance agent

An email from the insurance company that confirms HO-6 coverage is required for a master hazard policy if not shown on the insurance certificate.

Investment Properties

HO-6 policies are only available for primary residences and second homes. Investment properties require the purchase of a business owner’s policy, homeowner’s policy, or other dwelling coverage that offers the standard extended coverage.

Hazard Insurance Master or Blanket Coverage Special Endorsements

The following are Cardinal's Special Endorsement requirements for Master or Blanket hazard insurance.

Fannie Mae Transactions

Master property insurance policies for condo projects must be endorsed with a Condominium Association Coverage Form or its equivalent. The endorsement must include the following provisions or comparable language:

- Recognition of an Insurance Trustee: If you name an insurance trustee, we will adjust losses with you, but we will pay the insurance trustee. If we pay the trustee, the payments will satisfy your claims against us.
- Waiver of Rights Recovery: We waive our rights to recover payment from any unit-owner of the condominium that is shown in the declarations.
- Unit-owner's Insurance: A unit-owner may have other insurance covering the same property as this insurance. This insurance is intended to be primary, and not to contribute with such other insurance.

An email from the insurance company that confirms the items referenced above are included in the Master Policy is acceptable.

Inflation Guard Endorsement

Removed guidance and included in the Special Coverage Requirements for Project Developments section.

Steam Boiler or Machinery Endorsement

Removed guidance and included in the Special Coverage Requirements for Project Developments section.

Building Ordinance or Law Enforcement

Removed guidance and included in the Special Coverage Requirements for Project Developments section.

Special Coverage Requirements for Project Developments

The following special coverage requirements apply to condo, co-op, and PUD master property insurance policies:

- Inflation Guard Coverage - The coverage is not required if it is not obtainable in the insurance market available to the association;
- Building Ordinance or Law Coverage - The coverage must include:
 - Coverage A: loss to the undamaged portion of a building,
 - Coverage B: demolition costs, and
 - Coverage C: increased costs of construction.

Building Ordinance or Law Coverage may be included in the property coverage form or obtained as an endorsement to the property insurance policy. The coverage is not required if it is not obtainable in the insurance market available to the association; and

- Boiler and Machinery/Equipment Breakdown Coverage - This coverage is required if the project development has central heating or cooling. The coverage amount must equal the lesser of \$2 million or the replacement cost value of the building(s) housing the boiler or machinery. This coverage may be included in the property coverage form, obtained as an endorsement to the master property insurance policy, or the HOA or co-op corporation may purchase a stand-alone boiler and machinery policy.

Note: Boiler and Machinery/Equipment Breakdown Coverage may also be referred to as Steam Boiler Coverage or Mechanical Breakdown Coverage.

Flood Zone Determination

Cardinal relies on CoreLogic (formerly First American Flood Data Services, Inc [FDSI]) as the final authority on the need for Flood Insurance.

Cardinal does not accept certifications, surveys, or appraisals to determine the need for Flood Insurance, as the Surveyor or Appraiser does not indemnify the lender for any loss resulting from inaccurate information.

All loans originated by Cardinal must include a Life of Loan Flood Zone Determination. The flood zone indicated on the policy declaration page or equivalent must be the same as indicated on the flood

determination certificate. The flood zone reflected on the flood determination must align with zones recognized by FEMA.

The Life-of-Loan monitoring will continue throughout the entire Cardinal servicing period.

- If it is determined at any point that the subject property needs Flood Insurance, the borrower will be notified.
- If the Flood Insurance is not placed within the timeframe indicated in the Notification, Cardinal will obtain the Flood Insurance and charge the Borrower.

The date in the Date of Determination on the Standard Flood Hazard Determination (flood certification) must be no more than 120 days before the Note date.

For Grandfather policies refer to the Grandfather Rule section under flood insurance requirements

Unmapped Properties

When a property has not been mapped by FEMA and the flood zone on the flood determination is “None” without any map designation Insurance from the National Flood Insurance Program (NFIP) is not available for these properties at origination, but may be required later if FEMA maps the property to a Special Flood Hazard Area (SFHA).

Non-Participating Communities

If the property is located in a non-participating community and either is not mapped (zone designated as none and map entry field is blank) or is not in a flood zone, then the property is eligible for financing.

If the property is located in a non-participating community and is in a flood zone, then the property is eligible for financing.

Flood Insurance Requirements - Master or Blanket Coverage

Under the National Flood Insurance Reform Act, Cardinal does not make, increase, extend, or renew any loan or line of credit secured by improved real estate (including manufactured and mobile homes) that is located or will be located in an area that has been identified as a special flood hazard area (SFHA) unless the property is covered by flood insurance and is in an NFIP participating community.

When any part of attached condo improvements are in an SFHA, the HOA must:

- Maintain a Residential Condominium Building Association Policy (RCBAP) for flood insurance or equivalent acceptable private policy. If new construction has not yet been turned over to the association, coverage is written on a general property policy form on the building.
- Provide that premiums are paid as a part of the common expenses
- Reflect the number of condominium units insured on the master flood insurance policy declarations page or as an addendum to the policy. When the number of units is not clearly listed on the policy, Cardinal accepts an endorsement from the insurance company stating how many units are covered by the policy.

Regardless of the number of units, individual flood policies are not permitted. A master or blanket policy must provide coverage for all of the common elements and property within the subject unit's building

For HARP transactions an individual flood insurance policy is allowed to provide the necessary flood insurance coverage or to close a gap in the master policy coverage

Flood Insurance Rate Maps

Flood Insurance Rate Maps (FIRM) identifies the SFHAs with zones that begin with "A" or "V." Since federal law mandates flood insurance, it cannot be waived under any circumstances.

Coastal Barrier Resource Systems (CBRS) or Other Protected Areas

If the project is located in a CBRS or other protected area, where rebuilding is prevented in the case of a catastrophic event, then the project is ineligible for approval.

Properties located in a CBRS, or other protected area where rebuilding is allowed, are eligible for approval whether or not they are located in a Flood Zone, provided they have the necessary insurance coverage.

High Rise Projects

Each building located in an SFHA must have sufficient flood insurance coverage.

Maximum Deductible and Coverage Requirements

The maximum deductible for master policy is \$25,000 per building.

Minimum amount of coverage at the lower of:

- 100% replacement cost coverage of each insured building (including all common elements and property as well as for each of the individual units in the building); or
- Maximum coverage available under the NFIP (currently \$250,000 per unit)

The policy or declarations page should state the type, amount and effective date of the coverage.

Cardinal will not require flood insurance coverage in excess of the maximum coverage available for the type of property insured under the applicable National Flood Insurance Program (NIP).

DU Relief Refinance and Freddie Open Access (HARP Refinances)

An individual flood policy is acceptable to provide the necessary flood insurance coverage or to close a gap in the master policy coverage or to provide full coverage if the condominium project does not maintain a master flood policy. A review of the condominium legal documents is not required.

Term of Insurance

Cardinal requires that flood insurance policies provide at least 12 months of coverage.

Loss Payee and Named Insured

Master policy does not require Cardinal as the mortgagee loss payee.

The named insured should be the HOA.

If a Condominium's legal documents permit it, the policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured.

Private Flood Insurance

The Biggert-Waters Flood Insurance Reform Act of 2016 includes but is not limited to the following:

Private flood insurance policies must meet specified FEMA criteria to be acceptable as equivalent to NFIP policies and compliant with the mandatory flood insurance purchase rule. The Act also requires disclosure regarding the availability of private flood insurance as indicated below.

Under the Act, lenders must disclose specific information relative to the availability of private flood insurance policies. The Act does not specify, but Underwriters may choose to include this notice within the SFHN or as a separate disclosure. The information disclosed must:

-
- Explain that flood insurance that provides the same level of coverage as an NFIP policy may also be available from private insurers, and
 - Encourage borrowers to compare the following information between an NFIP and a private insurance policy and address any questions with their agent:
 - Flood insurance coverage
 - Deductibles
 - Exclusions
 - Conditions
 - Premiums

Flood Insurance Individual Coverage for Detached Units

An in-force flood insurance policy on the individual unit is required at the time of closing.

Flood Insurance Rate Maps

Flood Insurance Rate Maps (FIRM) identifies the SFHAs with zones that begin with "A" or "V." Since federal law mandates flood insurance, it cannot be waived under any circumstances.

Multiple or Detached Structure Requirements

Structure

Any building permanently affixed to the land and having:

- Two or more outside rigid walls
- Fully secured roof

Residential Structure

Structure (regardless of value) that has any two of the following three characteristics:

- Bathroom facilities
- Food preparation area

- Sleeping quarters

Requirements

Flood insurance is required for all detached residential structures located in an SFHA, regardless of value.

Detached Garages - Flood insurance is not required when a non-residential garage can be covered under the flood policy for the residence.

Non Residential Unit Structures - Flood insurance is required for detached non-residential structures (detached from the primary residence) located in an SFHA having values that exceed the greater of \$25,000 or 10% of the total value of the property (buildings and land) based on the following (in order):

- Value of detached non-residential structure as stated in appraisal
- Value/coverage for detached non-residential structure as reflected in hazard policy

If the above values are not available, the value will be considered to be nominal and flood insurance is not required.

Borrower Disclosure

Cardinal sends the required government disclosure, or similar language, for Conforming and Non-Conforming transactions to all borrowers whose detached, non-residential structure does not require a separate flood insurance policy:

- Although you may not be required to maintain flood insurance on all structures, you may still wish to do so, and your mortgage lender may still require you to do so to protect the collateral securing the mortgage. If you choose to not maintain flood insurance on a structure, and it floods, you are responsible for all flood losses relating to that structure.

Maximum Deductible and Amount of Coverage

The maximum deductible for an individual flood policy is \$10,000 per policy.

The minimum required flood insurance individual policy required by law is the lesser of:

- Maximum amount of flood insurance coverage available per unit through the National Flood Insurance Program (NFIP) (currently \$250,000 per unit), or

- 100% of replacement cost or similar verbiage (such as guaranteed replacement cost; or full insurable value per unit) insuring the cost value of the dwelling and insurable improvements, or
- Outstanding principal balance of the first lien loan, plus
 - Unpaid principal balance of any other loan, and
 - Total line of credit amount of any line of credit secured by the same property
 - Example: Replacement cost value: \$100,000
 - Unpaid principal balance: \$50,000
 - Required Coverage Amount: \$50,000

The policy or declarations page should state the type, amount and effective date of the coverage.

Cardinal will not require flood insurance coverage in excess of the maximum coverage available for the type of property insured under the applicable National Flood Insurance Program (NFIP).

Term

Cardinal requires that flood insurance policies provide at least 12 months of coverage.

Private Flood Insurance

The Biggert-Waters Flood Insurance Reform Act of 2016 includes but is not limited to the following:

Private flood insurance policies must meet specified FEMA criteria to be acceptable as equivalent to NFIP policies and compliant with the mandatory flood insurance purchase rule. The Act also requires disclosure regarding the availability of private flood insurance, as indicated below.

Under the Act, lenders must disclose specific information relative to the availability of private flood insurance policies. The Act does not specify, but Lenders may choose to include this notice within the SFHN or as a separate disclosure. The information disclosed must:

- Explain that flood insurance that provides the same level of coverage as an NFIP policy may also be available from private insurers, and
- Encourage borrowers to compare the following information between an NFIP and a private insurance policy and address any questions with their agent:
 - Flood insurance coverage

- Deductibles
- Exclusions
- Conditions
- Premiums

Flood Insurance Evidence of Coverage

A property with any part of the structure located in a special flood hazard zone must have one of the following documents in the loan file prior to approval:

- Complete current "in-force" flood insurance policy (or Declarations (dec) page), whose content is sufficient to determine adequacy of coverage and appropriate dates of coverage, or
- Complete application for flood insurance signed by the insurance agent whose content is sufficient to be able to determine adequacy of coverage and appropriate dates of coverage accompanied by a paid receipt. In instances where the premium is paid at closing, Closing Disclosure that evidences premium payment is an acceptable form of a paid receipt.

Notes:

- The Agent's signature can be electronic and does not require a date or the customer's signature.
- If a change is required to an existing flood insurance policy, provide an updated flood insurance declarations page reflecting the change.

A complete, current "in-force" flood insurance policy (or acceptable Declarations page) is required prior to closing.

The Declarations page is a part of the flood policy and is acceptable if it provides all of the following:

- Term of the policy
- Limits of coverage
- Premium amount
- Insurer's name

Certificates of Flood Insurance and Binders do not meet Cardinal's, NFIP, and FEMA requirements as proof of flood coverage.

Flood Insurance - Grandfather Rule

Pursuant to the National Flood Insurance Program (NFIP) requirements, Cardinal must ensure that for any property where the flood certificate shows a higher risk flood zone, but the flood insurance policy shows coverage of a lower-moderate risk flood zone, the flood policy/declarations page submitted must show proof that the property was “grandfathered” to allow for the lower-moderate flood risk zone.

Per the NFIP Mandatory Purchase of Flood Guidelines (Section B-1, c-2):

“If the flood zone designation differs from the zone designation noted on the flood insurance policy, the lender should resolve it and document reasons. There may be some legitimate reason for the discrepancy, such as the NFIP “grandfather” rules.

For additional information on the “grandfather” rule, please refer to the NFIP guidelines on the FEMA website (<http://www.fema.gov>).

Requirements

The flood policy/declarations page must clearly state what zone the policy covers (or an endorsement from the insurance agent if it is not listed on the policy/declarations page).

If the flood policy/declarations page lists a lower-moderate risk flood zone, but the flood certificate lists a higher risk flood zone (see the following examples) Cardinal will require one of the following:

- Proof of the “grandfather” rule – either a statement on the policy/declarations page itself or an endorsement from the insurance agent stating the “grandfather” rule applies
- A corrected flood policy/declarations page from the agent showing the matching higher flood risk zone as listed on the flood certificate
- An updated flood certificate showing the property is no longer in a higher flood risk zone (if it was determined the certificate was incorrect)

Reconciliation of Value

If there are differences in value between the replacement cost values reflected on appraisal and flood or hazard insurance policies the value must be reconciled to ensure adequacy of flood insurance using the best available information.

Liability Insurance

The homeowners' association for the project must maintain a comprehensive commercial general liability (CGL) insurance policy to cover the entire project.

The policy must cover:

- All common areas and elements
- Public ways (private streets, sidewalks, pathways, etc.)
- Any other areas that are under the supervision of the homeowners' association
- Commercial spaces that are owned by the homeowners' association, even if they are leased to others
- Bodily injury and property damage that result from the operation, maintenance or use of the project's common areas and element

Liability insurance is not required for detached PUD projects.

Severability of Interest

When not already included in the terms of the CGL coverage, there must be a Severability of Interest Endorsement that precludes the insurer's denial of a unit owner's claim because of negligent acts by the association, the fee simple landowner or lessor or other unit owners.

Amount of Coverage

Coverage must be at least \$1 million for bodily injury and property damage and must provide for claim settlements on a per-occurrence basis.

Cancellation or Modification - Notification Requirements

The policy should provide for at least ten days written notice to the HOA or insurance trustee and mortgagee before the insurer can cancel or substantially modify it.

An email from the insurance agent confirming the above information is also acceptable.

Rent Loss Insurance

Rent loss insurance is not required for project approval on Condominium or PUDS.

Fidelity, Crime or Employee Dishonesty Insurance

If the project has 20 or more units, the HOA must have master fidelity, crime, or employee dishonesty insurance coverage for anyone who either handles or is responsible for funds that it holds or administers, whether or not that individual receives compensation for services.

A management agent that handles funds for the HOA must be covered under the fidelity, crime, or employee dishonesty insurance policy and must provide the same coverage required of the HOA.

Freddie Mac and Non-Conforming transactions only: A management company may be insured under either the HOA fidelity bond insurance policy or their own fidelity bond insurance policy.

The following fidelity bond, crime, or employee dishonesty insurance coverage requirements apply:

- Insurance policy names the HOA as the insured
- Premiums are paid as part of the common expenses
- The amount of fidelity, crime, or employee dishonesty coverage must equal no less than the maximum amount of funds in the custody of the HOA or its management firm at any one time or coverage that meets the state's statutory fidelity, crime, or employee dishonesty requirements if documented
 - For Freddie Mac Open Access transactions, the amount of fidelity, crime, or employee dishonesty insurance coverage can be reduced to no less than three months of assessments on all units in the project
 - Cardinal Full Review transactions may also be reduced to no less than three months of assessments on all units in the project but only if the HOA and/or management firm adheres to at least one of the following controls:
 - Maintains separate accounts for the operating budget and the reserve fund with copies of the monthly statements sent directly from the bank or have online banking access to the HOA account, or
 - Two or more board members must sign any check drawn on the reserve fund account, or
 - Separate records and accounts are maintained for each HOA using the management firm's services and the management firm does not have the authority to draw checks or transfer funds from the HOA reserve account

The policy should provide for at least ten days' written notice to the HOA or insurance trustee and mortgagee before the insurer can cancel or substantially modify it.

Note: Verification of master fidelity, crime, or employee dishonesty insurance coverage is not required:

- When the project is an attached PUD
- When project being reviewed qualifies for Limited or Streamlined Review
- When required coverage amount is \$5,000 or less

Evidence of Coverage for Managing Agent

Cardinal will accept any one of the following as evidence of this coverage:

- Copy of the HOA's Master fidelity, crime, or employee dishonesty insurance certificate indicating Managing Agent as additionally insured
- Copy of the Management Rider from the Master HOA fidelity, crime, or employee dishonesty insurance policy
- Email from the Insurance Company confirming the Managing Agent as additionally insured (must also include the Master HOA fidelity, crime, or employee dishonesty policy number and the name of the project)

Earthquake Insurance

Earthquake insurance is not required for condominiums and detached PUD projects.

References

Reference List
B4-2.1-01, General Information on Project Standard
B4-2.1-03, Ineligible Projects
Chapter 5701
Compliance Loan Exception Policy
Fannie Mae Full Form
Fannie Mae Short Form

Fannie Mae's Website
FEMA
General Property Eligibility
Ineligible Projects
Project Eligibility Review Services
Section 5701.3(i)
Section 5701.5
Section 5701.5(b)
Section 5701.5(c)
Section 5701.3(d)
Section 5701.5(d)

Revision History

Revision History is to be used as a reference only and will only provide a summary of document changes. For complete versioning, refer to the Google Docs versioning functionality, which is the system of record.

Date	Description	Approver
4.15.24	Indicated Cardinal Overlays to agency guidelines by highlighting text in our signature Riptide color. Overlays correspond to Cardinal Retail Overlay or TPO Overlay Matrix	Kristen Bellon
4.10.24	Added the following updates for Condominium, PUD and Cooperative Insurance Policies. <i>These updates are effective with TRID application date on or after 6.1.24, but may be applied immediately:</i> <ul style="list-style-type: none"> Clarified Insurance must cover 100% of the insurable replacement cost of project improvements, including common elements and the individual units for condo and cooperative projects, <i>as of the current insurance policy effective date</i> Clarified that in addition to policies that provide for claims to be settled on an actual cash value basis, policies that limit , depreciate, reduce or otherwise settle 	Kristen Bellon

	<p style="color: red;">loses at anything other than replacement cost basis are not acceptable</p> <ul style="list-style-type: none"> • Removed coinsurance requirements • Included details for covered perils under the 'Broad' Coverage form • Added clarification that The HOA operating reserve accounts must include funds to cover the deductible amounts for the HOA 	
3.6.24	Moved Fannie Mae Cooperative guidelines from <u>Chapter 10 Property and Appraisal Requirements Conventional Lending Guide</u>	Ellen Clayson
12.20.23	Added additional guidance under Project Assessment Request (PAR) section for projects with a Not Eligible Status (set to be released by Freddie Mac February 26, 2024). Added guidance for when there are changes to PAR findings	Kristen Bellon
11.27.23	Updated the Project Assessment Request (PAR) section with details regarding an enhanced capability in Condo Project Advisor called Project Certified	Kristen Bellon
11.15.23	Aligned Fannie Mae with Freddie Mac in permitting a Reserve Study in lieu of the condo project meeting the 10% budget reserve requirement	Kristen Bellon
9.12.23	Added requirements for mandatory use of the Homeowner's Association Certification - Limited Review for all limited or streamlined review projects effective with TRID application dates on or after 9.18.23	Ellen Clayson
9.8.23	Updated Projects in Need of Critical Repairs section to clarify project review requirements and to provide guidance for projects with material deficiencies, deferred maintenance and/or special assessments	Kristen Bellon
5.23.23	Added with applications dated on or after 7/1/23, FNMA will require the use of CPM for all condo projects being reviewed under the Full Review process	Kristen Bellon
5.1.23	Added clarification under PUD insurance for FNMA that the master policy does not need to include coverage for common elements when the unit is covered by an individual property insurance policy	Kristen Bellon
-	Added guidance that insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable	Kristen Bellon

-	Added additional guidance under Maximum Allowable Deductible section	Kristen Bellon
-	Added updated guidance for FNMA loans that the individual property or flood insurance policy must name all persons holding title to the subject property as named insured (previously allowed as optional for title-holders only)	Kristen Bellon
-	Added guidance for Policies Covering Multiple Projects	Kristen Bellon
-	Expanded Special Coverage Requirements for Project Developments section	Kristen Bellon
10.26.22	Added Project Assessment Request (PAR) section	Kristen Bellon
9.7.22	Clarified that condominiums on a leasehold estate are permitted	Kristen Bellon
2.10.22	Included additional guidance for Special Assessments and units in need of Critical Repair	Kristen Bellon
1.6.22	Included guidance for units in need of Critical Repair	Kristen Bellon
12.16.21	Included direction for condominium projects located in the state of Nevada subject to Higher Ground Litigation	Kristen Bellon
12.16.21	Immaterial changes. Corrected grammar and formatting to align with company standards	N/A
11.15.21	Updated guidance related to Deferred Maintenance, Special Assessments, Condo Project Manager 'Unavailable' Status, Reserve Requirements and FNMA Project Eligibility Waivers	Kristen Bellon
5.20.21	Clarified that PUD's containing multi-dwelling units are eligible for financing	Kristen Bellon
5.14.21	Updated the Investor Concentration/Occupancy Requirements (Established Projects) section	Kristen Bellon
3.15.21	Added additional guidance for projects with Pending Litigation	Erica Price
12.21.20	Added Condo Classification table for Freddie Mac warranted condos	Kristen Bellon
7.20.20	Expanded Full Review of New and Newly Converted Condominium Projects section to include detailed requirements for FNMA and Freddie Mac	Kristen Bellon
6.11.20	Added FNMA will accept delivery of a mortgage in established projects on the FHA approved list provided the approval was completed by FHA HRAP rather than through DELRAP	Kristen Bellon

1.9.20	Added guidance for Freddie Mac Project Waiver Request (PWR) for Established Condominium Projects	Ellen Clayson
10.6.19	Reformatting to Remove Government Loan Requirements	Ellen Clayson
3.14.19	Ownership of a single entity increased to 20%. Exceptions apply	
3.12.19	Updated Limited Review requirements for Freddie Mac investment properties	
2.13.19	Updated Limited Review required documents to include Short Form Questionnaire	
2.11.18	<p>The total space that is used for nonresidential or commercial purposes increased to 35%.</p> <p>Ownership of a single entity increased to 20%. Exceptions apply.</p> <p>Fannie Mae maximum LTV for limited review for investment properties is now 75%.</p> <p>Master Association Requirements removed on detached condos.</p> <p>Removed review requirements for 2-4 Unit Condominium Project on Fannie Mae loans.</p> <p>Added Rate and term Refinance to Fannie Mae Waiver requirements.</p> <p>Removed DURP verbiage as it is no longer available.</p> <p>Updated Non-Gut Rehabilitation Conversion requirements for Freddie Mac Loans to three years</p>	
3.2018	Detached units require limited reviews	Erica Price
9.2017	Initial Version	Erica Price