

CONVENTIONAL LOANS/ESTABLISHED PROJECTS | CPM/FULL HOA WARRANTY REQUIREMENTS

REQUIRED DOCUMENTS

- Appraisal
- Preliminary Title Policy
- Full HOA Cert
- DU or LPA Findings
- Budget; Current Year, Adopted (Waived with current PERS/1028 Approval at FNMA)
- Master Insurance Dec Page/Loss Payee Certificate Page

Items in [blue font](#) are from [FNMA Guidelines](#).

INSURANCE REQUIREMENTS

The Insurance Company must provide documentation that requirements are included in the policy. The insurance representative can provide one of the following:

- ACORD 101/Special Instructions
 - Additional Remarks Schedule
 - Endorsement Page/Listing (Noting these all apply to this policy)
- (i.e., State Farm provides a limited 'packet' that provides all the required information included in its policy)

ENDORSEMENT REQUIREMENTS

EQUIPMENT BREAKDOWN ENDORSEMENT

(Not required if Unit Owner is responsible for service/maintenance on HVAC unit)

[B7-3-04, Property Insurance Coverage for Units in Project Developments \(07/29/2014\)](#)

Boiler and Machinery/Equipment Breakdown Endorsement if the project has central heating or cooling. This endorsement should provide for the insurer's minimum liability per accident to at least equal the lesser of \$2 million or the insurable value of the building(s) housing the boiler or machinery.

CO-INSURANCE Is not eligible.

The insurance policy must have an **AGREED AMOUNT ENDORSEMENT** (waiving co-insurance).

[B7-3-04, Property Insurance Coverage for Units in Project Developments \(07/29/2014\)](#)

Policies with coinsurance provisions can create additional risk for an HOA in the event of a loss if the amount of insurance coverage is less than the full insurable value. Master property policies that provide coverage at 100% of the insurable replacement cost of the project improvements, including the individual units, alleviate the risk of a coinsurance penalty being applied in the event of a loss. If the policy has a coinsurance clause, inclusion of an Agreed Amount Endorsement or selection of the Agreed Value Option (which waives the requirement for coinsurance) is considered acceptable evidence that the 100% insurable replacement cost requirement has been met.

CANCELANATION LANGUAGE IN MASTER LIABILITY POLICY

Must be able to review cancellation language in master liability policy.

1st Lien Mortgage Holder must receive a minimum 10 day notice for changes and/or cancellation

(only required if the project carries Walls-In/H06 coverage for the borrower)

[B7-3-04, Property Insurance Coverage for Units in Project Developments \(07/29/2014\)](#)

The policy must require the insurer to notify in writing the HOA (or insurance trustee) and each first mortgage loan holder named in the mortgagee clause at least 10 days before it cancels or substantially changes a condo project's coverage.

WINDSTORM/HAIL COVERAGE

(only required if policy reads that it is 'exempt')

SEVERABILITY OF INTEREST/SEPARATION OF INSURED

BUILDING ORDINANCE OR LAW ENDORSEMENT

(unless the Agent can document it's not available in the market area)

INSURANCE DEC PAGE REQUIREMENTS

LIABILITY REQUIREMENTS - CA*

\$2,000,000 Coverage Minimum per any single occurrence (CA projects with 100 or fewer units)

* Liability Ins/Coverage per state law 1365.9. This law protects individual owners in a Condo Association or HOA where the owners have some interest as tenants-in-common in common area. If certain levels of insurance are carried it prevents the individual owners from being sued individually for accidents that happen in the common area. The minimum amount of coverage required for this protection is \$2,000,000 if 100 or fewer separate interest units and \$3,000,000 if more than 100 separate interests. Condo Associations should have this level of protection.

\$3,000,000 Coverage Minimum per any single occurrence (CA projects with greater than 100 units)

Additional liability coverage may be in the form of an 'umbrella' or 'additional liability.'

LIABILITY REQUIREMENTS - ALL OTHER STATES

\$1,000,000

FIDELITY INSURANCE

- Must cover the amount of annual income off budget (waived if less than 21 units or less than \$5,000 in revenue. 3 x dues x units in project).
- Fidelity Insurance/Crime Coverage must be equal to or greater than budgeted revenue OR an amount equal to 3 months HOA assessments, if financial controls are in place. Separate accounts for reserves and 2 signers must be verified by HOA. (THIS IS AN EXCEPTION TO ALLOW REDUCED FIDELITY/CRIME INSURANCE COVERAGE)
Fidelity Coverage \$_____ / 3 x Assessment Balance \$_____
- If HOA has a management company, document that the fidelity bond covers them as well.

PROPERTY INSURANCE

Property Insurance Coverage Must Cover:

100% of the insurable replacement cost of the project improvements, including the individual units in the project.

- Guaranteed Replacement Cost - The insurer agrees to replace the insurable property regardless of cost;
- Extended Replacement Cost - The insurer agrees to pay more than the property's insurable replacement cost; or
- Replacement Cost - The insurer agrees to pay up to 100% of the property's insurable replacement cost.

CONVENTIONAL LOANS/ESTABLISHED PROJECTS | CPM/FULL HOA WARRANTY REQUIREMENTS

INSURANCE DEC PAGE REQUIREMENTS (CONTINUED)

If the HOA does not carry Property Insurance for all units in the project, the legal documents (CC&Rs) must support this and the borrower must provide an H03 policy that meets guidelines.

NOTE: CIBA, CCAI, Beck & Company Real Estate Services and some Wells Fargo insurance policies are NOT eligible because they are pooled policies. If more than one project is insured, they must document that the others insured are under the same master association or share the use of common facilities. If not, it is considered unaffiliated and not eligible under the “pooled insurance” guidelines. See exceptions in LP Guidelines.

CURRENT YEAR ADOPTED BUDGET

- Must show 10% line item allocation for reserves and adequate funding for insurance deductibles. Mandatory dues other than HOA dues (i.e., clubs, pools, golf, etc.) are not allowed.

[B4-2.2-09, Condo Project Manager \(CPM\) Expedited Review for New and Established Condo Projects \(05/28/2013\)](#)

The lender's review of the budget must conclude that:

- The budget is adequate (that is, it includes allocations for line items 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);
- The budget provides adequate funding for insurance deductible amounts.

NOTE: Increased insurance costs have resulted in homeowners' association 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.

[B4-2.1-02, Non-incidental Income \(11/10/2014\)](#)

See below under ineligible projects.**

INELIGIBLE PROJECTS

- **PROJECTS DEEMED INELIGIBLE BY FANNIE MAE**

[B4-2.1-02, Ineligible Projects \(11/10/2014\)](#)

- Projects that operate as hotels or motels
- Sources of information for researching hotel or motel operations
- Projects subject to split ownership arrangements
- Projects that contain multi-dwelling unit condos or co-ops
- Projects with property that is not real estate
- Projects that operate as a continuing care community or facility
- Non-incidental business arrangements (restaurants, gyms, leased parking, etc.)
- Commercial space and mixed-use allocation
- Live-Work projects
- Litigation
- Priority of common expense assessments

** Non-incidental income from the following sources may be permitted, provided the income does not exceed 15% of the project's budgeted income, and

- Income from the use of recreational amenities or services owned by the HOA for the exclusive use by unit owners in the project or leased to another project according to a shared amenities agreement (as noted below)
- Income from agreements between the HOA and telephone, cable, and internet companies for the purpose of providing communication or media services (for example, income related to a cell tower located on the roof of the project)
- Laundry & Clubhouse Rentals

NOTE: The single-entity ownership limits (described in the Ineligible Project Characteristics table above) will apply to the number of units owned and rented by the HOA.

EXCEPTION/PROJECT EXCEPTION WAIVER (PEW)

- If your loan is ineligible for one of the below factors, we can send Fannie Mae a request for an exception/Project Exception Waiver (PEW). The process takes approximately 3-5 business days and approval is not guaranteed.
 - Subject is an investment property AND project has less than 51% owner-occupied units
 - Project has greater than 25% commercial space
 - One entity owns greater than 10% of the project units

FLORIDA ATTACHED CONDO PROJECTS LTV REQUIREMENTS – NEW/NEWLY CONVERTED

OCCUPANCY TYPE	PERS ¹ APPROVED MAX LTV
Principal Residence	97%
Second Home	90%
Investment Property	85%

FLORIDA ATTACHED CONDO PROJECTS LTV REQUIREMENTS – ESTABLISHED

OCCUPANCY TYPE	PERS ¹ APPROVED/FULL REVIEW (with or without CPM ²) MAX LTV
Principal Residence	97%
Second Home	90%
Investment Property	85%

1 Fannie Mae's Project Eligibility Review Service

2 Fannie Mae's Condo Project Manager