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Eligible Property Types

- Single-family Residence (1 unit, attached or detached including town homes, row homes and properties with multiple parcels subject to requirements)
- 2-4 unit property
- Factory Built Housing-Modular Home, Panelized Home, Prefabricated Home (Manufactured ineligible)
- Mixed-use Property meeting agency guidelines
- Condominium
- Planned Unit Development (PUD)
- Deed/Resale Restrictions subject to agency guidelines

Note: Not all property types listed above are eligible under all Loan Programs. See Plaza’s Program Guidelines to determine if property type is eligible.

Single-Family Residence

A detached single family dwelling is a typical residence for occupancy by only one family. The improvement is located upon a separate lot having no common or coincidental exterior limits with other improvements or residences. The dwelling may be located in non-subdivision or subdivision areas, such as PUDs.

Factory Built Housing

Factory-built housing is different from site-built housing because it is constructed in a factory, rather than onsite. At the site, the units are completed and attached to a permanent foundation. Acceptable Factory built housing is classified as follows:

- Modular Housing
  - Composed of factory-built modules that are transported to the home site and assembled.
  - Built to the state building code requirements of the state in which it is to be installed.
  - Conforms to all codes adopted by the jurisdiction in which the property is permanently situated, including industrialized building codes; local zoning requirements, and International Code Council (ICC) building codes.

- Panelized
  - Building in which panels, such as a whole wall with windows, doors, wiring, and outside siding, are factory-built, and then are transported to the site and assembled.
  - Built to the local building codes of the jurisdiction in which it is permanently located.
  - Conforms to all codes adopted by the jurisdiction in which the property is permanently situated, including local zoning requirements and International Code Council (ICC) building codes.

- Prefabricated
  - Building materials are factory-cut to design specifications, transported to the site, and assembled.
  - Built to the local building codes of the jurisdiction in which it is permanently located.
o Conforms to all codes adopted by the jurisdiction in which the property is permanently situated, including local zoning requirements and International Code Council (ICC) building codes.

o A Log Home is a unique example of prefabricated (pre-cut) factory built housing, and is defined as a partially prefabricated dwelling, constructed using a log wall system of solid wood walls, 4 inches or more thick, sold as a Home Kit either with or without all materials to fully enclose the structure, having conventionally framed interior walls, rafter or truss system roofs, and conventionally built floor decks. Kits generally include pre-cut materials necessary to construct the dwelling as defined, as well as plans and specifications for construction. Materials are not always pre-cut to exact design specifications; minor modifications may be required at the time of on-site construction.

For lending purposes, modular, panelized, and prefabricated homes are considered the same as a Single Family Residence (SFR) and eligible for the same appraisal review and LTV requirements as a single family residence. Refer to individual program guideline for eligibility restrictions.

**Factory Built Appraiser Commentary**

Each appraisal of factory-built housing must include an appraiser commentary on the following:

- On local demand, marketability of the property, supply of factory-built homes in the area, and its appeal in the marketplace. The marketing time must not exceed 6 months.
- On sufficiency of the unit's living area, interior room size, storage, adequacy of roof pitch, overhangs, and exterior finish.
- The manufacturer's name, the model number, the year of manufacture, and the serial numbers.

**Factory Built Comparable Sales Requirements**

The appraiser must clearly identify the type of factory-built housing to be appraised since it is an important criterion in defining the appropriate market area and for selecting comparable properties. The process of selecting comparable sales for factory-built housing is the same generally as that for comparable sales of site-built housing and should be used to support marketability. Compare modular homes to modular, panelized to panelized, and so on. Use a minimum of 2 similar factory-built comparable sales.

**2-4 Units**

A 2-to-4 family dwelling is a single structure designed to be occupied by 2 to 4 families. The improvement must be located upon a separate lot having no common or coincidental exterior limits with other improvements or residences.

**Condominium**

A condominium is a unit in a project in which each unit owner has title to his or her individual unit, an undivided interest in the project's common areas, and in some cases, exclusive use of certain limited common areas.
Planned Unit Development (PUD)  

A PUD is a real estate project in which each unit owner has title to a residential lot and building and a nonexclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas.

**Example:** parking space.

<table>
<thead>
<tr>
<th>Ensure the following…</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisers provide an adequate description of the mixed-use characteristics of the subject property.</td>
</tr>
<tr>
<td>The mixed use of the property represents a legal, permissible use of the property under the local zoning requirements.</td>
</tr>
<tr>
<td>The market value of the property is primarily a function of its residential characteristics, rather than of the business use or any special business-use modifications that were made.</td>
</tr>
</tbody>
</table>

Hawaii Lava Zones  

Plaza will only fund mortgage loans for properties located on the islands of Hawaii that are located within lava zones 3 through 9. Properties in lava zones 1 and 2 are not eligible due to the increased risk of property destruction from lava flows within these areas.

Hawaiian lava flow maps and other information are available online at the U.S. Geological Survey Hawaiian Volcano Observatory website.

Acreage  

There are no restrictions on lot size for a property to be eligible for financing on conforming products and loans that do not require mortgage insurance. All of the following guidelines must be met:

- Must be residential/suburban in nature
- Must have a market acceptance
- Must be compared with like properties of similar acreage
- Any income produced must be incidental and non-commercial in nature

**Note:** Some loan programs may have restrictions on acreage. Please refer to Program Summaries for possible restrictions.

Multiple Parcels  

The table below provides the requirements when the security property consists of more than 1 parcel of real estate.

<table>
<thead>
<tr>
<th>Multiple Parcels Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Each parcel must be conveyed in its entirety.</td>
</tr>
<tr>
<td>Parcels must be adjoined to the other.</td>
</tr>
<tr>
<td>Each parcel must be zoned as residential.</td>
</tr>
<tr>
<td>Only 1 parcel may have a dwelling unit (limited nonresidential improvements such as a garage are acceptable).</td>
</tr>
<tr>
<td>The mortgage must be a valid first lien on each parcel.</td>
</tr>
</tbody>
</table>

Unpermitted Room Additions and  

Single family properties with unpermitted room additions and conversions are acceptable as described below.
Conversions

All of the following must apply:

- The appraiser must comment that the addition or conversion was completed in a workmanlike manner and that there is not any impairment to the soundness, structural integrity, or livability of the property.
- The room addition must conform to the rest of the property.
- The addition or garage conversion cannot cause the subject property to be in violation of zoning.
- The appraisal must indicate that the zoning is legal and may not include any comments that the zoning of the property has been jeopardized.
- The square footage of the addition may be included in the appraised value.
- A garage or porch conversion may be appraised as originally intended or as currently used, depending on the comparable sales.

Example: If garage conversions are typical for the area as evidenced by comps, the conversion may be appraised as it is currently used. If garage conversions are not typical for the area the conversion should be appraised as a garage.

- The hazard insurance policy must clearly show that the entire square footage of the subject property, including the unpermitted addition, is included in the policy.

Room Addition Example

If the property was a 3 bedroom property and another bedroom has been added and the property is being appraised as a 4 bedroom property, the hazard insurance policy must clearly insure the total square footage of all living space, including the addition.

Garage Conversion Examples

- If the property is being appraised with the garage conversion being valued as a bedroom, the hazard insurance policy must clearly insure the total square footage of all living space.
- If the garage conversion is being valued as a garage, the hazard insurance policy need only insure the area as a garage.
- The hazard insurance policy does not need to indicate that there is an unpermitted addition or garage conversion, but the square footage that we are lending on must be covered by the policy.

Zoning

Local ordinances and/or municipality requirements may obligate a property to have covered garage storage. This is more common in PUDs and gated communities. It is the responsibility of the appraiser to check for this type of requirement; however, it is the underwriter’s responsibility to thoroughly review the appraisal to ensure the property’s zoning is compliant.

Ineligible Scenarios

The following scenarios are not eligible under any circumstance:
• Room additions are not eligible on 2-4 unit properties. All properties must be single family properties and the addition may not result in the property converting to a multi-unit property, etc.
• Additions that result in extra living units, also known as accessory units or granny flats, etc. are not eligible.

Special Requirements for

• Non-owner occupied (investment) 1-4 unit and,
• Owner-occupied 2-4 unit properties

Rental income and bedroom count must be captured on all non-owner occupied 1-4-unit properties and all owner-occupied 2-4unit properties, whether or not the rental income is used to qualify the borrower and regardless of the Automated Underwriting System (AUS) decision. Current monthly rent should be used. If the property or unit(s) is vacant or being used by the owner for another purpose, market rent should be provided.

This information can be obtained through 1 or more of the following sources:

• Lease agreements
• Tax returns
• Single-Family Comparable Rent Schedule (1007)
• Appraisal (previous appraisal can be used for bedroom count only)
• Public record data that does not provide current property valuation (used for bedroom count only)
• Loan application (Form 1003)
• HUD’s Fair Market Rents Website - http://www.huduser.org/portal/datasets/fmr.html
• Local Property Tax Authority Websites or Tax Records

Purchase of Investment Properties

If there is an existing rental agreement or lease on the subject property, verify that it does not contain any provisions that could affect Plaza’s first lien position on the property. Review the lease to determine if it is subordinated to the new first mortgage. If it will not be subordinate to the new mortgage, ensure that any tenant’s rights to the property have been formally waived by the tenants.

Leasehold Estates

Plaza lends on fixed-rate and adjustable-rate first mortgages that are secured by leasehold estates in areas in which this type of mortgage loan has received market acceptance. Mortgages secured by manufactured homes located on leasehold estates are not eligible.

• The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land.
• The leasehold estate and the improvements must constitute real property, must be subject to the mortgage lien, and must be insured by the lender’s title policy.
- The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee or by any default of a sublessor.
- The Freddie Mac Ground Lease Analysis Form 461 to be completed by the Underwriter.

Lender Approval of Lease

Fannie Mae may reserve the right to approve leases when the property is part of a condo or PUD project. A lender should contact its lead Fannie Mae regional office (see E-1-03, List of Contacts (12/18/2012)) to determine whether Fannie Mae will delegate the responsibility for approving leases to it.

Term of the Leasehold

- The term of the leasehold estate must run for at least 5 years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower, a homeowners’ association.

Additional Closing Requirements

The following requirements must be met before the closing of a leasehold estate mortgage.

- All lease rents, other payments, or assessments that have become due must be paid.
- The borrower must not be in default under any other provision of the lease nor may such a default have been claimed by the lessor.

Lease Requirements

The table below provides the requirements for leases associated with leasehold estates.

<table>
<thead>
<tr>
<th>Lease and Lender Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times by the lessee either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.</td>
</tr>
<tr>
<td>The lease must provide for the borrower to retain voting rights in any homeowners’ association.</td>
</tr>
<tr>
<td>The lease must provide that the borrower will pay taxes, insurance, and homeowners’ association dues related to the land in addition to those he or she is paying on the improvements.</td>
</tr>
<tr>
<td>The lease must be valid, in good standing, and in full force and effect in all respects.</td>
</tr>
</tbody>
</table>
The lease must not include any default provisions that could give rise to forfeiture or termination of the lease except for nonpayment of the lease rents.

The lease must include provisions to protect the mortgagee’s interests in the event of a property condemnation.

The lease must be serviced by either the lender that delivers the mortgage to Fannie Mae or the servicer it designates to service the mortgage.

The lease must provide lenders with:
- The right to receive a minimum of 30 days’ notice of any default by the borrower, and
- The option to either cure the default or take over the borrower’s rights under the lease.

Option to Purchase Fee Interest

- The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land.
- If the option is included, the purchase must be at the borrower’s sole option, and there can be no time limit within which the option must be exercised.
- If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold.
- Both the lease and the option to purchase must be assignable.
- The table provides the requirements for establishing the purchase price of the land.

<table>
<thead>
<tr>
<th>Status of Property Improvements</th>
<th>Purchase Price of Land</th>
</tr>
</thead>
<tbody>
<tr>
<td>Already constructed at the time the lease is executed.</td>
<td>The initial purchase price should be established as the appraised value of the land on the date the lease is executed.</td>
</tr>
<tr>
<td>Already constructed at the time the lease is executed, and the lease is tied to an external index such as the Consumer Price Index (CPI).</td>
<td>The initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed.</td>
</tr>
<tr>
<td></td>
<td>The purchase price may be adjusted annually during the term of the lease to reflect the percentage increase or decrease in the index from the preceding year.</td>
</tr>
<tr>
<td></td>
<td>Leases may be offered with or without a limitation on increases or decreases in the rent payments.</td>
</tr>
<tr>
<td>Will be constructed after the lease is executed.</td>
<td>The purchase price of the land should be the lower of the following:</td>
</tr>
<tr>
<td></td>
<td>- The current appraised value of the land, OR</td>
</tr>
</tbody>
</table>
The high cost of housing has become a challenge for people who want to purchase homes in many markets around the country. To help address this issue, many governmental and nonprofit entities support the development of properties subject to resale restrictions. Those strategies help to create and preserve affordable housing stock in communities over the long-term.

The lender must review the terms and conditions of the affordable housing program, including any documents that describe the resale restrictions.

Resale restrictions are a right in perpetuity or for a certain number of years, stated in the form of a restriction, easement, covenant, or condition in any deed, mortgage, ground lease (other than a community land trust ground lease addressed in this topic), agreement, or other instrument executed by or on behalf of the owner of the land.

Resale restrictions may limit the use of all or part of the land to occupancy by persons or families of low-income or moderate-income or on the basis of age (senior communities must comply with applicable law), or may restrict the resale price of the property to ensure its availability to future low-income and moderate-income borrowers.

The restricted resale price provides a subsidy to the homeowner, in an amount equal to the difference between the sales price and the market value of the property without resale restrictions.

The resale restrictions are binding on current and subsequent property owners, and remain in effect until they are formally removed or modified, or terminate in accordance with their terms, such as at a foreclosure sale or upon acceptance of a deed-in-lieu of

---

**Age and Resale Deed Restrictions**

<table>
<thead>
<tr>
<th>The amount that results when the percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements.</th>
<th>Will be constructed after the lease is executed, and the lease is tied to an external index.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The above standards apply; however, the initial land value may not exceed 40% of the combined appraised value of the land and improvements.</td>
<td></td>
</tr>
<tr>
<td>For example, assume that the total original appraised value for a property was $160,000, and the land alone was valued at $40,000 (thus representing 25% of the total appraised value).</td>
<td></td>
</tr>
<tr>
<td>If the current appraised value is $225,000; $50,000 for land and $175,000 for improvements, the purchase price would be $50,000 (the current appraised value of the land, since it is less than 25% of $225,000).</td>
<td></td>
</tr>
</tbody>
</table>
foreclosure.

This topic does not pertain to community land trust ground leases, see B5-5.1-04, Community Land Trusts (06/26/2012) in the Fannie Mae Seller Guide.

However, if a community land trust uses a restriction, easement, covenant, or condition in any deed, mortgage, agreement, or other instrument executed by or on behalf of the owner of the land instead of a ground lease to create the resale restriction, this section will apply.

**Compliance with Community Seconds Policy**

Resale restrictions may be found in the terms and conditions of the second mortgage or deed of trust (referred to as a Community Seconds mortgage), which Fannie Mae does not purchase.

In other cases, the resale restrictions are found in a covenant or provision of an agreement that is recorded against the land, and no Community Seconds mortgage exists.

When the resale restrictions are documented by a second mortgage or deed of trust, the lender must ensure that the second mortgage or deed of trust complies with Fannie Mae’s Community Seconds guidelines in B5-5.1-01, Community Seconds Mortgages (04/09/2013). The second mortgage or deed of trust must be subordinate to the first mortgage that Fannie Mae purchases.

If the resale restrictions are included in a separate covenant or agreement instead of a second mortgage or deed of trust, the resale restrictions must comply, if applicable, with Fannie Mae’s requirements in B5-5.1-02, Community Seconds Loan Eligibility (08/21/2012), related to shared appreciation in property value. The right of the subsidy provider to shared appreciation must be clearly subordinate to the lien of the first mortgage that Fannie Mae purchases.

Any provisions addressing balloon payments, the interest rate, and negative amortization must be documented in the Community Seconds mortgage, and not in a covenant or agreement.

**Loan and Borrower Eligibility**

**Eligible Transaction Types**

1st mortgages that are either purchase or refinance transactions.

**Eligible Products**

- Eligible products include Plaza products underwritten using DU.
- Fixed-rate mortgages and adjustable-rate mortgages with an initial fixed period of 5 years or more are eligible.
- Mortgages with an interest-only feature are not eligible.
Eligible Subsidy Providers

Eligible subsidy providers, or sponsors, of resale restrictions must be:

- Nonprofit organizations
- Churches
- Employers
- Universities
- Municipalities (including state, county, or local housing agencies); or
- Entities that are otherwise administering government sponsored, federal, state, or local subsidy programs.

The subsidy provider must have established procedures for screening and processing applicants.

Eligible Borrowers

Eligible borrowers must satisfy the specific eligibility criteria and resale restrictions established by the subsidy provider.

If the borrower income limits for the resale restrictions differ from the income limits for Fannie Mae’s community lending mortgages, the income limits established by the resale restrictions apply.

Eligible Properties

Plaza will allow mortgages subject to resale restrictions secured by one-unit properties (including eligible condo projects and PUDs) or two-unit properties. The property must be the borrower’s principal residence.

Mortgages secured by manufactured homes, co-op projects, and three- or four-unit properties are not eligible.

Underwriting and Collateral Considerations

Calculation of LTV Ratios

- When resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or the recordation of a deed-in-lieu of foreclosure, the sales price is typically not a reliable indicator of market value for the property.
- Accordingly, for these types of mortgages, Fannie Mae permits lenders the option to use the appraised value of the property without resale restrictions, rather than the lesser of sales price or appraised value with the restrictions in place, when calculating the LTV ratio.
- Fannie Mae is permitting this calculation based on the market value without resale restrictions because it is indicative of the actual value of the property in the event of a foreclosure or acceptance of a deed-in-lieu of foreclosure (disregarding factors that may affect value after origination and prior to foreclosure).
- When using this alternative method of calculating the LTV ratio, the mortgage
must be manually underwritten and is not eligible for submission through DU.

- When resale restrictions survive foreclosure or a deed-in-lieu of foreclosure and the resale restrictions limit the sales price of the property, the lender must use the lesser of the sales price or appraised value of the property with resale restrictions when calculating the LTV ratio, which is the standard method of calculation.
- Fannie Mae is requiring the standard calculation on the lower value due to the presence of resale restrictions, which would limit the property's sales price in the event of foreclosure or acceptance of a deed-in-lieu of foreclosure.
- When the standard method for calculating the LTV ratio is applied, these mortgages may be underwritten with DU.

Allowable Resale Restrictions

Plaza will allow mortgages that are subject to one or more of the following types of resale restrictions (although some restrictions are likely to occur only in combination with others):

- Income limits
- Age limits (senior communities must comply with applicable laws)
- Purchasers must be employed by the subsidy provider
- Principal residence requirements
- First-time home buyer requirements as designated by the subsidy provider
- Properties that are group homes or that are principally used to serve disabled residents, AND
- Resale price limits.

Duration of Resale Restrictions

Plaza will purchase mortgages secured by properties subject to resale restrictions:

- When the restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period)
- Upon the recordation of a deed-in-lieu of foreclosure, or
- When the resale restrictions survive foreclosure
- There are no restrictions on the length of the period in which the resale restrictions may remain in place on the property.
- If the resale restrictions survive foreclosure, the lender represents and warrants
  - That the resale restrictions do not impair the servicer’s ability to foreclose on the restricted property.
- If the resale restrictions terminate at foreclosure, the subsidy provider is not entitled to obtain any proceeds from future sale(s) or transfer(s) of the property after foreclosure or acceptance of a deed-in-lieu of foreclosure.
- If the resale restrictions survive foreclosure, the subsidy provider is not entitled to obtain any proceeds from the initial sale or transfer of the property after foreclosure, from the foreclosing mortgage holder who obtained the property at foreclosure or pursuant to a deed-in-lieu of foreclosure.
- Resale Restriction Appraisal Requirements In cases where the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or upon recordation of a deed-in-lieu of foreclosure, the
The appraisal should reflect the market value of the property without resale restrictions.

- The lender must ensure that the borrower and appraiser are aware of the resale restrictions and should advise the appraiser that he or she must include the following statement in the appraisal report:
  - "This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure."

- In cases where the resale restrictions survive foreclosure or deed-in-lieu of foreclosure, the appraisal must reflect the impact the restrictions have on value and be supported by comparable sales with similar restrictions.

The appraisal report must note the existence of the resale restrictions and comment on any impact the resale restrictions have on the property’s value and marketability.

**Legal Considerations**

**Resale Restriction Title and Insurance Requirements**

The source and terms of the resale restrictions must be included in the public land records so that they are readily identifiable in a routine title search.

**Default Remedies**

The presence of resale restrictions must not impair Plaza’s legal rights to cure a default under the mortgage terms, to foreclose on the mortgage, or to otherwise protect Plaza’s interests under the mortgage.

- The subsidy provider also may have rights to remedy a borrower default.
- Rights to Insurance Settlements and Condemnation Proceeds
- Plaza must have first claim to insurance settlements and condemnation proceeds.
- Default or Refinancing of Resale Restriction Loans

The subsidy provider may retain the right of first refusal or option to purchase a resale restricted property when the borrower is in default or the property is in foreclosure. The terms of the right of first refusal or option to purchase must be specified in the terms of the resale restrictions. The subsidy provider must exercise its right of first refusal or option to purchase within 90 days of receiving notification of the borrower default or the property foreclosure.

- The subsidy provider may permit borrowers to refinance their mortgage and take cash out of the transaction. However, the resale restrictions may limit the cash-out amount in order to protect the subsidy invested in the property. Lenders must document that the subsidy provider has approved the refinance transaction and should ensure that the cash-out amount complies with the provisions of the
specific resale restrictions.

**Mortgage Insurance Approval of Resale Restriction**

If a mortgage loan is subject to resale restrictions that survive foreclosure or deed-in-lieu of foreclosure and mortgage insurance is required, the lender must first contact its mortgage insurance provider and obtain confirmation that the mortgage insurer is willing, on a program basis, to insure these mortgages under the lender’s master primary policy.

**Special Feature Codes**

Lenders must report SFC 630 when delivering mortgages secured by properties with resale restrictions that terminate automatically upon foreclosure (or the expiration of any applicable redemption period) or the recordation of a deed-in-lieu of foreclosure, and if the lender uses the optional calculation to compute the LTV ratio based on the appraised value of the property without resale restriction. This LTV ratio, calculated using the appraised value of the property without resale restrictions, must also be reported as part of the delivery data.

Lenders must report SFC 631 when delivering mortgages secured by properties with resale restrictions that survive foreclosure or deed-in-lieu of foreclosure. No special feature code is required when delivering mortgage loans secured by properties with resale restrictions that terminate automatically upon foreclosure—or the expiration of any applicable redemption period—or the recordation of a deed-in-lieu of foreclosure, if the lender uses the standard calculation to compute the LTV ratio based on the lower of sales price or the current appraised value with resale restrictions.

**Ineligible Property Types**

Plaza Home Mortgage, Inc., will not purchase a loan for a property with any of the following ineligible property characteristics:

- Assisted Living Projects
- Builder Model Leaseback
- Houseboats
- Investment Securities
- Manufactured Home
- Mobile Home
- Multi-family dwelling containing more than 4 units.
- Properties not suitable for year-round occupancy.
- Properties with resale restrictions that do not meet agency eligibility.
- Property without full utilities installed to meet all local health and safety standards.
- Property used for commercial or industrial purposes
- Residential property with a permanently affixed manufactured home on property.
- Tax-sheltered syndicate
- Timeshare Unit
- Unimproved land
- Working farm, ranch, or orchard if income producing
- Unique properties (including those properties that may have marketability issue because of their uniqueness).
Cooperatives

Fannie Mae and Freddie Mac require lenders to make certain warranties regarding each mortgage secured by a unit in a condominium or an attached planned unit development (PUD) project. When applicable, warranties must be approved by the underwriter after a thorough review of all project documentation.

Regardless of the review type of classification, all projects must meet the following general requirements:

**Project Eligibility**

The quality of mortgages secured by units in a condo project can be influenced by certain characteristics of the project as a whole. As a result, before Plaza will fund mortgages secured by individual units in a condo project, the project must be acceptable. The scope of the guidelines and the specific eligibility criteria are dependent upon whether the condo project reviewed is established or new and are summarized in the following table:

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Eligibility Criteria</th>
</tr>
</thead>
</table>
| Established project | • At least 90% of the total units in the project have been conveyed to the 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 homeowners’ association has been turned over to the unit owners. |
| New project         | • Fewer than 90% of the total units in the project have been conveyed to the unit purchasers.  
                        • 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. **OR**  
                        • The project is subject to additional phasing or annexation. |
| 2-4-unit project    | Additional eligibility requirements apply for 2- to 4-unit projects:  
                        • No single entity (the same individual, investor group, partnership, or corporation) may own more than 1 unit within the project.  
                        • All units, common elements, and facilities within the project, including those that are owned by any master association, must be 100% complete. |
|                     | • All but 1 unit in the project must have been conveyed to owner-occupant principal residence or second home purchasers. **AND**  
                        • The units in the project must be owned in fee simple or Leasehold, and the unit owners must be the sole owners of, and have rights to the use of, the project’s facilities, common elements, and limited common elements. |
### Project Definitions

<table>
<thead>
<tr>
<th>Condominium</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Ownership of property is limited to the space within the walls of the dwelling (does not include the ground).</td>
</tr>
<tr>
<td>- The legal description for the property consists of a unit number.</td>
</tr>
<tr>
<td>- High rise condominium: greater than or equal to 5 stories</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PUD</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Ownership of the property is similar to that of a SFR, however the property has use of common areas that are owned by the HOA.</td>
</tr>
<tr>
<td>- The legal description for the property consists of a lot number.</td>
</tr>
<tr>
<td>- Type F PUD: PUD in which the builder is still in control of the HOA.</td>
</tr>
<tr>
<td>- Type E PUD: PUD in which the control of the HOA has been turned over to the unit owners.</td>
</tr>
</tbody>
</table>

### Ineligible Projects

<table>
<thead>
<tr>
<th>Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Projects with more than 15% of total units are 30 days or more past due on their HOA due.</td>
</tr>
</tbody>
</table>

**Note:** In the event that the mortgagee acquires a unit through foreclosure or deed-in-lieu, the mortgagee may not be responsible for more than 6 months of delinquent HOA dues, or maximum amount permitted under applicable state law.

- New condominium projects in which the property seller offers sales/financing structures in excess of the maximum allowable contributions for individual loans.
- Commercial space(s) used for non-residential purposes that exceed 20% of the total space of the project are ineligible for purchase.
- Manufactured housing projects
- Non-warrantable condominium projects
- Projects that are managed and operated as a hotel or motel, even though the units are individually owned. Condominium hotels/Condotels including:
  - Projects with physical characteristics indicating the project has a hotel identity, hotel-like characteristics, or offers hotel-like services.
  - Projects with names including “hotel,” “resort,” “motel,” “inn,” or “lodge,” has an affiliation with, and/or is managed by an entity, usually a chain or hospitality entity.
  - Projects located at the same address as a hotel or resort, within a hotel or resort or have a hotel or hospitality identity.
  - Projects publicly advertised as a condominium hotel or resort (for example, the project advertises on travel or hotel websites, or has a website on the internet and presents itself as a condominium hotel) **OR**
  - Websites are available to determine room availability and reservations can be made online.
  - The project shares facilities, common elements, or amenities with a hotel, resort, and/or lodge that is owned and managed by the developer or another third-party entity.
  - Projects that include registration services and offer rentals of units on a daily basis.
• A condominium conversion originally constructed as a hotel or motel is not allowed.
• Any project or building owned by several owners as tenants-in-common or by a HOA in which the individuals have an unidentified interest in a residential apartment building and have the right of exclusive occupancy of a specific unit in the building.
• FHA-approved condo projects for loans with Conventional and VA financing
• Houseboat project
• “Live-work” type condominiums; usually used for artist’s studio, workshops, factories, or galleries.
• Multi-dwelling unit condominium: A condominium project that permits an individual to hold title to more than one dwelling unit with ownership of all units evidenced by a single deed of trust or mortgage.
• New Condo Projects with units of less than 400 square feet that do not have Fannie Mae PERS approval.
• Newly converted, non-gut rehabilitation condo projects.
• Condo 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.
• Own Your Own property: This type of property can be identified by the legal description. Generally an ‘Own Your Own’ legal description will give the borrower the right to occupy a given unit, instead of actual ownership of the unit.
• Projects with non- incidental businesses operated or owned by the homeowner’s association (for example, restaurant, health club, spa, etc.).
• Projects with mandatory memberships (tennis, golf, health club, etc.)
• Projects with mandatory rental pooling agreements or blackout periods (Projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over the occupancy of the units).

Note: These formal agreements between the developer, homeowners’ association, and/or the individual unit owners, obligate the unit owner to rent the property on a seasonal, monthly, weekly, or daily basis. In many cases, the agreements include blackout dates, continuous occupancy limitations, and other such use restrictions. In return, the unit owner receives a share of the revenue generated from the rental of the unit.
• Projects characterized as or promoted as an investment opportunity or have documents on file with the SEC.
• Timeshare or segmented ownership.
• Projects that restrict the owner’s ability to occupy the unit.
• Common interest apartments or community apartment projects are projects or buildings that are owned by several owners as tenants-in-common or by a
homeowners' association in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building.

- New projects where the seller is offering sale/financing structures in excess of Fannie Mae's eligibility policies for individual mortgage loans. These excessive structures include, but are not limited to, builder/developer contributions, sales concessions, HOA or principal and interest payment abatements, and/or contributions not disclosed on the HUD-1 Settlement Statement.

- Cooperatives

**Identification of Condominium Hotels**

A careful analysis of the project to determine eligibility is required, utilizing several reliable sources of information. These include, but are not limited to, the appraisal, the contract for sale, and the applicable project's website.

The following web sites can be used to help determine if a Condominium project is operating as a hotel:

- [www.condohotels.com](http://www.condohotels.com)
- [www.condotelsgolf.com/specials](http://www.condotelsgolf.com/specials)
- [www.condohotelcenter.com](http://www.condohotelcenter.com)
- [www.floridahomes4u.co.uk](http://www.floridahomes4u.co.uk)
- [www.condominiumcentral.net](http://www.condominiumcentral.net)
- [www.condotels.com](http://www.condotels.com)

- The above websites are a tool and due diligence is required to determine that the project is not a condominium hotel and ineligible. If the websites above do not provide information, at a minimum, the underwriter should utilize Google to validate that the property is not a condotel or short-term rental.

- In some instances, a project may be part of a Master Association. A Master Association is a homeowners' association in a large condominium project that consists of representatives from associations covering specific areas within the project. It is a second level association that handles matters affecting the entire development. While the first level association handles matters affecting their particular portion of the subject development. If a project is part of the Master Association and the Master Association operates as a hotel, resort, motel, inn or lodge the entire project is ineligible.

- As an example, a Master Association consists of five condominium projects within a development. Each of the five projects has its own legal documents including Declaration of Condominium, By-Laws, Articles of Incorporation and Master Deed. All five-condominium projects are part of a Master Association that also has legal documents. Although the individual projects do not have the amenities of a condominium hotel, the Master Association offers hotel-like amenities, as previously defined; therefore, the entire project is ineligible.

---

**Projects in Litigation**

- **Projects in Litigation**

Condo or PUD) for which the homeowners’ association is named as a party to pending
(litigation that relates to the safety, structural defects, structural soundness, habitability, or functional use of the project.

**Note:** Projects for which Plaza determines that the pending litigation involves minor matters are not considered ineligible projects, provided the underwriter concludes that the pending litigation has no impact on the safety, structural soundness, habitability, or functional use of the project.

The following are defined as minor in nature:

- 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 association’s insurance; **OR**
- The homeowners’ association is named as the plaintiff in a foreclosure action, or as a plaintiff.

If the underwriter is aware of pending litigation and unable to determine whether it may be deemed a minor matter and feels the project warrants consideration, the underwriter may contact Fannie Mae’s Project Standards team directly for guidance to determine whether eligible.

<table>
<thead>
<tr>
<th>Reason for Litigation</th>
<th>Eligibility Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alleged Structural Defects</td>
<td>If the HOA is suing the builder/developer for alleged structural defects, the project is not acceptable until the lawsuit is settled and the repairs have been completed.</td>
</tr>
<tr>
<td>Corrected Structural Defects</td>
<td>If the HOA sues the builder/developer for costs associated with structural defects for which repairs have been completed, but the litigation is not yet settled, the project is unacceptable until the lawsuit is settled.</td>
</tr>
</tbody>
</table>
| Accident Within the Project         | If the HOA is a defendant in a lawsuit due to an accident within the project, the project may be acceptable provided that:  
  - It is determined that the HOA has sufficient liability insurance coverage to meet any anticipated settlement; **AND**  
  - A detailed letter is obtained from the HOA’s attorney that explains the lawsuit and provides the attorney’s assurance that the insurance coverage will meet any court imposed settlement. |
| Foreclosure or Past Due HOA Dues     | Projects where the HOA is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA dues, may be considered. |
**Mixed Use Condominium**

A mixed use condominium project (usually a high rise) is located in an urban area where commercial space is on the ground level or sometimes on the penthouse level. The following guidelines apply to mixed use condo’s:

- The commercial area is limited to 20% of the gross square footage and the commercial use of the property must operate separately from the residential use.
- The appraisal must support that mixed use condos are common for the area.
- If the commercial space is on the top floor, the business must have a separate elevator only for commercial use.
- Eligible for all warranty types

**Florida Attached Project Restrictions**

Applies to all conventional programs excluding DURPs, LPRRs and Fannie Mae Home Path loans which are not subject to this guidance.

The following LTV and requirements apply to Attached Condo Projects:

The following project types are not eligible:

- Non-warrantable, new or newly converted attached condominium projects with five or more units with conventional financing.
- Loans that do not comply with the Florida 1% assessment order are not eligible.

**Florida — Established Attached Condo Projects**

(including 2-4 units)

<table>
<thead>
<tr>
<th></th>
<th>PERS Approved</th>
<th>Lender Full Review</th>
<th>CPM Expedited Review</th>
<th>Limited Review / Streamline Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Residence</td>
<td>95% DU / LP</td>
<td></td>
<td></td>
<td>75% DU / LP</td>
</tr>
<tr>
<td>Second Home</td>
<td>90% DU / LP</td>
<td></td>
<td></td>
<td>70% DU / LP</td>
</tr>
<tr>
<td>Investor</td>
<td>85% DU / LP</td>
<td></td>
<td></td>
<td>Not Eligible</td>
</tr>
</tbody>
</table>

**Florida — New and Newly Converted Attached Condo Projects**

(including 2-4 units)

<table>
<thead>
<tr>
<th></th>
<th>PERS Approved</th>
<th>Lender Full Review</th>
<th>CPM Expedited Review</th>
<th>Limited Review / Streamline Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Residence</td>
<td>95% DU only</td>
<td></td>
<td></td>
<td>Not Eligible</td>
</tr>
<tr>
<td>Second Home</td>
<td>90% DU / LP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investor</td>
<td>85% DU / LP</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Florida Special Project Designation Requirements**

This type of project approval is available for new purchase and refinance transactions that meet all the following requirements:
• The project must appear on the Special Approval designation list, published on Fannie Mae's website, at the following link; **AND**
• A print out reflecting the project appears on the list, must be included in the loan file; and
• Loan must be approved through DU only; and
• The property must be a primary residence; and
• Credit Score of 740+, max LTV/CLTV is 70%; or
• Credit Score of <740, max LTV/CLTV is 60%

In addition to the requirements above, all refinance transactions must also meet the following additional requirements:

• The existing mortgage must currently be Fannie-Mae owned or securitized. User must confirm eligibility using the Fannie Mae Loan Lookup feature at the following link: http://loanlookup.fanniemae.com/loanlookup/.
• A copy of the screen print from the website showing "Match Found" must be included in the loan file.
• Appraisal is required regardless of AUS findings.
• Proof of required insurance, such as hazard or flood insurance coverage for a detached condominium unit, or HO-6 coverage for an attached unit.
• Project Coding is **T**: Fannie Mae Special Approval for Florida Condos.
• The loan must fund at least 60 days before the Expiration Date (refer to the Eligible Project List for all expiration dates).
• Freddie Mac Programs: FNMA Special Approval Projects are not eligible under any Freddie Mac program.
• FNMA Lender Letter LL-2010-01-

<table>
<thead>
<tr>
<th>Project Insurance Liability</th>
</tr>
</thead>
</table>

$1,000,000 coverage minimum per any single occurrence (except California) on all attached projects including 2-4.

**Note:** Not required on detached site condos

**CA Liability Requirements**

• $2,000,000 Coverage minimum per any single occurrence (California-projects with 100 or fewer units)
• $3,000,000 Coverage minimum per any single occurrence (California-projects with greater than 100 units)
• Additional liability coverage may be in the form of an "umbrella" or "additional liability"
• Additional CA Liability Requirements do not apply to attached PUDs

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Hazard

- 100% of the insurable value and include Replacement Cost Endorsement.
- Deductible may be up to 5% of the face amount (Except 2-4 Unit projects).
- 2-4 Unit projects; deductible may be the lesser of $10,000 or 1% of the policy face amount.

"Walls-In" Requirements

Borrowers are required to obtain a "walls-in" or "contents coverage" Hazard Insurance coverage policy (commonly know as HO-6 or HO-3 policies) on condominiums and attached PUDs. This is separate from the required hazard insurance master policy.

- Walls-in insurance policies are required on all condominium or attached PUD loans, where the master HOA policy does not provide coverage of the interior of the unit.
- An acceptable Individual Contents and Liability Policy with Walls-In coverage must include the fixtures, equipment, and replacement of improvements and provide betterment coverage to include any improvements that the borrower may have made.
- Impounds are mandatory on all loans (as required per standard LTV impound requirements of 80% or 90% depending on state)
- The standard requirement for a maximum 5% deductible also applies.
- Walls-In insurance requirements can be waived if the HOA confirms the master insurance policy covers the interior of the unit.

Fidelity Bond Insurance

Required for all projects > 20 units.

- Coverage >= no less than the maximum amount of funds in custody of HOA or management company at any one time. OR
- An amount equal to 3 months HOA assessments, if financial controls are in place (separate accounts for reserves and operating budget).

Flood Insurance

Flood insurance is required for each condominium property located within a designated Special Flood Hazard Area. Coverage must include all floors of multi-floor structures (even if the unit is not on the ground floor).

- 100% of the replacement cost of the dwelling based on the hazard insurance.
- Contents coverage that equals 80% or more of the insurable value of the common areas and machinery the coverage exceeds the maximum available under the NFIP the coverage should be the maximum available.
- Master Policy deductible may not exceed a maximum of $25,000 (Except 2-4 Unit projects).
- 2-4 Unit projects; Deductible may not exceed a maximum of $5,000.

Additional Flood insurance requirements
For condominium units, the total amount of flood insurance must equal the lesser of 100% of the insurable value of the improvements as it appears on the hazard insurance dwelling policy or the National Flood Insurance Program (NFIP) coverage limit. Coverage can be structured in 1 of the following ways:

- Residential Condominium Building Association Policy (RCBAP) covering the lesser of 100% of the insurable value of improvements or the NFIP coverage limit.
- RCBAP providing a minimum of 80% coverage along with a dwelling policy to cover the difference needed to meet the lesser of 100% of the insurable value of improvements or the NFIP coverage limit.
- The RCBAP must provide at least 80% of the insurable value of the improvements or the maximum allowed under the NFIP, whichever is less, or the policy is ineligible.

Note: If there is no RCBAP, a dwelling policy is required covering the lesser of 100% of the insurable value of improvements or the NFIP coverage limit.

Loans on attached condominium units must be covered with either of these two options below.

Coverage Option 1:

Units are covered by the NFIP Residential Condominium Building Association Policy (RCBAP) also referred to as the project’s blanket or master flood policy. The Homeowners Association (HOA) maintains the policy and pays the premiums.

For attached condominium projects, the required flood insurance coverage has the following 3 components:

- Building coverage that equals 100% or more of the insurable value of the common elements and property (including repair or replacement of the foundation and its supporting structures, and machinery and equipment that are not part of the building).
- Contents coverage that equals 100% or more of the insurable value of all contents (including repair or replacement of the foundation and its supporting structures, and machinery and equipment that are not part of the building) and are owned in common by association members.
- Unit coverage, which should be the lesser of:
  - $250,000 per unit in the project OR
  - 100% of the insurable value (replacement cost) of each insured building in the project including amounts to repair or replace the foundation and its supporting structures (including all common elements and property).

Coverage Option 2:

A dwelling policy is required in the absence of a RCBAP (project blanket or master policy). Unit owners are required to obtain separate policies for their individual units with the same type of coverage required for single-family residences.
Coverage must be:

- Equal to or greater than the unpaid principal balance of the loan OR
- The maximum available from NFIP (currently $250,000 per unit)

If the unpaid principal balance of the mortgage is the lowest option, then the amount must be at least 100% of the replacement cost of the dwelling. If the unpaid principal balance is less than 100% of the replacement cost of the dwelling, then the required coverage must be at least 100% of the dwelling.

Plaza generally uses the replacement cost of improvements (as determined by hazard insurance coverage) to calculate adequate flood coverage. When a project consists of high-rise or other vertical buildings, the HOA must have a separate flood insurance policy for each building that contains dwelling units.

**Earthquake Insurance**

FHLMC earthquake insurance is not required.

The following project type codes are used for project warranty

<table>
<thead>
<tr>
<th>Project Type Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q</td>
<td>Limited Review — Established Projects</td>
</tr>
<tr>
<td>P</td>
<td>Limited Review — New detached projects</td>
</tr>
<tr>
<td>R</td>
<td>CPM Expedited Review or Lender Full Review — New projects, including new 2-4 unit projects</td>
</tr>
<tr>
<td>S</td>
<td>CPM Expedited Review or Lender Full Review — Established projects, including established 2-4 unit projects</td>
</tr>
<tr>
<td>T</td>
<td>(PERS) Project Exception Review Service Approval from Fannie Mae.</td>
</tr>
<tr>
<td>V</td>
<td>Freddie Mac Streamline Review Fannie Mae Du Refinance Plus and HomePath</td>
</tr>
</tbody>
</table>

**Limited Review Process for Attached Condo Units**

- Must have a valid AUS from DU or LP which indicate that a Limited or Streamline Review Option is allowed.
- Must be an established Project.
- The mortgage is not secured by a manufactured home.
- The project is not an ineligible project. (See Ineligible Projects).
- The condo unit is occupied as the owner’s principal residence or second home.
- The loan is for a primary residence with an LTV/CLTV of 80% or less OR a second home with an LTV/CLTV of 75% or less. (For Condo’s in Florida established projects only: the maximum is 75% for a primary residence and 70% for second homes).
- The property is covered by the type of hazard and flood insurance coverage required as outlined in the Project Insurance Section of this guide.
**Limited Review Process for Detached Condo Units**

When a lender performs a Limited Review for a mortgage secured by a detached unit in a condo project, the lender warrants that the following eligibility criteria have been met. SFC 588 is required when delivering detached condo units as part of the ULDD Data Set.

<table>
<thead>
<tr>
<th>✔ Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>The mortgage is secured by a single detached unit in a condo project.</td>
</tr>
<tr>
<td>The mortgage is not secured by a manufactured home.</td>
</tr>
<tr>
<td>The project is not an ineligible project. (See Ineligible Projects).</td>
</tr>
<tr>
<td>The condo unit is occupied as the owner’s principal residence or second home.</td>
</tr>
<tr>
<td>The condo unit is an investment property and the loan was submitted to DU.</td>
</tr>
<tr>
<td>The appraiser commented on, and reflected in the appraisal report, any effect that buyer resistance to the condo form of ownership has on the market value of the individual unit.</td>
</tr>
<tr>
<td>If the condo project is new, the appraiser used as a comparable sale at least 1 detached condo unit, which may be located either in a competing project or in the subject project, if the condo unit is offered by a builder other than the 1 that built the subject unit.</td>
</tr>
<tr>
<td>The mortgage title insurance policy satisfies Plaza’s and Fannie Mae’s special title insurance requirements for units in condo projects.</td>
</tr>
<tr>
<td>The property is either covered by the type of hazard and flood insurance coverage required for single-family detached dwellings, if the condo unit consists of the entire structure as well as the site and air space; OR The project’s master hazard and flood insurance policies, if the condo unit consists only of the air space for the unit and the improvements and site are considered to be common areas or limited common areas.</td>
</tr>
</tbody>
</table>

The lender’s review of the project must cover any areas that affect its ability to make the required representations and warranties for a Limited Review.

**Type S - Lender Full Review and CPM Lender Full Review General Eligibility Criteria Established Projects including 2-4 units**

When delivering loans secured by units in a condo project on the basis of a Lender Full Review, lenders must ensure adherence to the following requirements:

<table>
<thead>
<tr>
<th>✔ Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>The project must meet the requirements of the General Warranty of Project Eligibility. (See General information in the Projects section.</td>
</tr>
<tr>
<td>The project must not be an ineligible project. See Ineligible Project Section.</td>
</tr>
<tr>
<td>The project must not be a manufactured housing project.</td>
</tr>
<tr>
<td>The project must not be a new project which contains any units with less than 400 square feet.</td>
</tr>
<tr>
<td>The project must meet Fannie Mae insurance requirements.</td>
</tr>
</tbody>
</table>

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No more than 20% of the total square footage of the project can be used for commercial purposes.

The units in the project must be owned in fee simple or leasehold. (See Leasehold Estate Section)

No more than 20% of the total units in a project may be 30 days or more past due on their homeowners’ association (HOA) dues. For example, a 100 unit project may not have more than 15 units that are 30 days or more delinquent.

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

In the event that environmental problems are identified, the problems must be determined to be acceptable, as described in Suggested Format for Phase I Environmental Hazard Assessments section.

All gut rehabilitation work involved in a condo conversion must have been completed in a professional manner.

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. Projects that have undergone gut rehabilitation are eligible for a Lender Full Review.

For a conversion that was legally created during the past 3 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, an existing Fannie Mae PERS approval must be in place and valid to be eligible.

### Additional Requirements for 2-4 Unit Projects

#### Additional Eligibility Requirements for Condo Projects Consisting of 2 to 4 Units

A Lender Full Review of a project consisting of 2 to 4 units must comply with the general eligibility requirements for all projects, listed above, as well as the following requirements:

<table>
<thead>
<tr>
<th>Lender Full Review or CPM Expedited Review Warranty Type S Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects in which a single entity (the same individual, investor group, partnership, LLC or corporation) owns more than 10% of the total units in the project are not eligible.</td>
</tr>
<tr>
<td>All units, common elements, and facilities within the project, including those that are owned by any master association, must be 100% complete.</td>
</tr>
<tr>
<td>All but 1 unit in the project must have been conveyed to owner-occupant principal residence or second home purchasers.</td>
</tr>
<tr>
<td>The unit owners must be the sole owners of, and have rights to the use of, the project’s facilities, common elements, and limited common elements.</td>
</tr>
</tbody>
</table>
If the CC&Rs require an HOA then evidence of an HOA in existence is required.

If the CC&Rs do not require an HOA, then the CC&Rs do address how the insurance and common area expenses are paid for.

A commercial general liability policy is required with a minimum of $1 million per occurrence with the Association as the named insured.

### New or Newly Converted Lender Full or CPM Full Review Type R

When performing a Lender Full Review of a new condo project or newly converted attached condo projects, lenders must ensure compliance with the following additional requirements:

<table>
<thead>
<tr>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance with general requirements for all condo projects listed in Lender Full Review General Requirements Section</td>
</tr>
<tr>
<td>The project, or the subject legal phase, must be “substantially complete.” This means that:</td>
</tr>
<tr>
<td>• A certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or subject phase, <strong>AND</strong></td>
</tr>
<tr>
<td>• 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.</td>
</tr>
</tbody>
</table>

**Note:** Fannie Mae does not require the installation of typical buyer selection items such as appliances, floor coverings, counter tops, and/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. Lenders are expected to obtain appropriate documentation to support that all buyer selection items for the unit being financed are properly installed prior to closing.

| • At least 70% of the total units in the project or subject legal phase must have been conveyed or be under a bona fide contract for purchase to owner-occupant principal residence or second home purchasers. |
| • CPM Expedited Review has more flexible presale requirements for attached new or newly converted condo projects. For a specific legal phase or phases in a new project, at least 70% 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 owner-occupant principal residence or second home purchasers. |
| • For the purposes of this review process, a project consisting of 1 building cannot have more than 1 legal phase. |
| Lenders must represent and warrant that the project meets the legal requirements addressed in B4-2.2-13, Condo Project Review and Legal Document Requirements (08/21/2012). |
| Lenders must review the homeowners’ association projected budget to determine that: |
| • It is adequate (i.e., it includes allocations for line items pertinent to the type of condo). |

*This document and its subject matter are the sole property of Plaza Home Mortgage, Inc., and is intended for its use only. Any unauthorized use, dissemination, or distribution of this document or its subject matter is strictly prohibited. Guidelines subject to change without notice*
• It provides for the funding of replacement reserves for capital expenditures and deferred maintenance at least 10% of the budget, and
• It provides adequate funding for insurance deductible amounts.

**Note:** Increased insurance costs have resulted in associations increasing their insurance deductible amounts to reduce annual premiums. Insurance deductibles can be quite substantial. Fannie Mae does not require a separate budget line item for insurance deductibles, but the potential cost of deductibles must be accounted for in the budget. Insurance deductibles may be included in the reserve fund or may be a separate item. In either case, the lender must determine that the project has the ability to fund insurance deductibles.

No more than 15% of the total units in an attached condo project can be 30 days or more past due on the payment of their condo/association fee payments.

No single entity—the same individual, investor group, partnership, LLC or corporation other than the developer during the initial marketing period—may own more than 10% of the total units in the project.

The unit owners must be the sole owners of, and have rights to the use of, the project’s facilities, common elements, and limited common elements.

The project must be located on 1 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.

**Overall development plan:**
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, lenders must review the overall development plan for the master association to evaluate the acceptability of the project.

**Reviewing the Overall Development Plan**

When reviewing the overall development plan to determine the project’s potential viability, lenders must evaluate the:

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

**Completion and Construction Assurance Arrangements**

• Lenders must determine that acceptable completion assurance arrangements have been provided for new projects (or newly converted attached condo projects) that are only substantially completed.
These 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 should:

- Protect each unit against defects that become apparent within 1 year from the date of its settlement, **AND**
- Cover all common facilities for 1 year from the time when units that represent 60% of the votes in the homeowners’ association have been transferred.

**Marketing the Unit Estates**

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 agreements, **AND**
- The method for handling deposits connected with a sale.

**Note:** When the homeowners’ association retains the right to provide a substitute buyer 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.

**Retention of Amenities**

Facilities related to the project must be owned by the unit owners or the homeowners’ association. 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 homeowners’ association and another party.

**Project Management**

- The developer or sponsor should provide for and promote the unit owners’ early participation in the management of the project.
- Fannie Mae prefers that the project be managed by an independent professional management firm. The contract with the management firm should be for a reasonable term, and should include equitable provisions for its termination.

**Unit Occupancy**

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

**CPM Expedited Review**

If a property does not meet the requirements of a Lender Full Review, Condo Project Manager (CPM) may be utilized.

**Legal, Non-Conforming Use of Land**
Condo projects that represent a legal but non-conforming use of the land are acceptable if documentation from the local authorities is obtained stating that the property can be rebuilt to the current density in the event of full or partial destruction.

**Condo Project Manager (CPM)** is a web-based tool designed to help lenders determine if a project will meet Fannie Mae's eligibility requirements. CPM is available on Fannie Mae's website. CPM decisions are based on lender data. Loan file must contain a copy of the CPM approval decision to be eligible.

New and newly converted condo projects consisting of attached units located in Florida are not eligible for CPM review. See Florida Condo Requirements section for acceptable warranty types.

Projects reviewed using CPM Expedited Review process must contain the CPM report and report the Project Type code as "R" for new projects or "S" for CPM Expedited Review for established projects on the Uniform Underwriting and Transmittal Summary (Form 1008).

**CPM Representations and Warranties**

The submitting lender represents and warrants that data provided to CPM is correct and the project meets all applicable Fannie Mae eligibility requirements.

**CPM Certifications**

Condo Project Manager’s project certification is valid for 6 months for new projects, and 1 year for established projects. Lenders may recertify the project by updating the project data in CPM as needed.

**Eligibility Requirements and Lender Review**

All eligibility requirements are built into CPM. The table below highlights certain unique project eligibility and lender review requirements for CPM.

<table>
<thead>
<tr>
<th>CPM Review Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>New and established condo projects consisting of manufactured homes are not eligible.</td>
</tr>
<tr>
<td>Lenders may use CPM to determine project acceptance for new and established projects.</td>
</tr>
<tr>
<td><strong>Note</strong>: Projects that consist of 4 or fewer units have specific eligibility requirements under the Expedited Review process.</td>
</tr>
<tr>
<td>Presale and investor concentration in some cases are more flexible than the Lender Full Review eligibility requirements.</td>
</tr>
<tr>
<td>Lenders must review the homeowners’ association budget (not required for 2-to 4-unit projects):</td>
</tr>
<tr>
<td>• The actual budget for established projects, <strong>AND</strong></td>
</tr>
<tr>
<td>• The projected budget for new projects.</td>
</tr>
<tr>
<td>• The lender’s review of the budget must conclude:</td>
</tr>
<tr>
<td>o The budget is adequate (that is, it includes allocations for line items</td>
</tr>
</tbody>
</table>
pertinent to the type of condo).

- The budget provides for the funding of replacement reserves for capital expenditures and deferred maintenance (at least 10% of the budget). **AND**
- The budget provides adequate funding for insurance deductible amounts.

**Note:** Increased insurance costs have resulted in homeowners’ associations increasing their insurance deductible amounts to reduce annual premiums. Insurance deductibles can be quite substantial. Fannie Mae does not require a separate budget line item for insurance deductibles, but the potential cost of deductibles must be accounted for in the budget. Insurance deductibles may be included in the reserve fund or may be a separate item. In either case, the lender must determine that the project has the ability to fund insurance deductibles.

<table>
<thead>
<tr>
<th>For new projects, the lender must represent and warrant that the project</th>
<th>meets the legal requirements addressed in Fannie Mae Seller Guide B4-2.2-13, Condo Project Review and Legal Document Requirements (08/21/2012) B4-2.2-13, Condo Project Review and Legal Document Requirements (08/21/2012).</th>
</tr>
</thead>
<tbody>
<tr>
<td>The project must be covered by the kinds of insurance — hazard, flood, liability and fidelity — required by Fannie Mae for a condo project</td>
<td>No more than 15% of the total units in an attached condo project can be 30 days or more past due on the payment of their condo/association fee payments.</td>
</tr>
<tr>
<td>No single entity — the same individual, investor group, partnership, LLC or corporation other than the developer during the initial marketing period may own more than 10% of the total units in the project. In the case of a project that has fewer than 10 units, no single entity may own more than 1 unit.</td>
<td>The nonresidential space does not exceed 20% of the project’s total square footage.</td>
</tr>
</tbody>
</table>

**Fannie Mae DURP (DU) Loans – Type V Review (Limited)**

- DU Approve Eligible indicating Limited Review is required
- For Condominium Units, the Underwriter is not required to evaluate if the Condominium Project meets project eligibility requirements, except the following:
  - The Underwriter must represent and warrant that the project is not located in a Hotel/Resort Project, houseboat project, timeshare project, or a project with fragmented or segmented ownership.
  - They must also represent and warrant that the project has insurance that meets the applicable insurance requirements.

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Fannie Mae Home Path Loans – Type V Review (Limited)
- DU Approval is the only warranty documentation required.

Freddie Mac LRRR Relief Refinance (LP) Loans - Type V Review (Streamline)
- LP Accept indicating Streamline Review is eligible required
- For Condominium Units, the Underwriter is not required to evaluate if the Condominium Project meets project eligibility requirements, except the following:
  - The Underwriter must represent and warrant that the project is not located in a Hotel/Resort Project, houseboat project, timeshare project, or a project with fragmented or segmented ownership.
  - They must also represent and warrant that the project has insurance that meets the applicable insurance requirements.

Eligibility Requirements for PUD Projects
A 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.

In order for a project to qualify as a PUD, each unit owner’s membership in the HOA must be automatic and non-severable, and the payment of assessments related to the unit must be mandatory.

The underwriter can determine the correct Fannie Mae PUD classification type, from reviewing the Project Information for PUDS section of the URAR 1004 Appraisal Form:

Type E: Established PUD projects:
- When the developer has turned over voting control of the HOA to the unit purchasers.

Type F: New PUD projects:
- If the developer has not turned over voting control of the HOA to the unit purchasers.

Fannie Mae does not require a lender to perform a review of a PUD project if the mortgage being delivered is secured by a detached unit within a PUD.

Zoning is not a basis for classifying a project or subdivision as a PUD.
When reviewing an Attached PUD project (whether new or established), determine that the project meets the following requirements:

<table>
<thead>
<tr>
<th>✓</th>
<th>PUD Lender Full Review Checklist</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The project satisfies the warranty requirements of General Condo and PUD Project Requirements in this document. Click here for General Condo and PUD Project Requirements.</td>
</tr>
<tr>
<td></td>
<td>The project is not an ineligible project, in accordance with the Ineligible Projects section of this document. Click here for a list of ineligible projects.</td>
</tr>
<tr>
<td></td>
<td>The project does not consist of single-width manufactured housing units.</td>
</tr>
<tr>
<td>21</td>
<td>The individual unit securing the mortgage satisfies the insurance requirements for PUD projects as outlined in the Attached PUD Warranty Checklist form FM-025.</td>
</tr>
</tbody>
</table>

Links to PUD forms:
- Attached PUD HOA Certification form FM-024
- Attached PUD Warranty Checklist form FM-025

**Owner-Occupancy Ratio Requirements and Financial Institution-Owned REO Units**

- Lenders may count financial institution-owned REO units that are for sale (not rented) as owner-occupied when calculating the 51% owner-occupancy ratio requirement for established, attached unit condo projects if the mortgage loan being delivered is secured by (purchase or refinance) an investment property.
- The REO unit must be for sale (not rented) as an owner-occupied unit.
- Projects where a borrower is an investor and the project does not meet the owner occupied ratio of 51% will only be eligible if there is an existing and valid PERS approval issued by Fannie Mae, OR
- As a single-loan project eligibility waiver and Fannie Mae approves the waiver based on its review of the overall risk of the project.

**Environmental Hazard Assessment**

An environmental assessment is only required if Plaza Home Mortgage, Inc., has identified environmental problems through the performance of its project review process and due diligence review.

There are 2 types of environmental assessments – A Phase I assessment is when a qualified environmental consultant is hired to gather information from various sources to evaluate the environmental soundness of the project. If the Phase I assessment identifies any problems or is inconclusive with regard to any particular hazard, a Phase II assessment is necessary. A qualified environmental engineer must conduct the Phase II assessment. A new condominium (or existing building which has been converted to a condominium) must be acceptable under either the Phase I or the Phase II assessment.
Unacceptable Environmental Conditions

A property must be acceptable under either the Phase I or the Phase II Environmental Hazard Assessment in order for a new condominium to be an acceptable project under a Type B project classification. The existence of 1 or more unacceptable environmental conditions will generally result in a project being ineligible.

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.
- High-risk neighboring properties that have evidence of hazardous waste spills or soil or groundwater contamination on or around the 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).

<table>
<thead>
<tr>
<th>A property with soil sampling that has value for metal in excess of the following concentration limits (in parts per million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chromium</td>
</tr>
<tr>
<td>Zinc</td>
</tr>
<tr>
<td>Lead</td>
</tr>
<tr>
<td>Copper</td>
</tr>
<tr>
<td>Arsenic</td>
</tr>
<tr>
<td>Cadmium</td>
</tr>
<tr>
<td>Nickel</td>
</tr>
<tr>
<td>Selenium</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>A property with soil sampling that has value for organic materials in excess of the following concentration limits (in parts per million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total volatile organics</td>
</tr>
<tr>
<td>Total hydrocarbons</td>
</tr>
<tr>
<td>Total petroleum hydrocarbons</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>A property with groundwater sampling that has value for other organic materials in excess of the following concentration limits (in parts per million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total organics (volatiles &amp; base neutrals)</td>
</tr>
<tr>
<td>Total petroleum hydrocarbons</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>A property with groundwater sampling that has values for metals in excess of the following concentration limits (in parts per million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arsenic</td>
</tr>
<tr>
<td>Boron</td>
</tr>
<tr>
<td>Cadmium</td>
</tr>
</tbody>
</table>
A property with high radon levels (above 4 pico curies per liter) that can be corrected only through large capital improvements and/or extensive on-going maintenance programs that is beyond the financial or technical abilities of the Homeowners’ Association for the project.

A property that has conditions representing material violations of applicable local, state, or federal environmental or public health statutes and laws; and

A property that is contaminated by friable asbestos-containing materials or polychlorinated biphenyl’s (PCBs).

Properties that fail to meet a particular standard may be corrected through remedial actions and then retested. Remedial actions should be undertaken only 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.

The completion and effectiveness of remedial actions must be confirmed before Plaza Home Mortgage, Inc., will issue a project warranty for a specific condominium project. Plaza Home Mortgage, Inc., will consider issuing a conditional project warranty before the completion of remedial work under the following conditions:

- A qualified environmental consultant states in writing that remedial work needed to make the property eligible under the environmental standards can be completed within 90 days after issuing of the conditional project acceptance (or within any additional time allowed for completion of any repair or moderate rehabilitation work required under our conditional project acceptance).
- The project developer or sponsor must provide a performance escrow equal to 150 percent of the gross contract amount to assure the completion of the remedial work.
- The project's developer or sponsor signs a contract with a qualified firm to perform the remedial work within 90 days after Plaza Home Mortgage, Inc., issues a conditional project warranty (or within any additional time allowed for completion required under the conditional project acceptance).

When Plaza Home Mortgage, Inc., issues a Conditional Project Warranty before the completion of remedial work, a written statement is required from a qualified consultant when the work is finished, certifying that the job has been completed satisfactorily and that the property meets environmental eligibility standards.