

# GSE and FHA Condo Rules

(As of 7/11/2017)

| Issue   | Fannie Mae  | Freddie Mac   | FHA   |
|---|---|---|---|
| <b>Owner-Occupancy Requirements for Established Projects.</b> | <p>No limit if the buyer will occupy the unit (as principal or secondary residence).</p> <p>If the buyer is an investor, the owner-occupancy requirement is 51%. REO units are counted as owner-occupied units. REO units are those owned by a financial institution and are for sale (not rental).</p>                             | <p>Same as Fannie Mae.</p> <p>If the buyer is an investor, the owner-occupancy requirement is 51%. Freddie does not count REO units as owner-occupied units.</p> <p>For 2-4 unit projects, all but one unit must be conveyed to purchasers (other than the developer) who occupy units as primary residences or second homes.</p> | <p>50% minimum owner-occupancy requirement.</p> <p>Project may have 35% owner-occupancy if the following conditions are met:</p> <ul style="list-style-type: none"> <li>• Applications must be submitted for processing and review under the HUD Review and Approval Process (HRAP) option.</li> <li>• Financial documents must provide for funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 20 percent of the budget; and</li> <li>• No more than 10 percent of the total units can be in arrears (more than 60 days past due) on their condominium association fee payments; and</li> <li>• Three years of acceptable financial documents must be provided.</li> </ul> |
| <b>Owner-Occupancy Requirements for New Condo Projects</b>    | <p>The owner-occupancy requirement varies from 51% to 70%, conveyed or under contract, depending on the type of project approval review process used. Fannie will consider waivers for projects enjoying healthy sales. In response to NAR concerns, Fannie has informed NAR it plans to add an FAQ re availability of waivers.</p> | <p>At least 70% of units must be occupied or under contract to purchasers. The units must be occupied as primary residences or second homes.</p> <p>For 2-4 unit projects, same as for established projects.</p>  | <p>Owner-occupancy minimum of 30% of declared units on new construction, proposed, or existing less than 12 months old. One year after first unit conveys, owner-occupancy requirement increases to 50%.</p>  |

| Issue  | Fannie Mae  | Freddie Mac   | FHA  |
|--|---|---|--|
| <b>Pre-Sale Requirement for New Condo Projects</b> | The presale requirement varies from 51% to 70%, conveyed or under contract, depending on the project approval review process used.  | At least 70% of the total number of units in the project (or all stages, to date) must have been conveyed or be under contract to purchasers (other than the developer or a successor to the developer) who will occupy the units as primary residences or second homes. Waivers permitted. | Presale requirement is 30% - but can apply to each phase of a project. Presale requirement does not apply to existing projects or non-gut rehabilitation conversions.  |
| <b>Concentration Limit</b>                         | No limit.   | No limit.   | FHA will provide insurance for up to 50% in existing projects and will grant exceptions above this mark. Exception requests are processed by the jurisdictional Homeownership Center (HOC).  |
| <b>Limit on Commercial Space in Condo Projects</b> | 20% limit. Fannie Mae will consider waivers when a lender has submitted a convincing, risk-based rationale.   | 25% limit.  | 25% limit, but more flexibility for exceptions to be provided up to 50%, with those up to 35% processed at local level, and higher with significant additional documentation at Philadelphia HOC. Exception may also be made over 50%, but must be approved by the FHA Commissioner or their designee. |
| <b>Elimination of Spot Loan Approval Process</b>   | Not eliminated. Fannie Mae continues to allow Limited Project Reviews on established condominiums.  | Not eliminated. Same as Fannie Mae.   | Effective 2/1/2010, FHA no longer offers spot loan approvals where the project has not been approved.  |
| <b>Reserve Study</b>                               | A reserve study must comment favorably on the structural integrity of the project. It must also show that reserves support the identified costs. Study must be replaced within five years from the date of the study. | Not applicable.   | FHA requires a study that insures adequate funds are available for capital expenditures, preservation and maintenance of amenities. The study can be no more than 24 months old.   |

| Issue                      | Fannie Mae   | Freddie Mac   | FHA  |
|----------------------------|--|---|--|
| <b>Waivers</b>             | Fannie approves lender requests for waivers in appropriate circumstances.  | Same as Fannie.   | FHA will consider waiver requests to its condo policies.   |
| <b>Florida</b>             | <p>Established projects may be approved under the Project Eligibility Review Service (PERS) process, Lender Full Review, Limited Review, or CPM Expedited Review. New and newly converted projects consisting of attached units require approval under the PERS process. Loan-to-value ratios depend on type of project approval.</p> <p>Special Approval designation introduced by Fannie Mae on 1/7/2010 for established condominium projects that are otherwise not approvable by Fannie Mae standards.</p> | To qualify for sale to Freddie Mac, condo unit mortgages secured by attached units in new condo projects in Florida must be approved through the Fannie Mae Project Eligibility Review Service (PERS) process. Lower loan-to-value (LTV) limits apply (75% for primary residences; 70% for second homes). | Projects must use HUD Review Approval Process (HRAP).  |
| <b>Investor Ownership</b>  | No more than 10% of the units may be owned by any one investor. This does not apply to the developing entity in a new condominium during the sales process.  | Same as Fannie.   | No more than 50% of the units may be owned by one investor at time of project approval provided at least 50% of the units have been conveyed or are under contract as owner-occupied. In addition, unoccupied and unsold units owned by a builder/developer are no longer included in the calculation of investor ownership. |
| <b>Delinquent HOA Dues</b> | No more than 15% of the total units can be 30 days or more past due. Applies to new and established attached condo projects.   | No more than 15% of the total units can be 60 days or more past due.  | No more than 15% of total units may be more than 60 days delinquent.   |

| Issue                                       | Fannie Mae  | Freddie Mac  | FHA                               |
|---|---|--|-----------------------------------|
| <b>Environmental Reviews</b>                | Not applicable.   | Same as Fannie.  | Not necessary in many cases.      |
| <b>Hotel/Resort Projects (Condo Hotels)</b> | <p>Condo or coop hotels are not eligible for financing. A condo or coop hotel is any project managed and operated as a hotel or motel, even if the units are individually owned. Projects with any of these characteristics are ineligible:</p> <ul style="list-style-type: none"> <li>• Projects with registration services and daily rentals.</li> <li>• Projects that restrict ability of the owner to occupy the unit.</li> <li>• Projects with names including “hotel” or “motel.”</li> <li>• Projects with mandatory rental pooling agreements.</li> </ul> <p>Lenders must assess projects for these and other characteristics.</p> | <p>Same general policy as Fannie. Specific criteria are different.</p> | FHA does not insure condo hotels. |

Sources:

Fannie Mae: Selling Guide, Part B, Subpart B4, Underwriting Property, Chapter B4-2, Project Standards.

Freddie Mac: Freddie Mac Single-Family Seller/Service Guide, Volume 1, Chapter 42: Special Requirements for Condominiums (effective 05/1/2015) or earlier at discretion of seller of mortgage to Freddie Mac). Most policies covered in this chart are already in effect under existing Chapter 42.

FHA: <http://portal.hud.gov/hudportal/documents/huddoc?id=11-22mlguide.pdf>