

## Matrix of Secondary Market (FHA, VA, Fannie Mae, Freddie Mac) Requirements for Condominium Unit Loans

I have attempted to organize (by subject matter) the requirements of the various secondary market lenders, guarantors and insurers who deal in condominium unit loans, in order to make it easier to:

analyze what we need to put in our condominium documents (to try to qualify with as many secondary market requirements as possible) to avoid the necessity of amending documents later when someone wants to “qualify” the project;

cross reference the requirements in condominium documents included in future editions of *Ohio Condominium Law* <http://west.thomson.com/productdetail/152941/40361815/productdetail.aspx> and *Ohio Real Estate Law* published by West (now part of Thomson Reuters). (Please excuse the shameless self-promotion.); and

have a checklist of items to review when evaluating how difficult (or easy) it will be to qualify a specific project.

The “Matrix” has since been used in presentations for the ABA and the American College of Real Estate Lawyers (ACREL)

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Note that this is not an exhaustive list of all secondary market requirements. It was prepared with an initial emphasis on documentary requirements (which is the attorney’s bailiwick), does not attempt to be comprehensive with regard to some topics (such as rules regarding expandable projects or state specific rules) and avoids some topics which are rarely problematic (such as permitted easements and title exceptions). It is the author’s hope that it will be a helpful starting point.



**FNMA loosen requirements for detached and 1-4 unit projects, as well as established projects**

A few years ago, Fannie Mae embarked upon a new method of categorizing project standards and requirements, [See Fannie Mae Single Family Selling Guide B4-2.1 (06/05/2018)] based upon

- a. whether the mortgaged unit is **detached** (even though there are also attached units in the project). Project review is waived with the exception of some basic requirements that may apply. B4-2.1-02 (06/05/2018).

Some attached units in an established project may use a limited review procedure based on loan to value ratios, occupancy levels and location. Fannie Mae Single Family Selling Guide B4-2.1 (06/05/2018)

- b. whether they are in **“established”** projects

(not subject to additional phasing

100% complete, including all units and common elements;

90% conveyed to unit purchasers;

projects may qualify with less than 90% conveyed to unit purchasers if the deficit is the result of the developer holding back units (no more than 20%) for rent, and

if other criteria are met; and

the HOA fees are current on the developer-owned units; and

there are no active or pending special assessments in the project.; and

the project has been turned over to the unit owners); or

are in **“new”** projects (missing one of the tests for “established” project); or

are in a **“newly converted”** (within the last 3 years) project.

- c. Whether the units are in a **two-to-four unit project** (project review may also be waived)

For all projects where project review is not waived, lender must determine

The project is not an “ineligible project” [See B4-2.1-03 (06/05/2018) of the Guide]

The appraisal requirements of B4-01 of the Guide, and the insurance requirements of B7 of the guide are met;

The project does not consist of manufactured units

The priority of common expenses does not violate the requirements of B4-2.1-01 (06/05/2018) of the Guide.



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**Freddie Mac** shows a similar willingness to apply easier standards to **Detached projects**. (In their definition, all units in the project must be detached, not just the one being financed.) The project must then only meet the general requirements (it is even exempt from the prohibition for “ineligible projects” (see page 5, below); it may not include manufactured homes; and it must meet the normal project insurance requirements. Two to Four Unit projects cannot take advantage of this provision. Freddie Mac Single Family Seller/Service’s Guide 5701.7 (06/28/18)

**Freddie Mac Streamlined reviews (spot loans)**

Where the project meets the basic, elemental requirements for all condominiums (it cannot be on the list of ineligible projects (see above); must meet the normal project insurance requirements; the owners must be the sole owners of, and have the right to the use of the common elements (unless other HOA or master association owns, subject to certain conditions); and the developer does not retain any interest in the common areas (except as a unit owner), and the project has 2 to 4 units or is an “established project” (control turned over to the owners, all improvements are complete and not subject to additional phasing, and 90% of the total units in the project have been conveyed to purchasers), and certain I-t-v requirements are met, mortgages can be originated through streamlined method. Freddie Mac removed its requirement that such “spot loans” not be part of a marketing effort that results in multiple loan originations in the same project. Freddie Mac Guide 5701.4 (06/28/18).

**Ineligible Projects**

**FHA** FHA Condominium Project Approval & Processing Guide 1.4 (June 30, 2011)

Mandatory rental pools or other arrangements which restrict owner’s ability to occupy the unit;

More than 25% of space used for nonresidential purposes; [See Mortgage Letter 2012-18 (Sept. 13, 2012) 1.5.1 and page 4, below (discussion of “Mixed Use” requirements) for elaboration and exceptions.

Condominium Hotels or “Condotels” (examples – has registration services, has word “hotel” or “motel” in title;

Located in Coastal Barriers of Atlantic, Gulf of Mexico or Great Lakes;

Timeshares or segmented ownerships;

Multi-dwelling Units;

Assisted Living Facilities;

Projects where developer retains ownership of common areas or amenities after control turned over



**Ineligible Projects (continued)**

**FNMA** Fannie Mae Single Family Selling Guide B4-2.1-03 (06/05/2018). Exceptions may be requested. B4-2.2-07

Hotel or motel, or that curtail owner's ability to utilize their own unit, or which have mandatory rental pool agreements, or which require owners to share profits with someone, or which give management control over occupancy (see regs for further descriptions)

Projects with over 10% of their budgeted income being received from non-incidentual business operations related to active ownership or operation by association of amenities or services available to unit owners and the general public (e.g., spa, restaurant, health club) – Exceptions:

15% where income from leasing units acquired through foreclosure (single-entity ownership limitations listed below apply to HOA with respect to units leased by HOA)

15% for income from use of recreational facilities for exclusive use of owners in project or leased to another project subject to a shared amenities agreement.

Timeshares, fractional or other segmented ownership projects

Projects with mandatory upfront or periodic membership fees for use of recreational amenities owned by outside party (other than owned exclusively by HOA or master association).

Interested Party Contributions (paying costs normally the responsibility of the purchaser) including seller contributions, sales concessions, HOA assessments, principal or interest payment abatements and/or contributions not disclosed on settlement statement. See Fannie Mae Single Family Selling Guide B3-4.1-02 (12/19/2017) and B3-4.1-02 (03/29/2016).

Projects where more than 35% of the total space in project or building is used for non-residential purposes. (Fannie Mae provides detailed, if somewhat complicated, rules for measuring.)

Projects where a single entity (individual, investor group, etc.) owns more than 10% of total units (more than 1 unit in a 2-4 unit project, more than 2 units in a 5-20 unit project). Developer's Units are counted if rented, even if tenant has some right to purchase. Developer's vacant units not counted if being actively marketed for sale.

Multi-dwelling unit projects (see regs for variations on the theme) An owner may combine 2 or more units, but the project's legal documents must be amended to reclassify the combined unit as a single unit in the project.

Projects that represent legal, but non-conforming, use of land if zoning regulations prohibit rebuilding the improvements to current density in the event of partial or full destruction.

## Ineligible Projects

### FNMA (continued)

Projects with property that is not real estate, such as houseboat project, boat slips, cabanas and other forms of property that are not real estate, but are OK if owned in common by the unit owners.

Projects owned or operated as a continuing care facility.

Projects that do not meet the requirements for live-work projects (such as being primarily residential in character. See other restrictions.)

Projects containing manufactured housing units (unless approved through Fannie Mae's PERS program).

Newly converted (within 3 years), non-gut conversions (new carpet, paint, replacement of cabinets, fixtures, doors or windows) containing more than 4 units (unless approved through Fannie Mae's PERS program)

See "Pending Legal Actions" and "Priority of Common Expenses" sections, below, for additional description of deficiencies which would make the project ineligible.

### Freddie Freddie Mac Single Family Seller/Service's Guide 5701.3 (06/28/18)

- (a) project which is required to be registered under state or federal securities regulation
- (b) Hotel or resort. See specifics in Section 5701.3 and also in Section 5701.10 (03/02/16)
- (c) project in which owner may hold a single deed evidencing ownership of more than one dwelling unit
- (d) project with more than 25% of square footage in project or in building where project is located is used for non-residential or commercial use. See 5701.11 (03/31/16) for additional details.
- (e) tenancy-in-common; (f) timeshare or segmented ownership; or (g) houseboat projects
- (h) legal non-conforming use (where rebuilding to current density not allowed and unit is attached.)
- (i) HOA named in litigation, or developer is a party in litigation involving safety, structural soundness, functional use or habitability. Exceptions: if impact on the foregoing is minor and (1) litigation amount is known and is covered by insurance and insurance company has committed to defend; (2) involving minor matters that are covered; (3) involving non-monetary neighbor disputes regarding rights of quiet enjoyment; or (4) commenced by the association and the matter is minor with insignificant impact to the financial status of the project.
- (j) new projects sold with excessive "interested party contributions" [See Guide Section 5501.5]

## Ineligible Projects

### Freddie (continued)

(k) where individual or single entity (including an investor group) owns more than 10% of units in a project of 21 or more, 2 units in a project of 5 to 20 units, or 1 unit in a 2 to 4 unit project. (Developer's vacant units being actively marketed are not counted, but rented units are). See exceptions.

(l) continuing care retirement community facilities (see regs. for further description)

(m) manufactured homes (n) certain new condominium projects in Florida [See Guide Section 5701.9(a)]

(o) projects where mandatory dues or other fees are charged for use of amenities owned solely by HOA or master association for use solely by such members.

## Conversions

**FHA** FHA Condominium Project Approval & Processing Guide 1.5.1 (June 30, 2011) has detailed rules for newly converted projects for which applications for approval are submitted through HUD "HRAP" process (no DELRAP, where Direct Endorsement Lender approves project) within 2 years from date of conversion.

### For All Newly Converted Projects:

Only where conversion complete, not based on conversions or phases that are anticipated in the future

Work completed as evidenced by engineering or architectural inspection w/i 12 months of completion

Reserve study & engineer's report: commenting favorably on structural integrity, remaining useful life

Review of current year budget, current balance sheet, actual income & expense statement must determine that budget and operating results are sufficient and:

Includes allocations/line items sufficient to maintain & preserve all amenities and features unique to project

Provide funding and replacement reserves for capital expenditures & deferred maintenance of 10% of budget

Provides funding for insurance coverage and deductibles

Funds to cover total cost of any items identified in reserve study or engineers report that need to be replaced within 5 years from date of study must be deposited in HOA's reserve account

Detailed description of work proposed or already completed in order for units to be ready for sale



## Conversions

### FHA (continued)

Additional for NON-GUT (painting, new carpet, replacement of cabinets, fixtures, doors or windows) Conversions

50% conveyed or under contract to owner-occupant principal residents (contract & loan commitments)

Developer may own up to 50% of units at time of project approval

Developer must provide comprehensive sale and marketing strategy and efforts to affirmatively market

Additional for GUT (down to shell; new HVAC or electrical components; any structural modification) Conversions

100% complete (except preference items) before any unit mortgage is endorsed. (May escrow for weather related delays for common area items only)

Building permit (or equivalent) is required and Temporary or Permanent Certificate of Occupancy (or equivalent)

Developer must provide comprehensive sale and marketing strategy

VA In a conversion where the declarant is in control or still marking units not previously occupied, declarant must provide a statement by a registered professional engineer and/or architect, with an estimate of the remaining useful life of all components (10 years is required on all structural and mechanical components, or declarant must fund 1/10<sup>th</sup> the cost for each year less than 10). Not required for resale units when declarant is not in control and/or selling units (but it is, apparently, required where declarant is either in control or selling units.) 38 CFR 36.4360a(b)(7)(i)(C) (07/01/93)

In declarant controlled project, a statement by local authorities of the adequacy of off-site utilities (eg, sanitary or water) is required. If local authority declines, one may be obtained from a licensed professional engineer. 38 CFR 36.4360a(b)(7)(ii) (07/01/93)

FNMA For “gut” conversions (where property is renovated down to its shell, including new HVAC and electrical) created in last 3 years, engineer’s report (or functional equivalent) that was originally obtained for conversion must comment favorably on structural integrity and condition and remaining useful life of major components (heating & cooling systems, plumbing, electrical, elevators, boilers, roof, etc.). Fannie Mae Single Family Selling Guide B4-2.2-02 (11/10/2014), and there must be assurance arrangements for completion of improvements if not 100% complete and for construction defects. B4-2.2-03 (06/05/2018)

For newly created, non-gut conversion with more than 4 units must be processed through FNMA’s Project Eligibility Review Service (“PERS”) Fannie Mae Single Family Selling Guide B4-2.2-06 (05/31/2016).

See also “Budget Requirements/Reserves” below.



## Conversions (continued)

**Freddie** Freddie Mac Single-Family Seller/Service's Guide 5701.6(h) (06/28/18) requires that for a non-gut conversion (defined as a project with a prior use which was not completely renovated) created in the past 5 years, an engineer must state that the project is structurally sound, and the condition and remaining useful life of the major components, including roof, elevators, mechanical systems (HVAC, plumbing and electrical) are sufficient for residential needs, etc.

All rehabilitation work for either a gut or non-gut conversion is completed in a professional manner.

If a partial rehabilitation, lender must verify that all repairs affecting soundness and habitability are complete and replacement reserves have been allocated for all capital improvements, and the underwriter has determined that the reserves are sufficient to fund the improvements.

5701.6(d) (06/28/18) of the Guide repeats the requirement that for conversions, there must be an initially funded reserve consistent with the remaining useful life of the individual common elements.

## Pre-Sales

**FHA** FHA Condominium Project Approval & Processing Guide 3.4 & 1.5.1 (June 30, 2011) as revised by ML 2012-18 (Sept. 13, 2012) 3.4

Existing and Non-Gut Conversion Projects – 50%

Proposed, under construction, existing less than 12 months, Gut Conversions – at least 30% sold (see chart in ML 2012-18 (Sept 13, 2012) 3.4

contract AND evidence that lender is willing to make loan or evidence that unit is sold and occupied

Can include secondary residence if meets all requirements of 24 CFR 203.18(f)(2). (where mortgagor maintains or will maintain a part-time place of abode and typically spends less than a majority of the calendar year and its not a vacation home.)

**VA** While Declarant in control – 70%. 38 CFR §36.4360a(c)(1)

**FNMA** In attached new (subject to additional phasing or not turned over yet) or newly converted (3 years) project, at least 50% of units must have been conveyed, or be under contract for sale, as personal residence or second home Fannie Mae Single Family Selling Guide B4-2.2-03 (06/05/2018).

(Building in which units are located can not be in more than one phase to be counted in column as being “sold” for purposes of meeting 50% requirement. Fannie Mae Single Family Selling Guide B4-2.2-03 (06/05/2018).





## Pre-Sales (continued)

**Freddie New Project** – 50% conveyed or under contract to purchasers who will occupy as their primary residence or 2<sup>nd</sup> home. (all but one unit in a 2-4 unit project) Freddie Mac Single-Family Seller/Service's Guide 5701.6(c) (06/28/18)

A single building can have only one legal phase 5701.6(c) (06/28/18)

**Established Project** (but not qualifying for “Streamlined” (Spot) loan (see page 3, above) – 51% if borrower is investor, or all but one unit in a 2 to 4 unit project. No requirement if borrower is going to use as primary or secondary residence. 5701.5(c) (06/28/18)

## Owner-Occupancy

**FHA** FHA Mortgage Letter ML 2016-15 (Oct. 26, 2016) 50% for existing & non-gut conversion projects. Can apply for approval of less (at least 35%) if: 1) account for replacement reserves is 20% of the budget; 2) no more than 10% of units are delinquent for more than 60 days; AND 3) HUD receives 3 years of acceptable financial documents

Proposed, under construction, existing less than 12 months, and gut Conversions – at least 30% sold (see chart in ML 2012-18 (Sept 13, 2012) 3.4

If includes presales, need evidence that a lender is willing to make loan and buyer intends to occupy or evidence (e.g., certified spreadsheet or chart) from developer that lists all units sold, under contract, or closed.

Can include secondary residence if meets requirements of 24 CFR 203.18(f)(2). (where mortgagor maintains or will maintain a part-time place of abode and typically spends less than a majority of the calendar year and it's not a vacation home.)

**FNMA** At least 50% of units must have been conveyed, or be under contract for sale, as personal residence or second home - in attached new (subject to additional phasing or not turned over yet) project  
- in attached units in newly converted (3 years) project  
- in attached units in established project purchased for investment, but not a requirement if unit is purchased as principal residence or second home

Fannie Mae Single Family Selling Guide B4-2.2-02 (06/05/18) and B4-2.2-03 (06/05/18).

(Building in which units are located cannot be in more than one phase B4-2.2-03 (06/05/18)

In two- to four-unit project, all but one unit must have been conveyed or be under contract for sale as personal residence or second home. Fannie Mae Single Family Selling Guide B4-2.2-03 (06/05/18).



**Owner-Occupancy (continued)**

**Freddie New Project** – 50% conveyed or under contract to purchasers who will occupy as their primary residence or 2<sup>nd</sup> home. (all but one unit in a 2 – 4 unit project) Freddie Mac Single-Family Seller/Service’s Guide 5701.6(c) (06/28/18)

One building cannot be in more than one phase. 5701.6(c) (06/28/18)

**Completed Project**, but not qualifying for streamline review (see page 3) – 50% (or all but one unit, if in a 2 – 4 unit project) must be conveyed to a bona fide purchaser if borrower is investor. No requirement if borrower is going to use as primary or secondary residence. 5701.5(c) (06/28/18)

**Pending Legal Actions**

**FHA** Pending legal actions must be disclosed (except for routine foreclosures commenced by unit lenders) FHA Condominium Project Approval & Processing Guide 2.1.8 (June 30, 2011) Attorney letter must address:

reasons;

anticipated settlement/judgment date;

whether insurance coverage is sufficient to pay without affecting financial solvency of project;

whether it could affect ability of owners to transfer title to units; and

whether it could impact owner’s rights

**VA** If developer controls, one of items to be submitted, even for existing unit resales, is a “litigation statement” VA Lenders Handbook, 16-A-03(18) (7/14/2003).

**FNMA** Fannie Mae Single Family Selling Guide B4-2.1-03 (06/05/2018) lists “ineligible projects”:

-Any project for which HOA is named as a party to pending litigation or for which sponsor or developer is named as a party to litigation that relates to safety, structural soundness, habitability or functional use of the project

Minor matters not considered: (see full list for exceptions)

Non-monetary dispute involving neighbor disputes or rights of quiet enjoyment;

Where claimed amount is known, covered by insurance, and insurance company is defending; or

HOA is plaintiff and lender determines matter is minor and no impact to financial status of project.



## Pending Legal Actions (continued)

**Freddie** Freddie Mac Single-Family Seller/Service's Guide 5701.3(i) (06/28/18) includes, in its list of "ineligible projects":

HOA named in litigation, or developer is a party in litigation involving safety, structural soundness, functional use or habitability. Exceptions: if impact on the foregoing is minor and (1) litigation amount is known and is covered by insurance and insurance company has committed to defend; (2) involving minor matters and is covered by insurance; (3) involving non-monetary neighbor disputes regarding rights of quiet enjoyment; or (4) commenced by the association and the matter is minor with insignificant impact to the financial status of the project.

## Budget Requirements/Reserves

**FHA** FHA Condominium Project Approval & Processing Guide 2.1.6 (June 30, 2011)

Financial Documents to be reviewed

Current projected budget (if under construction and built in legally declared phases, actual year-to-date)

Current balance sheet for existing projects

If projects existing for over 1 year, income and expense statement

Review of financial documents must determine that budget and operating results are sufficient and:

Includes allocations/line items sufficient to maintain & preserve all amenities and features unique to project

Provide funding and replacement reserves for capital expenditures & deferred maintenance of at least 10% of budget; and provides funding for insurance coverage and deductibles

**VA** VA Lenders Handbook, 16-B Other VA Requirements (7/1/2000) (D) Other Considerations, Item 1,e references an information brochure or public offering statement disclosing, "at a minimum", "a projected budget for the community of at least one year at full buildout," a component for reserves and replacements, if appropriate, and if the project is phased, over 200 units, or includes significant common area improvements, a multi-year feasibility budget with reserve table

16-B (A)(10) requires that if a maximum annual assessment is stated, it may be adjusted by the greater of 10% per annum, a CPI adjustment, or by a vote of the members paying the increase. Adjustments can also be made for increases in certain fixed costs like taxes and insurance.

If no maximum is set forth in the declaration, owners have to approve capital expenditures, other than repair and maintenance, for a fiscal year that exceeds 20% of the budget for common expenses during that fiscal year.



**Budget Requirements/Reserves (continued)**

**FNMA** For attached units in projects requiring full review the Fannie Mae Single Family Selling Guide B4-2.2-02 (06/05/2018) requires an adequate Budget with reserve of at least 10%.

Divide replacement reserve by budgeted assessment income, with the following items being excluded:

Income collected for utilities that would typically be paid by individual unit owners

Incidental income on which project does not rely for operations, maintenance etc;

Income allocated to reserve accounts; and Special assessment income

Where budget includes utilities not separately metered, determine if that is customary, and confirm that budget includes adequate funding for utility payments

Reserve studies may be used to determine appropriate levels of reserves. Reserve studies will also provide useful information regarding the adequacy of the HOA's current reserve fund and offer recommendations to meet funding goals in the event the HOA has under reserved for its needs. Lender may review the most current reserve study or a reserve study update provided it has been completed within 3 years of the date on which the lender approves the project.

Reserve studies must be prepared by an independent third party that has specific expertise

The following items must be addressed:

All manor components and elements of the common areas for which maintenance is expected

Condition and remaining useful life of each major component

An estimated cost of repair, replacement, restoration or maintenance of major components

An estimate of the total contributions required (minus existing reserves) including inflation

Analysis of existing funding

Suggested reserve funding plan. Fannie Mae Single Family Selling Guide B4-2.2-02 (11/10/2014 ).

For new conversions which are not "gut" conversions (where property is renovated down to its shell, including new HVAC and electrical) budget must contain adequate reserves (identified in a reserve study), funds to cover 100% of costs of any items identified in reserve study or engineer's report that need to be replaced within 5 years, and a utility contingency of 10% of previous year's utility costs if not separately metered. Fannie Mae Single Family Selling Guide B4-2.2-06 (06/05/2018).

See "Conversions", above, for FNMA requirements for engineer's reports, etc. for conversions.

## Budget Requirements/Reserves (continued)

**Freddie** Freddie Mac Single-Family Seller/Servicer's Guide 5701.5(d) and 5701.6(d) (06/28/18) requires (except for 2 – 4 unit projects) appropriate allocations for line items pertinent to type and status of project. See also 5701.5(f) and 5701.6(m) (06/28/18) for requirements where lender relies on project reserve studies.

Except for 2 – 4 unit projects, at least 10% of budget (see exclusions) for replacement reserves for capital expenditures & deferred maintenance based on the projects age, remaining useful life and replacement cost, plus adequate funding for insurance deductible. 5701.5(d) (06/28/18) [established projects that do not qualify for “streamlined” (spot loan) processing (see page 3, above)], 5701.6(d) (06/28/18) [new projects]

For new conversions, (except for 2 – 4 unit projects) there must be an initially funded reserve consistent with the remaining useful life of the individual common elements Seller/Servicer's Guide 5701.6(d) (06/28/18).

## Arrearages

**FHA** No more than 15% for more than 60 days, including bank-owned units. FHA Condominium Project Approval & Processing Guide (June 30, 2011) and ML 2012-18 (Sept. 13, 2012) 2.1.5

Although the original Project Approval & Processing Guide indicated that exceptions could be made, when the FHA went to 60 days, it made it clear that no exceptions would be granted. ML 2012-18 (Sept. 13, 2012) 2.1.5

**FNMA** For projects subject to full review, (e.g. attached units) no more than 15% for more than 60 days. Fannie Mae Single Family Selling Guide B4-2.2-02 (06/05/2018)

**Freddie** No more than 15% for more than 60 days, (none allowed in 2-4 unit projects). Freddie Mac Single-Family Seller/Servicer's Guide 5701.6(d) [new projects] and 5701.5(e) [established projects that do not qualify for “streamlined” (spot) loans. See page 3, above.] (06/28/18)

## Assessment Requirements – Starting Date

**Freddie** For a new project of at least 5 units or more, the assessments must begin for all units once the developer ceases to pay operating expenses, whether or not all units have been sold. When any unit owner other than the Developer pays assessments, the Developer (or his successor) must pay assessments attributable to the unsold units. Freddie Mac Single-Family Seller/Servicer's Guide 5701.6(d) (06/28/18)



## FHA Concentration Requirement

**FHA** FHA will not insure any more than 50% of the units in a project. FHA Condominium Project Approval & Processing Guide 3.6 (June 30, 2011). Jurisdictional Homeowners Center can grant exemption.

FHA concentration can be increased to 100% (except for Gut-rehabilitation as well as proposed and under-construction projects) if all requirements for project approval are met and:

100% complete all construction completed for 1 year, as evidenced by final or temporary CO for last unit

100% sold and no entity owns more than 10% (except for eligible governmental or nonprofit programs)

Control turned over; Owner-Occupancy ration at least 50%

Budget provides funding replacement reserves for capital expenditures & deferred maintenance of at least 10%

## FHA Recertification

**FHA** submission through HRAP or by DELRAP either side of 6-months from expiration of current certification (Mortgage Letter 2015-27 November 13, 2015)

## Ownership of multiple Units by one owner

**FHA** Mortgage Letter ML 2012-18 (Sept. 13, 2012) 2.1.4

In existing or Non-Gut Conversion (w/ 2 years of conversion), one investor/entity may own up to 50% of the Units (not counting unit investor occupiers) if at least 50% of units conveyed or under contract for owner-occupancy

Permitted Percentage for planned, under construction, existing for less than 12 months, and Gut Conversions depends upon pre-sales and owner occupancy percentage. See Chart at 3.4 of ML 2012-18 (Sept. 13, 2012)

Developer's unoccupied units are not counted unless rented or previously occupied

**FNMA** No single entity – the same individual, investor group, partnership or corporation may own more than 20% of the units (or 2 units in a 5 to 21 unit project, or 1 unit in a 2 to 4 unit project. Rented Units are counted even if tenant has right to purchase. Developer's vacant units not counted if being actively marketed. Association's units acquired through foreclosure and rented are counted. See additional rules for waivers. Fannie Mae Single Family Selling Guide B4-2.1-02 (06/05/2018).

**Freddie** No individual or single entity (including an investor group) owns more than 10% of units in a project of 21 or more, 2 units in a project of 5 to 20 units, or 1 unit in a 2 to 4 unit project. (Developer's vacant units being actively marketed are not counted, but rented units are). Freddie Mac Single-Family Seller/Service's Guide 5701.3(k) (06/28/18)



## Mixed Use

**FHA** FHA Condominium Project Approval & Processing Guide 2.1.3 (June 30, 2011)

No more than 25% of total floor area non-residential/commercial (special rules for “live/work” projects)

Exceptions can be granted – See Mortgage Letter 2012-18 (Sept. 13, 2012) 2.1.3

**VA** Commercial areas are acceptable, but will be considered in value. 38 CFR §36.4360a(g)

If mixed use, voting rights among members must be fully described, including provisions allowing for representation or protection of minority interests. VA Lenders Handbook, 16-B, Exhibit A,(A)4(a) (7/1/2000).

**FNMA** No more than 35% non-residential. Fannie Mae Single Family Selling Guide B4-2.1-03 (06/28/18). See “ineligible projects” above.

**Freddie** project is ineligible if more than 25% of project or in building where project is located is used as commercial or non-residential space 5701.3 (06/28/18) Freddie Mac Single-Family Seller/Service’s Guide. 5701.11 (02/31/16) provides additional details.

Commercial or non-residential space (in addition to retail, restaurants, stores, etc.) includes:

Parking space not owned by or allocated to the residential unit owners

Residential rental apartments, hotels, etc. even though space may have residential characteristics

Non-residential space used for residential owners (fitness center) but not owned by HOA

Commercial or non-residential space even when separate HOA’s for residential & commercial

## Maintenance Responsibilities

**VA** Responsibility for maintenance and repair of all portions of the condominium property shall be set forth clearly. §38 CFR 36.4357(d)(1)

If association maintains areas it does not own (such as within a public right of way for landscaping or signage or storm water management), [does this include areas within units? After all, technically, the association doesn’t own anything.] attorney must provide a description and rationale. VA Lenders Handbook, 16-B, Exhibit A,(A)8 (7/1/2000).



## Developer Control

**FHA** Later of (1) 120 days after 75% units conveyed; (2) 3 years after 1<sup>st</sup> conveyance; OR (3) requirement of state or local condominium law. FHA Condominium Project Approval & Processing Guide 1.9 (June 30, 2011)

**VA** Earlier of 120 days after 75% units conveyed OR 3-5 years (5-7 if phased) after first conveyance 38 CFR 4359 (a)(1)

BUT VA Lender's Handbook, Exhibit A "Other VA Requirements" Item (A),4,(b) states the second item as "7 years from the date of recording the declaration or, if a phased project, 5 years after recordation of the most recently recorded annexation document."

Relinquishing control includes not having right to veto any action of members or board 38 CFR 4359(a)(1)

Declarant is prohibited from retaining the right to veto actions of the Association (except to the extent that declarant's development rights are affected). Item (D),2,(c) of VA Lender's Handbook, Exhibit A "Other VA Requirements".

**FNMA** For attached units in a new or newly converted project, "The developer or sponsor should provide for and promote the unit owners' early participation in the management of the project." Fannie Mae Single Family Selling Guide B4-2.2-03 (06/05/2018). No specific time frames referenced.

## Developer Contracts (other than Management Contracts) (see also "Amenities")

**FHA** Management or employment contract, lease of recreational or parking facilities, or contract or lease (including franchises and licenses) where Declarant or affiliate is a party is unacceptable unless HOA has right of termination, without penalty, on 90-day notice. FHA Condominium Project Approval & Processing Guide 1.8.10 (June 30, 2011)

**VA** In 38 CFR 36.4358, the section titled "examples of reserved rights of declarant, sponsor, or affiliate of declarant which are usually unacceptable" includes binding the association to any contract or lease to which the declarant is a party unless it is terminable without penalty on no more than 90-days notice.

38 CFR 36.4358 spells out reserved rights which are usually acceptable include, provided they are for a reasonable period of time and are subject to a concomitant obligation to restore include:

- (1) easements provided for in declaration, over common elements (not units) for completing improvements, but only if access otherwise not reasonably available;
- (2) easements over common elements (not units) for making repairs; and
- (3) rights to maintain facilities (identified in declaration) reasonably necessary to market units, including sales and management offices, model units, parking areas and advertising signs.



**Amenities (ownership and leasing)**

**FHA** Lease of recreational or parking areas or facilities unacceptable unless HOA has right of termination, without penalty, on up to 90-day notice. FHA Condominium Project Approval & Processing Guide 1.8.10 (June 30, 2011)

**VA** VA Lenders Handbook, 16-B, Exhibit A,(D)2 (7/1/2000) references rights reserved by the declarant, its affiliates, “or other party,” which are not acceptable unless reviewed by VA, includes

Lease of the common area to the association or accepting leases from the association except in connection with development related offices such as marketing, sales or construction office for the project

Accepting franchises or licenses from the association for the provision of central television antennae service, cable television or like services.

If parking is not provided within each unit, documents must:

Assign specific spaces to each unit, or a specific area to a specific group of units, or

Make other provision assuring parking in compliance with local requirements

OR declarant is to provide other evidence of compliance with local ordinances VA Lenders Handbook, 16-B, Exhibit A,(A)16 (7/1/2000).

**FNMA** For attached units in New, Established and two- to four-unit projects, unit owners in the project must have the sole ownership interest in, and rights to the use of the project’s facilities, common elements, and limited common elements. The developer may not retain any ownership interest in any of the facilities. The amenities and facilities – including parking and recreational facilities – may not be subject to a lease between owners or the association & another party. Fannie Mae Single Family Selling Guide B4-2.2-02 (11/10/2014). Shared amenities are permitted when 2 or more HOA’s share them for the exclusive use of their owners. They must have an agreement in place which identifies the amenities and includes provisions for funding, management, upkeep and conflict resolution.

**Freddie** 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, facilities and amenities. The developer must not retain any ownership interest in the common elements, facilities and amenities (except as a unit owner). Two or more HOAs can share amenities if they have an agreement which spells out the terms of the permitted use, how amenities will be funded, managed and maintained, and a method for resolving disputes. Common elements, including parking and recreation facilities may not be leased except for commercial leases or permits from parties unrelated to the Developer. FreddieMac Single-Family Seller/Service’s Guide 5701.2(b)5. (06/28/18)

## Management Arrangements

**FHA** Any management contract, employment contract, or any contract to which Declarant or an affiliate is a party is unacceptable unless HOA has right of termination, without penalty, on up to 90-day notice. FHA Condominium Project Approval & Processing Guide 1.8.10 (June 30, 2011)

**VA** 38 CFR 4358(a), in a section titled “examples of reserved rights of declarant, sponsor or affiliate of declarant which are usually unacceptable” includes binding the association to any management contract unless it is terminable without penalty on no more than 90-days notice.

38 CFR 4360a(f) (07/01/93), in a section titled “appraisal requirements”, provides that the “management agreement must be terminable for cause upon 30-days notice, and run for a reasonable period of from 1 to 3 years and be renewable with consent of the association and the management. (Management contracts negotiated by the declarant should not exceed 2 years.)”

VA Lenders Handbook, 16-B, Exhibit A,(D)2(c) (7/1/2000) prohibits the declarant, its affiliates, the sponsor “or other party” from retaining the right to enter into management agreements which extend beyond the declarant control period unless those contracts are: (i) limited to 2 years or (ii) permit the owner-controlled board to terminate the contract.

The declaration should provide that the majority of eligible mortgagees can demand professional management. VA Lenders Handbook, 16-B, Exhibit A,(A)17,h (7/1/2000)

## Insurance – Hazard Ins. - What’s Covered (Must Association Policy include “Walls-in” coverage?)

**FHA** Does not require Association to carry “walls-in” coverage, but requires borrow to obtain a walls-in policy (HO-6) if master policy does not include interior coverage, including replacement of interior improvements and betterments. FHA Condominium Project Approval & Processing Guide 2.1.9 (June 30, 2011)

Association may have a policy with a co-insurance provision if Agreed Amount/Value Endorsement for 100% of replacement value or evidence that coverage is confirmed for 100%. Mortgage Letter 2015-27 (November 13, 2015)

Pooled insurance policies among affiliated projects under same master association if there is 100% of replacement cost coverage for each project. Mortgage Letter 2015-27 (November 13, 2015)

**FNMA** Insure against all perils customarily covered for similar types of projects, including those covered by standard “all risk” or “special form” endorsements. 100% insurable replacement cost, no more than 5% of the face amount as deductible, with building code or law enforcement endorsement. Restrictions on co-insurance. Fannie Mae Single Family Selling Guide B7-3-04 (06/28/2016).



**Insurance – Hazard Ins. - What’s Covered (Must Association Policy include “Walls-in” coverage?)**

**FNMA (continued)**

The Lender must review the entire condominium project insurance policy to ensure that the association maintains a master or blanket policy. If the Association has either a “Single Entity” or “All-In” policy, it must cover fixtures, equipment and replacement of improvements and betterments that have been made inside the unit being financed.

“If the unit interior improvements are not included” in the association’s “Single Entity” or “All-In” policy, or if the association has only a “Bare Walls” policy, then the borrower must obtain “an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to the loss claim event.” Fannie Mae Single Family Selling Guide B7-3-04 (06/28/2016). Owners HO-6 Policy must include standard mortgagee clause protecting Fannie Mae. Fannie Mae Single Family Selling Guide B7-3-08 (06/28/2016). If the seller/servicer maintains an escrow account for that loan, it must establish an escrow account for the HO-6 insurance premiums. Q19 of “FAQ’s for Project Insurance Requirements” dated January 11, 2016.

Notice required to association (or the insurance trustee) at least 10 days before cancellation or substantial modification. Fannie Mae Single Family Selling Guide B7-3-04 (06/28/2016).

Developer may cover under its policy until control is transferred to the individual owners, if policies provide equivalent coverage to the requirements in the Seller’s Guide. Q2 of “FAQ’s for Project Insurance Requirements” dated January 11, 2016. See also FAQ’s issued by Fannie Mae dated March, 2018.

**Freddie** Building and structures, fixtures, machinery equipment and supplies maintained for the service of the condominium project. Freddie Mac Single-Family Seller/Servicer’s Guide 8202.2(c) (06/13/18)

fixtures, improvements, alterations and equipment within the individual units, regardless of ownership, unless unit owners are required by the governing documents to insure (need HO-6).

Deductible for fire, water (not caused by flooding) or wind damage to insured improvements limited to 5% of limit maintained for building or dwelling coverage. 8202.2(a) & (c) (06/13/18)

Building ordinance/law enforcement endorsement and inflation requirements, see 8202(c) (06/13/18).

If units are in a detached project, and the governing documents so permit, Freddie will accept insurance that meets the lesser requirements for 1 to 4 unit properties. Projects of detached units do not need to show project liability or fidelity coverage. FreddieMac Bulletin 2017-5 (April 20, 2017).

Blanket or master policies permitted only under certain circumstances.



## Flood Insurance

**FHA** The Association, not the borrower, is to maintain flood insurance under the National Flood Insurance Program (“NFIP”) on buildings located in a Special Flood Hazard Area (“SFHA”) for replacement cost, up to \$250,000 per unit. Mortgagee is responsible for determining if any part of project is in a 100-year flood plain. FHA Condominium Project Approval & Processing Guide 2.1.10 (June 30, 2011). Mortgagee may acquire this information from a third party only to the extent that the third party guarantees the accuracy of the information [(National Flood Insurance Act of 1968 §1365(d)] See also Mortgage Letter 2012-28 (Dec. 11, 2012).

**VA** If in special flood hazard area, flood insurance for lesser of loan amount or maximum available. 38 CFR 36.4326

**FNMA** Association must maintain Residential Condominium Building Association Policy for each building (except non-residential detached structures), any part of which is located in a Special Flood Hazard Area (“SFHA”). The flood insurance must cover common elements and property (including machinery and equipment that are part of the building, as well as each unit in the building. Lower of 80% replacement cost or maximum insurance available from National Flood Insurance Program (which was then \$250,000 per unit). (If NFIP not available, you’re out.) Fannie Mae Single Family Selling Guide B7-3-07 (03/29/2016).

Detached condos or 1-4 unit projects, lowest of (a) replacement cost of insurable improvements; (b) maximum available from NFIP; or (c) unpaid principal balance of mortgage.

**Freddie** Freddie Mac Single-Family Seller/Service’s Guide 8202.3(c) (03/12/17) If any portion of building is in Special Flood Hazard Area designated as Zone “A” or “V” and community participates in NFIP (if they don’t, you’re out) then Association carries building coverage of lower of replacement cost\* or \$250,000 x number of residential units in building (\* After stating that requirement, changes that took effect 12/01/12 recite that if the association coverage is not at least equal to the lower of 80% of the replacement cost or \$250,000 times the number of residential units, the mortgage is not eligible for sale to Freddie Mac except under specifically identified special programs.)

plus contents coverage of lower of value of contents owned by association or max available for content’s coverage from NFIP

with maximum deductibles allowed by NFIP

**OR** If Association does not carry the insurance described above, the Unit Owner must obtain supplemental coverage equal to the difference between the Association’s coverage applicable to the unit, and the amount of coverage required on a 1-4 unit property.

2-4 Unit project or detached project, requirement is for lowest of replacement cost, maximum amount available from NFIP, or mortgage balance. 8202.3(a) & (c) (07/12/17).



## Fidelity Insurance

**FHA** FHA Condominium Project Approval & Processing Guide 2.1.9 (June 30, 2011) require that if condo is over 20 Units, Fidelity Bond/Fidelity Insurance is required for officers, directors, employees and all other persons handling or responsible for funds. No less than 3 months of assessments plus reserve funds unless state law differs

Must have similar coverage for management company's officers, employees and agents handling or responsible for funds of, or administered on behalf of, HOA by: (1) management company securing their own policy; (2) HOA's policy naming management company as an agent or insured; or (3) HOA having a "Covered Employee" endorsement that person employed by an employment contractor (management company) performing services subject to direction and control by HOA is covered under the policy. ML 2012-18 (Sept. 13, 2012) 2.1.9

**VA** Recommends, but does not require, association to purchase bond (3 months + reserves) 38 CFR 36.4359(e)(2).

**FNMA** For attached unit in project with more than 20 Units, blanket fidelity ins. required for any one who either handles or is responsible for funds. Selling Guide B7-4-02 (03/29/2016). Management agent that handles funds also needs its own policy (no minimum amount identified)

HOA coverage minimum is maximum funds held by HOA, or a lesser amount (3 months of assessments) permitted if condo documents require one of the following: (1) Separate bank accounts for working and reserve accounts with statements sent directly to assn.; (2) Management company maintains separate accounts for all associations it represents and does not have authority to draw checks or transfer funds from association's reserve account, OR (3) Two board members must sign checks on reserve account.

10-day Notice to association before cancellation or substantial modification. B7-4-02 (03/29/2016).

**Freddie** Over 20 Units, fidelity or employee dishonesty insurance for acts committed by directors, managers, trustees, employees or volunteers who manage funds. Management company needs similar coverage and must submit evidence of coverage to the HOAA or be insured under the HOA's policy. Amount equal to maximum funds held at any one time. Seller/Service's Guide 8202.6 (06/28/18)

Lesser amount (3 months of assessments) permitted if condo documents require one of the following:

Separate bank accounts for working & reserve accounts, monthly statements sent to HOA.

Management company maintains separate accounts for all associations it represents and does not have authority to draw checks or transfer funds from association's reserve account, OR

2 board members must sign checks on reserve account. Seller/Service's Guide 8202.6 (06/28/18)

Lender not required to confirm fidelity insurance detached projects or projects subject to streamlined review. Seller/Service's Guide 5701.4 and 5701.7 (06/28/18)

**Insurance - Priority of Mortgagee to collection of insurance proceeds**

**FNMA** For mortgage on an attached unit in a new or newly converted project, no provision of condo docs can give the unit owner or any other party (association?) priority over any rights of the first mortgage holder (under its mortgage) in the case of payment to the unit owner of insurance proceeds or condemnation awards for losses to or a taking of condo units and/or common elements. Fannie Mae Single Family Selling Guide B4-2.2-03 (06/05/2018).

**Freddie** Similar provision (except for excluding 2 to 4 unit projects) is found in Freddie Mac Single-Family Seller/Service's Guide 5701.6(j) (03/01/17)

**Availability of Records**

**VA** Association is required to make records available (at least available for inspection upon request, during normal business hours and under other reasonable circumstances) to owners, lenders, holders & insurers and guarantors of first mortgages: Declaration, By-laws, Rules & other books, records and financial statements. 38 CFR 4357(c)(3)

VA Lenders Handbook, 16-B, Exhibit A "Other VA Requirements, (A),17 (7/1/2000) requires that the declaration contain a provision guaranteeing mortgagees and agencies the right to inspect association documents and records on the same terms as members, and, granting the majority of eligible holders of first mortgages the right to demand an audit of the association's financial records.

Likewise, the handbook, at 16-B, Exhibit A, (B),8 requires that the bylaws contain provisions requiring the association to keep records (i) of its governing documents (i.e., association documents, rules and regulations and design standards); (ii) its actions (board resolutions, meeting minutes, etc.); and (iii) its financial condition (receipts and expenditures affecting finances, operations and administration of the association, budget, financial statements, etc.)

The association is not required to keep such records longer than 3 years, unless otherwise required by applicable law.

Documents, books and records kept on behalf of the association are to be available for examination and copying by a member or such members authorized agent during normal business hours and upon reasonable notice and for a reasonable charge except for privileged or confidential information.

## Leasing Restrictions

**FHA** Housing and Economic Recovery Act of 2008 authorized FHA to insure loans under National Housing Act section 203. FHA has determined that the requirements in FHA regulations at 24 CFR part 203 applies to mortgage loans for the purchase of condominium units. (See “Waiver of Federal Housing Administration Regulations at 24 CFR 203.41 (a)(3)” issued March 18, 2011).

Units cannot be subject to legal restrictions on conveyance 24 CFR 203.41(b), which includes leases 24 CFR 203(a)(3), but FHA permits restrictions:

establishment of a maximum number of rental units (not to exceed % which would exceed FHA owner-occupied requirements)

prohibitions against leases for less than 30 days or in excess of maximum allowable term (e.g. 6 months or 12 months)

requirements that leases be in writing and subject to declaration and by-laws

right of association to request names of all tenants and family members who will occupy the unit

Association may not require that tenant be approved by association, including but not limited to meeting creditworthy standards. FHA Condominium Project Approval & Processing Guide 1.8.9 (June 30, 2011)

**VA** Under 38 CFR 36.4358(c)(6), There shall be no prohibition or restriction on a unit owner’s right to lease his unit except in the following two circumstances:

Minimum initial term of up to 1 year; OR

Age restrictions or restrictions imposed by state and local housing authorities

According to VA Lenders Handbook, 16-B, Exhibit A,(D)3 (7/1/2000), the following restrictions on alienation are not permitted:

- b. Right of prior approval of either a prospective purchaser or tenant;
- c. Leasing restrictions which amount to unreasonable restrictions on use and occupancy of a unit; or
- d. Any minimum lease term in excess of 1 year.

**Freddie** Freddie Mac Single-Family Seller/Service’s Guide 5701.6(i) (06/28/2018) requires that for new projects,(except 2 to 4 units), amendments of a material adverse nature be agreed to by mortgagees representing at least 51% of unit votes. A prior version of the Guide gave examples “material adverse” amendments, which included “Imposition of any restriction on the leasing or rental of units.”

## Rights of First Refusal

**FHA** FHA Condominium Project Approval & Processing Guide 2.1.2 (June 30, 2011) permits a right of first refusal unless it violates discriminatory conduct prohibitions under the Fair Housing Act regulations. 24 CFR 100.

**VA** For declarations recorded on or after 12/1/1976, no right of first refusal or right to prior approval of a purchaser is permitted.

For declarations recorded prior to 12/1/76, a right of first refusal or a right to provide a substitute buyer is permitted so long as the price is not lower than the owner is willing sell, the terms are just as favorable, the association has 30 days to respond, and the notice and election is required to be by certified or registered mail. 38 CFR 36.4350(b)(5)(ii)

Permitted exceptions include restrictions that are part of a government program:

(A) to assist low or moderate income purchasers (and other conditions); or

(B) a program to protect older people 38 CFR 36.4350(b)(5)(vi)

**FNMA** For attached units in new (subject to additional phasing or not turned over yet) or newly converted (3 years) projects, rights of first refusal cannot impact foreclosure, deed-in-lieu of foreclosure, or lease or sale of a unit acquired by a mortgagee or assignee. Selling Guide B4-2.2-03 (06/05/2018)

**Freddie** Freddie Mac Single-Family Seller/Service's Guide provides that in a new project:

Where project documents allow Association to retain a right of first refusal, it cannot be exercised:

in any way that constitutes unlawful discrimination OR

is likely to impair the marketability of units 5701.6(g) (06/28/18).

Rights of first refusal in new projects may not impact foreclosure, deed-in-lieu of foreclosure, or lease or sale of a unit acquired by a mortgagee or assignee. 5701.6(g) (06/28/18)

**Notice FNMA** Selling Guide B4-2.2-03 (06/05/2018): Documents must require timely notice to mortgagee or guarantor of condemnation or casualty loss that affects the unit or a material portion of the project;  
60-day delinquency by owner of unit;  
lapse, cancellation or material modification of insurance maintained by HOA; or  
any proposed action which requires consent of a specified percentage of mortgagees.





## Deed Restrictions and Transfer Fee Covenants

**FHA** Housing and Economic Recovery Act of 2008 authorized FHA to insure loans under National Housing Act section 203. FHA has determined that the requirements in FHA regulations at 24 CFR part 203 applies to mortgage loans for the purchase of condominium units. (See “Waiver of Federal Housing Administration Regulations at 24 CFR 203.41 (a)(3)” issued March 18, 2011).

Units cannot be subject to legal restrictions which would cause a conveyance 24 CFR 203.41(b), which includes leases 24 CFR 203(a)(3), by the borrower to:

Be void, or voidable, by a third party

Be the basis of contractual liability of the borrower

Terminate, or subject to termination, the borrower’s interest in the property

Be subject to consent of a third party

Be grounds for accelerating or increasing the interest rate on an insured mortgage

Be subject to limits on the amount of sales proceeds a borrower can retain

With regard to this last point, the Community Association Institute believes that this language from FHA Condominium Project Approval & Processing Guide 1.8.8 (June 30, 2011) means that FHA will not fund loans in condominium projects with deed-based transfer fees.

**FNMA & Freddie** The Federal Housing Finance Agency has issued the following Rule for Fannie Mae and Freddie Mac: They should not purchase, invest, or otherwise deal in mortgages on property encumbered by private transfer fee covenants created on or after February 8, 2011, which require a transfer fee payment in connection with the transfer of title, unless the fee goes to a “covered association” (nonprofit mandatory membership organization comprising owners of the condo) or a 501(c)(3) or (4) and such fees are used by the covered association exclusively for purposes which provide a direct benefit to the real property encumbered. (Private transfer fee does not include fees imposed by a government or by a covered association for defraying the actual costs of the transfer, including the transfer of membership in the relevant covered association.) See rules for definition of “direct benefit.” 12 CFR §1228.1-4, Federal Register March 16, 2012, Volume 75, Number 52 at page 15574-5. FNMA B2-1.4-02 (06/26/2012)

### Ownership Percentages

**VA** acceptable methods of allocating interests include: Equal / Square Footage / Fair Market Value / Other method that is “equitable and reasonable” 38 CFR 36.4357(b)

### Voting Percentages

**VA** 38 CFR 36.4358(c)(2) acceptable methods of allocating votes:

Equal/Following % interests/Square Footage/Fair Market Value/Other method that is “equitable and reasonable”

Declarant’s voting rights may not be “weighted beyond 3 to 1 in the Declarant’s favor (based on the total number of units planned.)” VA Lenders Handbook, 16-B, Exhibit A,(A)4(b) (7/1/2000). [this provision does not appear to negate the developer’s right to appoint directors during the period of developer control. 16-B Exhibit A, (A)5.]

### Priority of Common Expenses

**VA** Units which will be subject to a VA-guaranteed loan will not be subject to delinquent assessments in excess of 6 months in any case in which the association has not brought enforcement action against the current owner. VA Lenders Handbook, 16-B, Exhibit A,(A)12 (7/1/2000).

**FNMA** Fannie Mae Single Family Selling Guide B4-2.1-01 (06/05/2018) allows more than 6 months of regular common assessments to have priority over the Fannie Mae Mortgage if state law so provided, but only if the law was enacted prior to January 14, 2014, and if the state law references an exception for Fannie Mae’s requirements, then no more than 6 months of assessments may have priority over Fannie Mae’s mortgage lien. In all other states, no more than six months of regular common expenses assessments may have priority over Fannie Mae’s mortgage lien, even if applicable law provides for a longer priority period.

### Approval of Amendments

**FNMA** Fannie Mae Single Family Selling Guide B4-2.2-03 (06/05/2018) AND

**Freddie** Freddie Mac Single-Family Seller/Service’s Guide 5701.6(i) (06/28/18)

provides that amendments in projects with more than 4 units, which are materially adverse to lenders must be agreed to by lenders that represent 51% of the unit votes (based on 1 vote for each first mortgage). The project documents may allow implied approval when the lender fails to submit a response to a written proposal within 60 days after actual receipt of proper notice of the proposal delivered by registered or certified mail, return receipt requested.

Similar notice and approval for termination of project or use of insurance proceeds other than to rebuild.

