



***CONDOMINIUM  
PROJECT APPROVAL  
and  
PROCESSING GUIDE***



June 30, 2011



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## INTRODUCTION

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The Condominium Project Approval and Processing Guide (Guide) is designed to provide the Federal Housing Administration (FHA) baseline condominium project approval and processing requirements. The contents of this Guide are applicable for all condominium project approvals where a single unit will be insured under Section 203(b) of the National Housing Act.

The Guide is designed to provide comprehensive and clarifying guidance for approving condominium projects. Specifically, the Guide:

- Provides a single source of information for the Condominium Project Approval Process;
- Consolidates provisions of existing condominium guidance into one source by incorporating the requirements of Mortgagee Letter 2009-46 b, Mortgagee Letter 2009-46 a and the extension thereto, Mortgagee Letter 2011-03;
- Clarifies, revises, and updates certain provisions and procedures of the approval process, as well as expands FHA's flexibility to address individual circumstances on a one-on-one basis;
- Discusses basic FHA Connection (FHAC) data entry requirements; and,
- Provides additional resources in the Appendices for use by mortgagees, industry members and other interested parties.

The information collection requirements contained in this guide are pending approval by the Office of Management and Budget in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB Control Numbers 2502-0141, 2502-0496, and 2502-0059. In accordance with the Paperwork Reduction Act, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information, unless the collection displays a currently valid OMB control number.

# **CHAPTER 1: PROJECT APPROVAL PROCESS AND GENERAL REQUIREMENTS**

## **1.1 Overview**

The Housing and Economic Recovery Act of 2008 (HERA) moved the insurance of a condominium unit from section 234 of the National Housing Act (NHA) to 203 with the exception of those units that will be insured in a condominium project that is insured under FHA blanket mortgage insurance. Insurance of units within an FHA-insured project must be processed and insured according to the requirements of section 234(c) and other applicable policy guidance (HUD Handbook 4265.1, Home Mortgage Insurance Condominiums; Chapter 11 of HUD Handbook 4150.1, Valuation Analysis for Home Mortgage Insurance and any Mortgagees Letters that discuss section 234 requirements).

The Mortgagee Letter (ML) and this Guide define the requirements for obtaining, recertifying and maintaining condominium project approval. The requirements, as defined, are applicable to forward mortgages and those originated under the Home Equity Conversion Mortgage (HECM) insurance program, more commonly known as a reverse mortgage unless otherwise stated.

Condominium project approval can be issued by FHA staff or by an FHA-approved mortgagee. Mortgagees meeting defined eligibility requirements are authorized to review condominium documentation, determine project eligibility and certify to compliance with section 203(b) of the NHA and 24 CFR parts 203 of FHA's regulations.

Mortgagees will be required to retain all the project legal documents, contracts, conveyances, plats, plans, insurance coverage, presale and owner occupancy conditions and other associated documentation in connection with their review and approval or denial of the condominium project submission. Mortgagees must retain all required supporting documents for three years after the date of the last action taken by that mortgagee for initial project approval, e.g. approvals or denials, annexations or recertifications.

Unless otherwise specified in the ML and / or this Guide, references to FHA are not limited to the Office of Single Family Insurance in Headquarters but also include the Homeownership Centers. The Homeownership Centers will have flexibility to make determinations without review by Headquarters as defined within the ML and / or this Guide. Those policies that allow for greater flexibility, based on receipt of additional

documentation and review by the jurisdictional Homeownership Center, are identified within the Guide.

**1.2. Approval Processing Options**

There are two project approval processing options available as identified in section 1.3. Specifically, the processing options are the HUD Review and Approval Process (HRAP) or the Direct Endorsement Lender Review and Approval Process (DELRAP). The applicable condominium documentation requirements are the same regardless of the review option selected.

**1.3 HUD Review and Approval Process (HRAP) / Direct Endorsement Lender Review and Approval Processing (DELRAP)**

<b>HUD REVIEW AND APPROVAL PROCESS (HRAP)</b>	<b>DIRECT ENDORSEMENT LENDER REVIEW AND APPROVAL PROCESS (DELRAP)</b>
<p>Project approval applications, annexations and recertification submissions are reviewed and processed by FHA staff.</p>	<p>Project approval applications, annexations and recertification submissions are reviewed and processed by qualified Direct Endorsement (DE) mortgage staff.</p> <p>DELRAP eligibility requirements:</p> <ul style="list-style-type: none"> <li>• Must have unconditional DE authority;</li> <li>• Must have staff with knowledge and expertise in reviewing and approving condominium projects;</li> <li>• <i>Will be required to register all condominium reviewers in FHA Connection (FHAC) using the Condominium Registry screen (implementation requirements will be announced at a later date);</i></li> <li>• Will be required to provide the condominium approval or denial documents to FHA within five (5) business days of final disposition using a pdf format to be uploaded in FHAC;</li> <li>• Review of the first five (5) condominium project approvals or denials reviewed post approval or</li> </ul>

	<p>denial by FHA staff;</p> <ul style="list-style-type: none"> <li>• <i>Must have in place a Quality Control Plan that includes review of the condominium project, including both approvals and denials in accordance with the requirements of Chapter 7 of HUD Handbook 4060.1. Failure to comply with specific Quality Control requirements may result in administrative action and / or the imposition of Civil Money Penalties by the Mortgagee Review Board (MRB).</i></li> </ul>
<p><b>Project Status:</b></p> <p>Determine the current status of the project by performing a search of the Condominium Approval List in FHA Connection (FHAC) or Condominium List – Public Search Site. (See Appendix D)</p>	<p><b>Project Status:</b></p> <p>Determine the current status of the project by performing a search of the Condominium Approval List in FHA Connection (FHAC) or Condominium List – Public Search Site. (See Appendix D)</p>
<p><b>Eligible Construction Types:</b></p> <ul style="list-style-type: none"> <li>• Proposed or Under Construction</li> <li>• Existing &lt; 12 Months Old</li> <li>• Existing Construction</li> <li>• Condo Conversions</li> </ul>	<p><b>Eligible Construction Types:</b></p> <ul style="list-style-type: none"> <li>• Proposed or Under Construction</li> <li>• Existing &lt; 12 Months Old</li> <li>• Existing Construction</li> <li>• Condo Conversions</li> </ul>
<p><b>Required Submission Documentation:</b></p> <ul style="list-style-type: none"> <li>• Cover Letter</li> <li>• Applicable Checklist (see Appendices F-1 through F-3)</li> <li>• All required documentation as specified in the ML and / or this Guide</li> </ul>	<p><b>Required Submission Documentation:</b></p> <ul style="list-style-type: none"> <li>• Cover Letter</li> <li>• Applicable Checklist (see Appendices F1 through F3)</li> <li>• All required documentation as defined in the ML and / or this Guide</li> </ul>
<p><b>Submission Procedures:</b></p> <ul style="list-style-type: none"> <li>• Paper or CD (including a hard copy Cover Letter)</li> </ul> <p><b>Note:</b> Submission of a CD is the preferred method of delivery. As a</p>	<p><b>Submission Procedures:</b></p> <ul style="list-style-type: none"> <li>• Condominium approval or denial documents (complete package) must be uploaded using FHAC within five (5) business days of final disposition;</li> <li>• Only one (1) complete PDF file can</li> </ul>

<p>reminder, only one (1) complete PDF file can be submitted.</p>	<p>be submitted.</p> <ul style="list-style-type: none"> <li>• After seven days from the initial upload date, any additional documents that must be submitted must be sent to the HOC for appending to original submission.</li> </ul>
<p><b>Processing Times:</b></p> <p>Initial Processing Time: Generally up to 30 calendar days from the receipt date of the package by the jurisdictional HOC subject to available resources and volume of project approval submissions received.</p> <p>Reconsideration Processing Time: Generally up to 30 calendar days from the receipt date of the reconsideration package by the jurisdictional HOC subject to available resources and volume of project approval submissions received.</p> <p><b>Note:</b> Processing times will depend on the receipt of all documentation, acceptability of the submitted documentation and whether an environmental site review will be required for proposed or under construction projects.</p>	<p><b>Processing Times:</b></p> <p>DELRAP participating mortgagees will establish their processing times and provide to industry members submitting packages to them for review and disposition.</p> <p>If a participating DELRAP mortgagee issues a condominium project denial, any reconsideration documentation for the first twelve months from the date of the denial <u>must</u> be submitted to the jurisdictional HOC for review and disposition.</p>
	<p>DELRAP participating mortgagees eligible to process condominium approvals and denials under this option may exercise the option, at their discretion, to submit a condominium project for approval under HRAP. However, if the DELRAP mortgagee undertakes the review, it must complete a <i>full</i> review.</p> <p>If the DELRAP review indicates that the project is ineligible, the project should be denied by the mortgagee and the mortgagee must complete all applicable processing requirements (e.g. entering of the denial</p>

	data into FHA Connection).
<p><b>Florida Projects:</b></p> <p>All requests for approval require submission to the Atlanta HOC for review under the HRAP option.</p>	<p><b>Florida Projects:</b></p> <p>All requests for approval require submission to the Atlanta HOC for review under the HRAP option.</p>
<p><b>Eligible Submission Sources:</b></p> <p>Builder; Developer; Homeowner’s Association (HOA); Management Company (MC); Project Consultant or Attorney acting as an agent for the developer/builder, HOA or MC will submit the requests directly to the jurisdictional HOC or a DELRAP participating lender.</p> <p><b>Note:</b> Applications received directly from borrowers, homeowners, sellers or real estate agents generally will not be processed and will be returned to the submitter, but HUD may determine, on a case-by-case basis, that alternative sources of submission are appropriate.</p>	<p><b>Eligible Submission Sources:</b></p> <p>Builder; Developer; Homeowner Association (HOA); Management Company (MC); Project Consultant or Attorney acting as an agent for the developer/builder, HOA or MC will submit the requests directly to the DELRAP participating lender.</p> <p><b>Note:</b> Applications received directly from borrowers, homeowners, sellers or real estate agents generally will not be processed and will be returned to the submitter, but HUD may determine, on a case by case basis, that alternative sources of submission are appropriate.</p>
	<p><b>Post Project Approval / Denial Reviews:</b></p> <ul style="list-style-type: none"> <li>• A minimum of the first five (5) approvals and / or denials will be selected for review;</li> <li>• Serious non-compliance and / or patterns of non-compliance, e.g. missing documentation, improper approval will result in selection of additional project approvals or denials for review and / or administrative action.</li> <li>• After review of the first five (5) approvals and /or denials, additional project approvals or denials will be selected for post review (1 of every 5).</li> <li>• See Chapter 4 of this Guide for additional Quality Control</li> </ul>

	requirements.
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**1.4 Eligible / Ineligible Projects**

**Eligible Projects**

Eligible condominium projects are those that have been declared and exist in full compliance with applicable state law requirements of the jurisdiction in which the condominium project is located, including good standing with the State, and with all other applicable laws and regulations.

FHA insures condominium single unit loans for up to 30 year terms to purchase or refinance a unit in an FHA-approved condominium project. The condominium project must be primarily residential, contain at least two (2) dwelling units and can be detached, semi-detached, a row house, a walk-up, mid-rise, high-rise, including those with or without an elevator, or manufactured housing.

**Ineligible Projects**

FHA will not insure mortgages that are secured by units in certain types of condominium projects, regardless of the characteristics of the unit mortgage.

Loans secured by units within the following types of projects are not eligible for FHA insurance. The list below is not an exclusive list of ineligible project types as there may be other projects with similar features that would be ineligible for FHA insurance. FHA reserves the right to determine the eligibility of condominium project types not addressed within the ML or this Guide.

<b>Ineligible Property Types</b>
<p>All projects not deemed to be used primarily as residential</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• Projects that restrict the owner’s ability to occupy the unit</li> </ul>
<p>Projects where more than 25 percent of the total space is used for nonresidential purposes</p> <ul style="list-style-type: none"> <li>• Live / work units where more than 25 percent of the total project or unit square footage is used for nonresidential purposes</li> </ul>

<p>Condominium Hotel or “Condotels” –</p> <ul style="list-style-type: none"> <li>• Projects that are managed and operated as a hotel or motel, even though the units are individually owned;</li> <li>• Projects with names that include the words “hotel” or “motel”;</li> <li>• Projects that include registration services and offer rentals of units on a daily, weekly or monthly basis;</li> <li>• Hotel or motel conversions (or conversions of other similar transient properties)</li> </ul>
<p>Coastal Barriers: Under the Coastal Barriers Act, as cited in 24 CFR 50.4(c), HUD is prohibited from insuring a project located within designated coastal barriers of the Atlantic Ocean, Gulf of Mexico, or the Great Lakes. Projects located within coastal barriers designated on the Department of Interior coastal barrier resources maps will not be accepted for processing.</p>
<p>Timeshares or segmented ownership projects</p>
<p>Houseboat projects</p>
<p>Multi-dwelling unit condominiums (i.e. more than one dwelling per condominium unit) (ex: local code approved two units but there are two living units per approved unit)</p>
<p>Assisted living facilities are generally not eligible if the features of the project are unique to assisted living facilities; including but not limited to required purchase of additional services by the unit owners, commercial interest, ownership or retention of commercial entities that provide additional services.</p>
<p>Developer cannot retain ownership of the common areas or amenities once transfer of control has been turned over to the homeowner’s association.</p>

## 1.5 Project Types

- Proposed project is defined as a new development where no construction has been started.
- Under construction is defined as a new development where construction has been started but is not completed.
- Existing project is defined as fully completed and is over one year old. In the case of a legally phased project, it is defined as the date that the initial phase has been completed and is over one year old. This includes multiple buildings within one phase where the final building has been completed and the certificate of occupancy has been issued over one year.

### 1.5.1 Newly Converted Conversions

Conversion to a condominium regime occurs in those projects which involve changing the title of the existing structure generally under one title, to property that is separated into units so that the title to most units can be held separately.

**Conversion occurs:** As of the date on which all the documents, specifically, the condominium declaration, necessary to create a condominium regime have been recorded in accordance with state and / or local laws. A notation must be made in FHAC if multiple documents exist that establish the condominium regime. The following provisions only apply to projects for which applications for approval are submitted within two years from the date of conversion.

#### **Converted, Non-Gut Rehabilitation Condominium Projects**

Provided below are examples of non-gut rehabilitation work / repairs. These are examples only and there may be other non-gut rehabilitation work / repairs that is not defined but make the project eligible under this conversion type.

- Painting
- New Carpet
- Replacement of cabinets
- Replacement of fixtures
- Replacement of doors
- Replacement of windows.

#### **Eligibility and Processing Requirements**

Converted, non-gut rehabilitation condominium project conversions may only be processed under the HRAP option.
Approval is considered only for conversions that have already taken place, not based on conversions or phases of conversions that are anticipated to occur in the future.
All rehabilitation work / repairs involved in a condominium conversion must have been completed as evidenced by an engineering or architectural inspection (dated within 12 months of work / repair completion).
A current (defined as no more than 24 months old) reserve study prepared by a qualified, independent professional company, accompanied by an engineer's report, or functional equivalent, must comment favorably on the structural integrity of the project and the remaining useful life of the major project components.
The following financial documents must be submitted for review.

- Current Year Budget;
- Current Balance Sheet less than 90 days old at time of submission for project approval;
- Actual Income and Expense Statement for project;
- Bank statements may also be requested

The review of the financial documents must determine that the budget and operating results is sufficient and:

- Includes allocations / line items to ensure sufficient funds are available to maintain and preserve all amenities and features unique to the condominium project; **and**
- Provides for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least ten (10) percent of the budget; **and**
- Provides adequate funding for insurance coverage and deductibles; **and**
- Funds to cover the total cost of any items identified in the reserve study or engineer's report that need to be replaced within five years from the date of the study must be deposited in the HOA's reserve account.

In cases where the budget documents do not meet the financial review standards, a reserve study will be requested to assess the financial stability of the project. The reserve study cannot be more than 24 months old. When reviewing the reserve study, consideration must be given to items that have been replaced after the time that the reserve study was completed.

The developer must provide a detailed description of the work proposed or already completed in order for the project units to be ready for sale.

At least 51 percent of the total units in the project must have been conveyed or be under a bona fide contract for purchase to owner-occupant principal residence purchasers. The developer may provide the following evidence to meet this requirement: copies of sales agreements and loan commitments evidencing that a mortgagee is willing to make the loan; or evidence that units have closed and are occupied; or information that lists all of the units already sold, under contract, or closed (e.g. a spreadsheet, chart, or listing used for the company's own tracking purposes) that is accompanied by a signed certification from the developer. The developer is certifying to the accuracy of the submitted documentation that meets the pre-sale and / or owner-occupancy requirements.

A developer may own up to 49 percent of the total units at the time of project approval. The units may be vacant or tenant occupied. The requirement that no investor / single entity may own more than ten (10) percent of the total number of units is applicable to all other owners with the exception of the developer.

The project developer must provide a comprehensive sale and marketing strategy and a transition strategy for any unit(s) currently rented with the exception of those rentals required by state or local law, including rent controlled units.

### **Converted, Gut-Rehabilitation Condominium Projects**

Provided below are examples of gut rehabilitation work. These are examples only and there may be other gut rehabilitation work that is not defined but make the project eligible under this conversion type.

- Renovation of the property down to the shell of the structure;
- Replacement/installation of HVAC systems;
- Replacement/installation of electrical components;
- Any structural modification.

### **Eligibility and Processing Requirements**

Converted, gut-rehabilitation condominium project conversions may only be processed under the HRAP option.

Approval is considered only for conversions that have already taken place, not based on conversions or phases of conversions that are anticipated to occur in the future.

All rehabilitation work involved in a condominium conversion must be completed as evidenced by an engineering or architectural inspection (dated within 12 months of work / repair completion).

A current (defined as no more than 24 months old) reserve study prepared by a qualified, independent professional company, accompanied by an engineer's report, or functional equivalent, must comment favorably on the structural integrity of the project and the remaining useful life of the major project components.

The following financial documents must be submitted for review.

- Current Year Budget;
- Current Balance Sheet less than 90 days old at time of submission for project approval;
- Actual Income and Expense Statement for project;
- Bank statements may also be requested

The review of the financial documents must determine that the budget and operating results is sufficient and:

- Includes allocations/line items to ensure sufficient funds are available to maintain

<p>and preserve all amenities and features unique to the condominium project; <b>and</b></p> <ul style="list-style-type: none"> <li>• Provides for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10% of the budget; <b>and</b></li> <li>• Provides adequate funding for insurance coverage and deductibles; <b>and</b></li> <li>• Funds to cover the total cost of any items identified in the reserve study or engineer’s report that need to be replaced within five years from the date of the study must be deposited in the HOA’s reserve account.</li> </ul> <p>In cases where the budget documents do not meet the financial review standards, a reserve study will be requested to assess the financial stability of the project. The reserve study cannot be more than 24 months old. When reviewing the reserve study, consideration must be given to items that have been replaced after the time that the reserve study was completed.</p>
<p>The developer must provide a detailed description of the work proposed or already completed in order for the project units to be ready for sale.</p>
<p>The project developer must provide a comprehensive sales and marketing strategy.</p>
<p>In the event that FHA is insuring a mortgage on a unit and an undivided interest in the common elements on a project undergoing substantial rehabilitation, the entire condominium project, including the common facilities, must be 100 percent completely built before any mortgage may be endorsed, with the exception of those items that are buyer’s preference (interior only). Escrow provisions will be permitted for weather-related delays for common areas only.</p>
<p>A building permit, or its equivalent, is required as well as a certificate of occupancy (either temporary or final), or its equivalent.</p>

**1.5.2 Cooperative to Condominium Conversions**

To be eligible for FHA condominium project approval, cooperative to condominium conversions should comply with the following standards (in addition to all other requirements defined in the ML and / or this Guide):

- The underlying “blanket” mortgage has been paid in full.
- All share interests have been converted to deeds.

## 1.6 Proposed, Under Construction, Gut-Rehabilitation Conversion – Project Phasing

Legal phasing is permitted for condominium processing as described below. It is recommended that developers submit all known phases for initial project approval. FHA will not accept market phasing in lieu of legal phasing.

For vertical buildings, legal phasing is acceptable if:

- The floors are legally phased in groupings of no less than five consecutive residential floors; except where the owner provides documentation that a group of less than five floors is required, e.g. vertical building contains seven floors; **and**
- At least a temporary certificate of occupancy has been obtained and all common areas and amenities have been completed; **and**
- A third party completion bond has been obtained.

For purposes of calculating the owner-occupancy percentage and FHA concentration percentage:

- On multi-phased projects, the owner-occupancy and FHA concentration percentages is calculated on total number of units in the first declared phase and cumulatively on subsequent phases.
- In single-phase condominium project approval requests, all units are used in the denominator when calculating the 50 percent owner-occupancy and FHA concentration percentages.

## 1.7 Environmental Review Requirements

For proposed or under construction projects, a Phase I Environmental Site Assessment (ESA) performed in accordance with ASTM E-1527-05 “Standard Practice for Environmental Site Assessments” must be included in the project approval package submitted to FHA. The Phase I ESA must not predate the condominium approval submission by more than 12 months and must be updated, as described in ASTM 1527-05, if between 180 days and 12 months. Further, in addition to this requirement, if a mortgagee elects to use the HRAP option, environmental reviews will be required for projects that, at the time that condominium project approval is requested, have **not** progressed beyond a stage of construction where HUD has any influence over the remaining uncompleted construction. If an environmental review is required, it will be performed by HUD staff. This occurs when:

- A condominium plat or similar development plan and any phases delineated therein have been reviewed and approved by the local jurisdiction and, if applicable, recorded in the land records, **and**
- the construction of the project’s infrastructure (streets, storm water management, water and sewage systems, utilities), and facilities (e.g., parking lots, community building, swimming pools, golf course, playground, etc.) and buildings containing

the condominium units has proceeded to a point that precludes any major changes.

An environmental review will not be required for condominium projects approved using the DELRAP option; however, for proposed or under construction projects, the DELRAP lender must obtain a Phase I ESA as discussed above. Also, if issued by the local municipality, a Building Permit or its equivalency must also be included in the project approval package submitted to FHA. For all construction types, if the appraiser identifies an environmental condition or the mortgagee is aware of an existing environmental condition through remarks provided on the Builder's Certification, Form HUD-92541, the appraisal or other known documentation, the mortgagee must avoid or determine that there are mitigants to address the following conditions before completing its review process:

1. The project is located in a Special Flood Hazard Area designated on a Federal Emergency Management Agency flood map.
2. Potential noise issues, where the property is located within 1000 feet of a highway, freeway, or heavily traveled road, within 3000 feet of a railroad, or within one mile of an airport or five miles of a military airfield.
3. The property has an unobstructed view, or is located within 2000 feet, of any facility handling or storing explosive or fire-prone materials.
4. The property is located within 3000 feet of a dump or landfill, or of a site on an EPA Superfund (NPL) list or equivalent state list, or a Phase I ESA indicates the presence of a Recognized Environmental Condition or recommends further environmental site assessment (Phase II ESA) for the presence of contaminants that could affect the site.
5. The property has any hazards or adverse conditions listed in Section 1.f. of the Builder's Certification, including, but not limited to, high ground water levels, unstable soils, or earth fill.
6. The project is located in a wetland designated on National Wetlands Inventory maps or designated by State or local authorities.
7. The project is on the National Register of Historic Places or is within a historic district listed on the Register. A request should be made to the State Historic Preservation Officer (SHPO) who has a right to comment on the proposal. The request should consist of a narrative explaining the proposal and it should be made as early as possible in the development process.

8. The appraiser or DE lender is aware of any other condition that could adversely affect the health or safety of the residents of the project.

## **1.8 Unique Projects**

Projects that require special attention due to their complexity are identified under this section. The requirements herein are in addition to other stated requirements in this Guide as applicable.

### **1.8.1 Site Condominiums**

Condominium project approval is **not** required for Site Condominiums meeting all of the below defined requirements.

Site Condominiums are defined as:

- Single family totally detached dwellings (no shared garages or any other attached buildings or e.g. archways, breezeways); **and**
- Are encumbered by a declaration of condominium covenants or condominium form of ownership; **and**
- The condominium unit consists of the entire structure as well as the site and air space and are not considered to be common areas or limited common areas; **and**
- Insurance and maintenance costs are totally the responsibility of the unit owner; **and**
- Any common assessments collected will be for amenities outside of the footprint of the individual site.

Condominiums that **do not** meet this definition will require full project approval.

Manufactured Housing Condominium Projects (MHCPs) **may not** be treated as Site Condominiums - these projects require approval under the HRAP option.

Modular homes are processed as single family homes for insurance purposes and are eligible to be treated as Site Condominiums as long as they meet the stated definition.

### **1.8.2 Manufactured Housing Condominium Projects (MHCP)**

Manufactured housing condominium projects are eligible for FHA mortgage insurance. All outstanding and current FHA Manufactured Housing individual unit requirements remain applicable for both Home Equity Conversion Mortgages (HECM) and forward mortgages, including elevations in flood zones and foundation requirements. MHCPs must be submitted to the applicable Homeownership Center (HOC) for review and approval (HRAP). MHCPs are

ineligible for DELRAP processing and may not be processed as site condominiums.

### **1.8.3 Leaseholds**

Leaseholds are eligible if the below requirements are met:

- To be eligible, a leasehold interest shall be under a lease for not less than 99 years which is renewable, or under a lease having a period of not less than 10 years to run beyond the maturity date of the mortgage.
- The Homeowners Association must be the lessee under the ground lease.
- The Mortgage must be secured by the Borrower's ownership interest in the project including but not limited to the leasehold interest in the ground lease.
- Provide that the mortgagees receive notice of any monetary or non-monetary default by the Homeowners Association and be given the right to cure any defaults on behalf of the Homeowners Association.
- Provide that the Homeowners Association will pay taxes, and insurance related to the land in addition to those being paid for the improvements.
- The Homeowners Association must not be in default under any provisions of the lease.
- The leasehold agreement does not include any default provisions that could result in forfeiture or termination of the lease except for nonpayment of the ground lease rents.

### **1.8.4 Change in Sponsor Ownership Interest**

FHA must be notified of any sponsor ownership change, regardless of the construction status. Sponsor is defined as builder, developer, construction lender or other party that holds title. The below documentation must be sent to the jurisdictional Homeownership Center for review when there is a change in the sponsor ownership for any reason.

- Cover letter providing the details regarding the sponsor ownership change.
- All applicable legal documents related to the ownership change (document change).
- FHA reserves the right to require submission of additional documentation and may require re-approval of the project based upon its review.

### **1.8.5 Projects Requiring Special Consideration**

To be considered for FHA approval, any project and / or sponsor that has sought protection under bankruptcy laws or has been placed into receivership (mandated

or voluntary), has completed asset sales, has completed foreclosure or offered a deed-in lieu of foreclosure should meet the following standards. These projects must be submitted for review under the HRAP option.

**UNDER CONSTRUCTION**

<b>BANKRUPTCY / RECEIVERSHIP / FORECLOSURE / DEED-IN-LIEU OF FORECLOSURE</b>
One year aging required from the date of bankruptcy discharge, termination of receivership, issuance of foreclosure judgment or execution of deed-in-lieu
Document evidencing completion of legal action
At the end of the required one year aging, full project approval or recertification required
<p>Financial documents must be submitted for review:</p> <p>Current Year Budget;</p> <p>Current Balance Sheet less than 90 days old at time of submission for project approval;</p> <p>Actual Income and Expense statement for project;</p> <p>Bank statements may also be requested</p> <p>The review of the financial documents must determine that the budget and operating results is sufficient and:</p> <p>Includes allocations / line items to ensure funds are available to maintain and preserve all amenities and features unique to the condominium project; <b>and</b></p> <p>Deferred maintenance in an account representing at least ten (10) percent of the budget; <b>and</b></p> <p>Provides adequate funding for insurance coverage and deductibles; <b>and</b></p> <p>Funds to cover the cost of any items identified in the reserve study or engineer’s report that need to be replaced within five years from the date of the study must be deposited in the HOA’s reserve account.</p> <p>In cases where the budget documents do not meet the financial review standards, a reserve study will be requested to assess the financial stability of the project. The reserve study cannot be more than 24 months old. When reviewing the reserve study, consideration must be given to items that have been replaced after the time that the reserve study was completed.</p>

<b>ASSET SALE</b>
Document evidencing completion of asset sale
Building permit and certificate of occupancy (if applicable based on construction status)
Completion plan
<p>Financial documents must be submitted for review.</p> <p>Current Year Budget;  Current Balance Sheet less than 90 days old at time of submission for project approval;  Actual Income and Expense statement for project;  Bank statements may also be requested</p> <p>The review of the financial documents must determine that the budget and operating results is sufficient and:</p> <p>Includes allocations/line items to ensure funds are available to maintain and preserve all amenities and features unique to the condominium project; <b>and</b> Deferred maintenance in an account representing at least 10 percent of the budget; <b>and</b>  Provides adequate funding for insurance coverage and deductibles; <b>and</b>  Funds to cover the cost of any items identified in the reserve study or engineer's report that need to be replaced within five years from the date of the study must be deposited in the HOA's reserve account.</p> <p>In cases where the budget documents do not meet the financial review standards, a reserve study will be requested to assess the financial stability of the project. The reserve study cannot be more than 24 months old. When reviewing the reserve study, consideration must be given to items that have been replaced after the time that the reserve study was completed.</p>
All condominium declarations and all amendments thereto
50% of declared units must be owner occupied

**100 Percent Completed**

<b>BANKRUPTCY / RECEIVERSHIP / FORECLOSURE / DEED-IN-LIEU OF FORECLOSURE</b>
One year aging required from the date of bankruptcy discharge, termination of receivership, issuance of foreclosure judgment or execution of deed-in-lieu.
Document evidencing completion of legal action
At the end of the required one year aging, full project approval or recertification required
<p>Financial documents must be submitted for review.</p> <p>Current Year Budget; Current Balance Sheet less than 90 days old at time of submission for project approval; Actual Income and Expense statement for project; Bank statements may also be requested</p> <p>The review of the financial documents must determine that the budget and operating results is sufficient and:</p> <p>Includes allocations/line items to ensure funds are available to maintain and preserve all amenities and features unique to the condominium project; <b>and</b> Deferred maintenance in an account representing at least ten (10) percent of the budget; <b>and</b> Provides adequate funding for insurance coverage and deductibles; <b>and</b> Funds to cover the cost of any items identified in the reserve study or engineer's report that need to be replaced within five years from the date of the study must be deposited in the HOA's reserve account</p> <p>In cases where the budget documents do not meet the financial review standards, a reserve study will be requested to assess the financial stability of the project. The reserve study cannot be more than 24 months old. When reviewing the reserve study, consideration must be given to items that have been replaced after the time that the reserve study was completed.</p>

<b>ASSET SALE</b>
Reserve study (no more than 24 months old)
Building permit and certificate of occupancy (if applicable based on construction status)
<p>Financial documents must be submitted for review.</p> <p>Current Year Budget;            Current Balance Sheet less than 90 days old at time of submission for project approval;            Actual Income and Expense statement for project;            Bank statements may also be requested</p> <p>The review of the financial documents must determine that the budget and operating results is sufficient and:</p> <p>Includes allocations/line items to ensure funds are available to maintain and preserve all amenities and features unique to the condominium project; <b>and</b>            Deferred maintenance in an account representing at least ten (10) percent of the budget;  <b>and</b>            Provides adequate funding for insurance coverage and deductibles; <b>and</b>            Funds to cover the cost of any items identified in the reserve study or engineer's report that need to be replaced within five years from the date of the study must be deposited in the HOA's reserve account</p> <p>In cases where the budget documents do not meet the financial review standards, a reserve study will be requested to assess the financial stability of the project. The reserve study cannot be more than 24 months old. When reviewing the reserve study, consideration must be given to items that have been replaced after the time that the reserve study was completed.</p>
All condominium declarations and all amendments thereto

**1.8.6 Auctions**

Projects where the sponsor is offering remaining unsold units for sale may be approved if the stability of the project is not comprised, including but not limited to the financial stability. All other condominium project approval requirements in

the ML and this Guide must be met. Projects that are determined unstable will not be eligible for FHA condominium project approval.

### **1.8.7 Affordable Housing**

Affordable housing program requirements are established by state and / or local government agencies and / or eligible nonprofits meeting the requirements of 24 CFR 203.41(a)(5) to ensure the availability of housing opportunities at affordable price points. However, many of the affordable housing programs require legal restrictions on conveyance. A condominium project is eligible for FHA condominium project approval if:

- The government or eligible nonprofit program restriction meets the exceptions defined in 24 CFR 203.41(c) and (d); or
- The recorded condominium declarations contain the affordable housing program requirements, including defining the specific units that are covered under the program. If the units are not defined within the recorded condominium declarations, an amendment to the legal documents must be prepared and recorded or an executed (signed and dated) document identifying the affordable units must be issued by the affordable housing program staff and recorded.

Condominium project approvals containing affordable housing rental programs operated directly by or managed through eligible nonprofit organizations or governmental agencies may be eligible if all FHA approval requirements are met.

### **1.8.8 Deed Restrictions**

The regulations at 24 CFR 203.41 state that properties with FHA-insured mortgages shall be free of restrictions that prevent the borrower from freely transferring the property. The regulations use the term “legal restrictions on conveyance” to describe such restrictions and this term is broadly defined to include provisions in any kind of legal instrument that would cause a conveyance (including a lease) by the borrower to:

- Be void, or voidable by a third party.
- Be the basis of contractual liability of the borrower.
- Terminate, or subject to termination, the borrower’s interest in the property.
- Be subject to the consent of a third party.
- Be subject to limits on the amount of sales proceeds a borrower a borrower can retain.
- Be grounds for accelerating the insured mortgage.

- Be grounds for increasing the interest rate of the insured mortgage.

If the conveyance could cause any of these things to occur, the property is considered to be subject to legal restrictions on conveyance and is usually ineligible for FHA mortgage insurance.

### **1.8.9 Restrictions on Leasing**

Condominium documents typically include restrictions regarding the leasing of condominium units by their owners. It is not uncommon for condominium documents to state, in part, that a unit owner shall not lease his or her unit for a term of less than six (6) months, and under no circumstances will the condominium unit be used for hotel or transient purposes. Homeowners' Associations typically elect to have leasing restrictions to improve the marketability and stability of the whole condominium project.

FHA-insured financing may be used to purchase or refinance a condominium unit in a condominium project where the project's declaration of covenants, declaration of condominium, master deed, bylaws, or other pertinent documents contain provisions which restrict a unit owner's ability to lease their unit if the restrictions meet one or more of the following criteria.

- All leases must be in writing and subject to the declaration and by-laws of the condominium project.
- The condominium association may request and receive a copy of the sublease or rental agreement.
- The condominium association may request the name(s) of all tenants including the tenants' family members who will occupy the unit.
- Unit owners are prohibited from leasing their units for an initial term of less than 30 days.
- The condominium association may establish a maximum allowable lease term, e.g. six months, twelve months, etc.
- The condominium association may establish a maximum number of rental units within the project; however, the percentage of rental units may not exceed the current FHA condominium project owner-occupancy requirement.
- The condominium association may not require that a prospective tenant be approved by the condominium association and/or its agent(s), including but not limited to meeting creditworthiness standards.

Further, all other FHA requirements and policy guidance addressing restrictions on conveyance remain in effect.

### **1.8.10 Recreational Leases**

Condominium projects with recreational leases may be acceptable. All rights reserved by the declarant must be reasonable and set forth in the declaration. Any

action on the part of the declarant, the developer, an affiliate of the declarant, the sponsor of a project, or any other party (collectively referred to as “declarant”) to bind the owners association either directly or indirectly to any of the following agreements is generally unacceptable.

- Any management contract, employment contract or lease of recreational or parking areas or facilities;
- Any contract or lease, including franchises and licenses to, which a declarant is a party.

Such an agreement may be acceptable if the owners association has a right of termination thereof which is exercisable without penalty at any time after transfer of control, upon not more than 90 days’ notice to the other party thereto. The above referenced requirements do not apply to ground leases.

Affiliate of declarant shall mean any person or entity which controls, is controlled by, or is under common control with, a declarant. A person or entity shall be deemed to control a declarant if that person or entity (i) is a general partner, officer, director, or employee of the declarant; (ii) directly or indirectly or acting in concert with one or more persons, or through one or more subsidiaries, owns, controls, or holds with power to vote, or holds proxies representing more than 20 percent of the voting shares of the declarant; (iii) controls in any manner the election of a majority of the directors of the declarant; or (iv) has contributed more than 20 percent of the capital of the declarant. A person or entity shall be deemed to be controlled by a declarant if the declarant (i) is a general partner, officer, director, or employee of that person or entity; (ii) directly or indirectly or acting in concert with one or more persons or through one of more subsidiaries, owns, controls, or holds with power to vote, or holds proxies representing more than 20 percent of the voting share of that person or entity; (iii) controls in any manner the election of a majority of the directors of that person or entity; or (iv) has contributed more than 20 percent of the capital of that person or entity.

#### **1.8.11 2-4 Unit Requirements**

FHA will defer to State and / or local law requirements regarding documentation, but generally requires copies of the following:

1. All recorded documents, e.g. Declaration or its equivalent of other documentation as required by the State.
2. A plan or evidence of homeowner’s agreement (if required by the State).
3. A recorded Memorandum of Understanding between the homeowners defining each unit owner’s responsibilities for example, maintenance/repair/replacement of common areas including sidewalks, driveways, and common walls (includes side by side or vertical type units).

4. Evidence of hazard insurance. The insurance policy must be in either the individual homeowners name(s) or the HOA. Other insurance coverage as defined in section 3.7 may also be required.

#### **1.8.12 Condemnation and Total or Partial Loss or Destruction**

A reasonable method for dealing with any total or partial loss or destruction of the condominium property, and with any total or partial condemnation of such property, must be provided in the declaration or other appropriate constituent document of the condominium or by applicable law.

#### **1.9 Transfer of Control**

Transfer of control of the Homeowners Association shall pass to the unit owners within the project no later than the latest of the following:

1. 120 days after the date by which 75 percent of the units have been conveyed to the unit purchasers; **or**
2. Three years after completion of the project evidenced by the first conveyance to a unit purchaser; **or**
3. The time frame established under state or local condominium laws if specific provisions regarding the transfer of control exist.

#### **1.10 Record Retention - Mortgagees**

Mortgagees who are DELRAP participants will be required to retain all legal documents, contracts, conveyances, plats, plans, insurance coverage, presale and owner occupancy conditions and other associate documentation in connection with their review and approval or denial of the condominium project submission. Mortgagees must retain all required supporting documents for three years after the date of the last action taken by that mortgagee for initial project approval, e.g. approvals or denials, annexations or recertifications.

## **CHAPTER 2: PROJECT ELIGIBILITY**

### **2.1 Basic Requirements**

The following requirements apply to all Condominium Project approvals.

#### **2.1.1 Minimum Number of Units**

Projects must consist of two or more units.

#### **2.1.2. Right of First Refusal**

Right of first refusal is permitted unless it violates discriminatory conduct prohibitions under the Fair Housing Act regulations at 24 CFR part 100. It is the responsibility of the submitter to address any questions regarding eligibility issues with their attorney or the appropriate agency.

#### **2.1.3 Non-Residential / Commercial Space**

No more than 25 percent of the property's total floor area in a project or unit can be used for non-residential / commercial purposes. The non-residential / commercial portion of the project must be of a nature that is homogenous with residential use, which is free of adverse conditions to the occupants of the individual condominium units.

Exception requests may be considered on a case-by-case basis by the jurisdictional HOC. No exception requests can be processed under the DELRAP option. FHA reserves the right to reject any exception request received. Requests may be considered as noted below. However, based on the HOC review, additional information and / or documentation may be required.

- Requests must be submitted as part of the approval, re-approval or recertification process under the HRAP option.
- Proposed, under construction, existing projects less than one year old and newly converted projects are not eligible.
- Project must be 100 percent complete for at least one year.
- No exception will be granted where the non-residential/commercial space use is more than 35 percent of the property's total floor area,
- Control of the Homeowners Association has been transferred to the unit owners.
- Granting an exception does not change the requirement that the project's use remains primarily residential, homogenous with residential use and is free of adverse conditions to the occupants of the individual condominium units.

- The exception terminates with the expiration of the current project approval.

### **Live / Work Projects**

Live/Work projects are traditional condominiums projects with legal documents that require or allow for non-residential use within the residential condominium unit. Live/work projects usually look and feel like traditional condominium projects and must meet the below requirements.

- Live / Work project approvals require approval under the HRAP option; **and**
- The condominium declaration must state that the work (non-residential) space per unit cannot exceed 25 percent of the unit's total floor area; **and**
- The non-residential work space may not exceed 25 percent of the project's total floor area; **and**
- The work non-residential use must be subordinate to the units' residential use and character.

#### **2.1.4 Investor Ownership**

No more than 10 percent of the units may be owned by one investor / entity (single or multiple owner entities). This limitation includes all rented and leased units that a developer/builder owns, including those units acquired during a project acquisition. For condominium projects with ten or fewer units, no single investor / entity may own more than one unit within the project. For all condominium projects with ten or more units, no single investor / entity may own more than 10 percent of the total number of units. All units, common elements, and facilities within the project must be 100 percent complete.

The investor / single entity individual owner-occupied unit is not considered investor owned and subject to the investor requirements stated above.

Unoccupied and unsold units owned by a builder / developer are not considered as investor owned and subject to the investor requirements stated above.

Eligible non-profit and / or eligible governmental housing programs are not subject to the 10 percent ownership interest limitation. An eligible governmental or nonprofit program means a program designed to assist the purchase of low-or moderate-income housing including rental housing that is operated pursuant to a program established by Federal law, operated by a State or local government, or operated by an \*eligible nonprofit organization as defined by the Department's current guidelines. (\* Refer to 24 CFR 203.41 for additional information.)

**Note:** Ownership interest cannot exceed 49 percent of the total units at the time

of project approval.

Units in projects that are subject to legally mandated rent regulations will not be subject to the investor requirements stated above.

### **2.1.5 Delinquent Homeowners Association (HOA) Dues**

This requirement must be reviewed as part of the analysis for project approval and must also be verified as part of the loan level requirements. No more than 15 percent of the total units can be in arrears (more than 30 days past due) of their condominium association fee payments (does not include late fees or other administrative expenses). The 15 percent includes all units (occupied, investor, bank-owned, vacant).

Exception requests may be considered on a case-by-case basis by the jurisdictional HOC. No exception requests can be processed under the DELRAP option. FHA reserves the right to reject any exception request received. Requests may be considered as noted below. However, based on the HOC review, additional information and / or documentation may be required.

No more than 20 percent of the total units can be in arrears (more than 30 days past due) if FHA reviews the documentation at project approval and determines that tolerance of the higher percentage is warranted.

The following requirements must be met:

- The HOA provides a report for the past six months that reflects the history of unpaid assessments.
- The HOA current reserve fund balance and current operating results (documented HOA Balance Sheet and Income/Expense financial statements dated less than 90 days at the time of submission) evidences excess available funds in the amount of the outstanding arrearage.
- A review of the HOA financial statements and verification of the reserve account balance reveals that the HOA has sufficiently accounted for bad debt and arrearages.
- A current reserve study that is no greater than 24 months old supports the sufficiency of the current HOA assessments to meet the project component replacement needs.
- The HOA provides evidence of actions to collect the unpaid arrearages, including legal action, execution of payment plans, or other similar efforts.
- The exception terminates with the expiration of the current condominium project approval.

### 2.1.6 Budget / Financial Documents

Provided in the chart below are the defined financial documents required for review.

Project Type	Requirement
Proposed	<ul style="list-style-type: none"> <li>• Current year projected budget</li> <li>• Bank statements may be requested</li> </ul>
Under Construction	<ul style="list-style-type: none"> <li>• Current year projected budget</li> <li>• If a project is built in legally declared phases, an actual year to date budget is required</li> <li>• Bank statements may be requested</li> </ul>
New < 12 months old	<ul style="list-style-type: none"> <li>• Current year budget for declared phases</li> <li>• Current balance sheet</li> <li>• Bank statements may be requested</li> </ul>
Existing > 12 months old	<ul style="list-style-type: none"> <li>• Current year budget for declared phases</li> <li>• Current balance sheet less than 90 days old at the time of submission for project approval</li> <li>• Actual income and expense statement for project</li> <li>• Bank statements may be requested</li> </ul>

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

- Include allocations / line items to ensure sufficient funds are available to maintain and preserve all amenities and features unique to the condominium project; **and**
- Provide for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10 percent of the budget; **and**
- Provide adequate funding for insurance coverage and deductibles.

In cases where the budget documents do not meet these standards, a reserve study may be requested to assess the financial stability of the project. The reserve study cannot be more than 24 months old. When reviewing the reserve study, consideration must be given to items that have been replaced after the time that the reserve study was completed.

**Note:** FHA or the DELRAP mortgagee may require submission of additional financial statements to complete the condominium project approval review.

### **2.1.7 Special Assessments**

The project submission documentation must include information regarding special assessments. A signed and dated explanation for any assessment must be provided by the builder, developer, sponsor, homeowners association or management company and must answer the following items:

- What is the purpose of the assessment;
- Does the assessment affect the marketability of any of the units;
- Have other special assessments been required (if the answer is yes, complete explanation regarding the purpose and timing of those assessments must be provided);
- When is the assessment to be paid (i.e., required to be pre-paid or is it payable over a specified period of time);
- How is the overall financial stability of the project impacted by the assessment; and
- What impact will the assessment have on the future value and marketability of the property?

**Note:** The above list of items considered when reviewing and analyzing current or pending special assessments is not all inclusive; any additional items evidencing a negative impact on the project must be reviewed.

### **2.1.8 Pending Litigation**

The project submission documentation must include information regarding pending litigation. Pending litigation does not include routine foreclosure actions by mortgagees to obtain rights to a specific unit. Projects containing rent stabilization or affordable housing units must be processed under the HRAP option. A signed and dated explanation addressing each item addressed below must be provided by the attorney representing the builder, developer, sponsor, homeowners association or management company. The following items should be considered:

- What is the reason(s) for the pending litigation;
- What is the anticipated settlement / judgment date, if any;
- If applicable, is there sufficient insurance coverage to pay out a settlement / judgment without affecting the financial stability of the project;
- Could the legal action impact the future solvency of the HOA (if so, how);
- Could the ability for homeowners to transfer title be affected (if so, how);  
and
- Could the action impact the homeowner's rights?

**Note:** The above list of items considered when reviewing and analyzing current or pending legal actions is not all inclusive; any additional items evidencing a negative impact on the project must be reviewed.

### 2.1.9 Insurance Requirements

The condominium project must be covered by hazard, flood, liability and other insurance required by state or local condominium laws or acceptable to FHA. The mortgagee is required to thoroughly review the policy and all endorsements to ensure that the policy covers the following requirements. For proposed or under construction projects, the below insurance requirements are not applicable until the first unit within the project is sold.

Insurance Type	Requirement
Hazard Insurance (project approval)	<p>The homeowners’ association is required to:</p> <ul style="list-style-type: none"> <li>• Maintain adequate “master or blanket” property insurance in an amount equal to 100% of current replacement cost of the condominium exclusive of land, foundation, excavation and other items normally excluded from coverage;</li> <li>• If the HOA does not maintain 100% coverage, the unit owner may not obtain “gap” coverage to meet this requirement.</li> </ul>
HO-6 (loan level)	<p>The unit owner is required to:</p> <ul style="list-style-type: none"> <li>• Obtain a “walls-in” coverage policy (HO-6) if the master or blanket policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the borrower may have made to the unit.</li> </ul>
Liability (project approval)	<p>The homeowners’ association is required to:</p> <ul style="list-style-type: none"> <li>• Maintain comprehensive general liability insurance covering all of the common elements, commercial space owned and leased by the owners’ association, and public ways of the condominium.</li> </ul>
Fidelity Bond/Fidelity Insurance – may also be known as “Employee Dishonesty” or “Crime Policy” (project approval)	<p>For all new and established projects with more than 20 units, the <b>homeowners association</b> is required to obtain and maintain this insurance;</p> <ul style="list-style-type: none"> <li>• The homeowners association must maintain this insurance for all officers, directors, and employees of the association and all other persons handling or responsible for funds administered by the association;</li> <li>• The coverage must be no less than a sum equal</li> </ul>

	<p>to three months aggregate assessments on all units plus reserve funds unless State law mandates a maximum dollar amount of required coverage.</p> <p>If the homeowners association engages the services of a management company, the homeowners association must require the <b>management company</b> to maintain this insurance coverage for its officers, employees and agents handling or responsible for funds of, or administered on behalf of, the owners association. The required coverage must meet the following requirements:</p> <ul style="list-style-type: none"> <li>• Must name the owners association as an obligee;</li> <li>• Must be in an amount not less than the estimated maximum of funds, including reserve funds, in the custody of the owners association or management agent at any given time during the term of each bond;</li> <li>• In no event may the aggregate amount of such bonds be less than a sum equal to 3 months aggregate assessments on all units plus reserve funds unless State law requires a maximum amount of required coverage.</li> </ul>
Flood (project and loan level)	<p>The homeowners' association is required to obtain and maintain:</p> <ul style="list-style-type: none"> <li>• Coverage equal to the replacement cost of the project less land costs or up to the National Flood Insurance Program (NFIP) standard of \$250,000 per unit, whichever is less;</li> <li>• The maximum limit of building insurance coverage of a residential condominium building in a regular program community is \$250,000 times the number of units in the building (not to exceed the building's replacement cost);</li> <li>• The homeowners association, not the borrower or the individual unit owner, is responsible for obtaining and maintaining adequate flood insurance under the NFIP on buildings located in a Special Flood Hazard Area (SFHA); and</li> <li>• The flood insurance coverage must protect the interest of borrowers who hold title to an individual unit as well as the common areas of the condominium project;</li> </ul>

	<ul style="list-style-type: none"> <li>• Project approval will not be issued if any portion of the buildings and / or common elements is located within a SFHA unless the requirements of section 2.1.10 are met.</li> </ul>
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**2.1.10 Determining Need for Flood Insurance**

Mortgagees must determine whether the property improvements (dwelling and related structures/equipment essential to the value of the property and subject to flood damage) are located in a 100-year flood plain. If the property is in a 100-year flood plain, flood insurance is required, per Mortgagee Letters 2009-37 and 2010-43. To demonstrate and document that the property is not located in a 100-year flood plain and not subject to flood insurance requirements, the mortgagee must obtain:

1. A final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removed the property from the Special Flood Hazard Area (SFHA) location is obtained from the Federal Emergency Management Agency (FEMA); or
2. If the property is not removed from the SFHA by a LOMA or LOMR, the lender must obtain a FEMA National Flood Insurance Program Elevation Certificate (FEMA form 81-31 “elevation certificate”) prepared by a licensed engineer or surveyor documenting that the lowest floor (including the basement) of the residential building and all related improvements / equipment essential to the value of the property is built at or above the 100 year flood elevation in compliance with the National Flood Insurance Program (NFIP) criteria as required in 44 CFR 60.3 through 60.6. An elevation certificate is acceptable for condominium projects that are 100 percent complete, including all common elements and amenities.
  - Insurance under the NFIP is not required if a LOMA or LOMR is obtained from FEMA removing the property from the SFHA.
  - A flood elevation certificate is not required when a LOMA or LOMR removes the property from a SFHA.
  - Insurance under the NFIP is required when a flood elevation certificate documents that the property remains located within a SFHA.

**2.1.11 Recordation of Documents**

Recorded documents are required whenever available, and when necessary to comply with state law.

### **2.1.11.A Existing / Condominium Conversions**

Prior guidance allowed for condominium project approval whether or not recorded documents were received in the submission package. Effective with issuance of the ML and this Guide, recorded documents are required for all existing and / or condominium conversion projects (non-gut or gut rehabilitation), submitted for project approval.

### **2.1.11.B Proposed or Under Construction**

Recorded documents should be submitted with all proposed or under construction condominium project approval packages; however, unrecorded documents may be used to process initial project approval, where recorded documents are unavailable. If unrecorded documents were reviewed for initial project approval, no loan can be *insured* in the project until the recorded documents are received and the applicable approval data updated.

When unrecorded documents are submitted, the mortgagee or builder / developer must provide a certification with the final recorded documents that includes a description of any changes / amendments to the original unrecorded documents.

### **2.1.11.C Annexations / Adding Phases**

Recorded documents **must** be submitted with the approval package regardless of processing option, HRAP or DELRAP.

### **2.1.11.D Recertification of Approved Project**

Recorded documents are required.

<b>Project Status</b>	<b>Document Requirement</b>
Existing Projects	Recorded Documents Required
Conversions (non-gut or gut- rehabilitation)	Recorded Documents Required
Proposed or under construction	Recorded Documents (unless unavailable) – otherwise un-recorded documents may be submitted
Annexations / Adding Phases	Recorded Documents
Recertification of Approved Project	Recorded Documents Required

**2.1.12 Proposed, Under Construction or Gut-Rehabilitation Conversion  
Documentation Requirements**

**Building Permit / Certificate of Occupancy**

In cases where a building permit and a certificate of occupancy (or its equivalent) are issued by a local jurisdiction that performs a minimum of three inspections (typically the footing, framing and final) neither a HUD approved ten-year warranty plan is required. For those jurisdictions that do not issue a building permit (or its equivalent) prior to construction and a Certificate of Occupancy (or its equivalent) upon completion of construction, a condominium unit that is one year old or less must be covered by a HUD-approved ten-year warranty plan with a final inspection performed by an FHA Roster Inspector or individual who has the necessary skills and experience inspecting new construction projects.

FHA will require the completion and retention of the following documents when processing proposed, under construction or gut-rehabilitation conversion condominium project approvals.

<b>Required Document</b>	<b>Project or Loan Level Submission</b>
Builder’s Certification of Plans, Specifications and Site, form HUD-92541	Project and Loan Level  Submitted in the project approval submission package and the case binder submitted for insurance endorsement.
Builder’s Warranty, form HUD-92544	Loan Level  Required document in case binder submitted for insurance endorsement.
Building Permit (or its equivalency)	Project and Loan Level  Submitted in the project approval submission package and the case binder submitted for insurance endorsement.
Final Certificate of Occupancy (or its equivalency)	Project and Loan Level  Submitted in the project approval submission package and the case binder submitted for insurance endorsement.

10 Year Warranty (as applicable)	Project and Loan Level  Submitted in the project approval submission package and the case binder submitted for insurance endorsement.
Inspections (if applicable)	Project and Loan Level  Submitted in the project approval submission package and the case binder submitted for insurance endorsement.

### 2.1.13 Legal Phasing

Legal phasing is permitted for condominium processing as described below. It is recommended that developers submit all known phases for initial project approval. FHA will not accept market phasing in lieu of legal phasing.

For vertical buildings, legal phasing is acceptable if:

- The floors are legally phased in groupings of no less than five consecutive residential floors; except where the owner provides documentation that a group of less than five floors is required, e.g. vertical building contains seven floors; **and**
- At least a temporary certificate of occupancy has been obtained and all common areas and amenities have been completed; **and**
- A third party completion bond has been obtained.

For purposes of calculating the owner-occupancy percentage and FHA concentration percentage:

- On multi-phased projects, the owner-occupancy and FHA concentration percentages is calculated on total number of units in the first declared phase and cumulatively on subsequent phases.
- In single-phase condominium project approval requests, all units are used in the denominator when calculating the 50 percent owner-occupancy and FHA concentration percentages.

### 2.2 Rejected or Withdrawn Projects

If a project is rejected or withdrawn on the FHA-approved condominium list, the project will not be eligible for reconsideration unless the request meets the following:

- If the Project was rejected or withdrawn within the previous 12 months (based on the rejection or withdrawal date): new/additional information (documentation) may be submitted to HUD for reconsideration only under the HRAP processing option;
- If the Project was rejected or withdrawn more than 12 months ago: a new approval package may be submitted to HUD for processing.

**Note:** If a project is no longer approved or does not meet approval criteria, FHA-to-FHA insured units in the project remain eligible for FHA-to-FHA streamline refinances, notwithstanding whether such transactions require an appraisal.

### 2.3 Recertification Requirements

Condominium Project approvals will expire two years from the date of placement on the list of approved condominiums. Further participation in the program after this two-year period has expired will require recertification to determine that the project is still in compliance with HUD’s project eligibility requirements and that no conditions currently exist which would present an unacceptable risk to FHA. The recertification process will begin six (6) months prior to the approval expiration date with the availability to recertify until six (6) months after the approval expiration. If the project has not recertified within the time frame noted, full project approval will be required. The HOC or DELRAP mortgagee must process a recertification of a project’s approval as follows:

The HOC or DELRAP mortgagee must determine the date the project was initially approved – can be checked in FHA Connection or on the public web site located at: <a href="https://entp.hud.gov/idapp/html/condlook.cfm">https://entp.hud.gov/idapp/html/condlook.cfm</a>
If project initially approved <b>prior to January 1, 2000</b> , full project approval is required.
If project initially approved <b>on or after January 1, 2000</b> , then the project is eligible for the recertification process.
New FHA case numbers <b>will not</b> be assigned for those projects where the project approval has expired and the project has not been recertified or reapproved prior to the project expiration date or the project is rejected through the recertification or full project approval process.
Recertification packages may be submitted by the mortgagee (staff authorized by mortgagee), builder, developer, homeowners association, management company, or an attorney or project consultant who submits on behalf of one of the other referenced parties. <b>NOTE:</b> Applications received directly from borrowers, homeowners, sellers or real estate agents generally will not be processed and will be returned to the submitter, but HUD may determine, on a case-by-case basis, that alternative sources of submission

are appropriate.
Recertification packages may be processed under the HRAP or DELRAP options.
If processed using the HRAP option, submit the complete package to the jurisdictional HOC for review.
If processed using the DELRAP option, submit the complete package to the DELRAP participating mortgagee for review.
All submitters are encouraged to submit the Condominium Recertification Cover Letter/Document and Checklist (Appendix E-2) and all documentation and information required by the checklist with the request for recertification review. Mortgagees may elect to use their own form for the recertification request; however, the request must contain all information required on the checklist provided.
DELRAP participating mortgagees must upload all required recertification documentation, including all recorded legal documents, in FHA Connection (FHAC). <b>Note:</b> Only one (1) complete PDF file can be submitted.
Regardless of the processing option selected, HRAP or DELRAP, the reviewer <b>must</b> enter the final determination and associated data into the Condominium Maintenance screen in FHAC.
If recertification or full project approval processed by a mortgagee (DELRAP) is later withdrawn by FHA staff, the approving mortgagee's cases (originated by or underwritten by) cannot be endorsed for insurance. Cases that were processed by other mortgagees can be endorsed.
Annexations cannot be reviewed and approved until the recertification or re-approval process has been completed.
The recertification process must include all legal phases approved as of the review date, regardless of the previous approval date for each phase.
Projects previously rejected or withdrawn are ineligible for recertification but must go through the reconsideration process described in section 2.2.
FHA reserves the right to review conversion project approvals at their discretion.

## 2.4 Project Certification

Project Certification requirements have been revised as stated herein. A Project Certification (see Appendix A, Project Certification) will be required and must be submitted with each request for condominium project approval, including annexation requests. The certification must be submitted on company letterhead and must be executed (signed / dated - signature stamps or electronic signatures are not permitted) by the authorized mortgagee representative, the homeowners association representative, the homeowners association's authorized representative, the builder, the developer, of the builder's or developer's authorized representative. Authorized representative is defined as the management company, project consultant or attorney. The certification states that the undersigned hereby certifies that:

1. They have reviewed the project and it meets all State and local condominium laws and all FHA condominium approval requirements thereto applicable to the review of condominiums;
2. To the best of his or her knowledge and belief, the information and statements contained in the application are true and correct; and
3. The submitter has no knowledge of circumstances or conditions that might have an adverse effect on the project or cause a mortgage secured by a unit in the project to become delinquent (including but not limited to: defects in construction; substantial disputes or dissatisfaction among unit owners about the operation of the project of the owner's association; and disputes concerning unit owner's right, privileges, and obligations). The submitter understands and agrees that the submitter is under a continuing obligation to inform HUD if any material information compiled for the review and acceptance of this project is no longer true and correct.

**Note:** FHA will not require an attorney's certification. However, mortgagees and builders / developers may obtain this as part of their own due diligence process. Mortgagees as well as builders / developers are reminded that this document will not replace other required condominium certifications they are required to execute (see Appendices A and B).

## CHAPTER 3: LOAN LEVEL REQUIREMENTS

### 3.1 Case Number Assignment

FHA case numbers **cannot** be requested unless the project is approved. Expired, withdrawn or projects exceeding the FHA concentration percentage of 50 percent will not have case numbers assigned.

Exceptions to this requirement are for FHA-to-FHA streamline refinance transactions and those projects meeting the site condominium definition and requirements.

### 3.2 Case Number Cancellations

Outstanding FHA condominium case numbers will be cancelled if there is no activity six months from the date of the case number assignment.

### 3.3 Mortgage Insurance for Individual Unit Financing

All applicable FHA mortgage insurance requirements (e.g., income eligibility and creditworthiness), including those not specified in this ML or Guide must be complied with in order for mortgages for individual units to be eligible for FHA insurance.

### 3.4 Pre-Sale Requirements

At least **30** percent of the total units must be sold prior to endorsement of a mortgage on any unit. This pre-sale requirement is not applicable to existing projects or non-gut rehabilitation conversions.

The pre-sale percentage must be documented as follows:

- Copies of sales agreements and evidence (loan commitment) that a mortgagee is willing to make the loan\*; or
- Evidence that units have closed and are occupied; or
- Information from a developer/builder that lists all of the units already sold, under contract, or closed (e.g. a spreadsheet, chart, or listing used for the company's own tracking purposes) that is accompanied by a signed certification from the developer.

**\*NOTE:** Secondary residences can only be included if it meets the requirements of 24 CFR 203.18(f)(2).

### 3.5 Owner-Occupancy Requirements

Project Status	Requirement
Existing	At least 50 percent of the units of a project must be owner-

	occupied or sold to owners who intend to occupy the units
Proposed, Under Construction or Existing < 12 months old	FHA will allow a minimum owner-occupancy amount equal to 30 percent of declared units. One year after the first unit conveyance, the project requirement is at least 50 percent owner-occupancy of the declared units.

The owner-occupancy percentage must be documented as follows:

- Copies of sales agreements and evidence (loan commitment) that a mortgagee is willing to make the loan\*; or
- Evidence that units have closed and are occupied; or
- Information from a developer/builder that lists all of the units already sold, under contract, or closed (e.g. a spreadsheet, chart, or listing used for the company’s own tracking purposes) that is accompanied by a signed certification from the developer.

**\*NOTE:** A secondary residence can only be considered to be “owner-occupied” if it meets the requirements of 24 CFR 203.18(f)(2). Additionally, units sold to owners who intend to occupy the units may only be considered “owner-occupant” if it was a valid presale.

### 3.6 FHA Concentration

FHA will not insure any mortgages in an approved project if 50 percent or more of the units are FHA-insured.

FHA will not issue new case numbers once the 50 percent concentration level (plus a small tolerance to accommodate for some fall-out) has been reached in any particular development. The FHA concentration percentage will be based on new FHA case numbers assigned and active encumbered FHA-insured loans in a project divided by the number of declared units. FHA will display the concentration information for each approved condominium project on the approved condominium listing, which can be found on both FHAC and on the public website at <https://entp.hud.gov/idapp/html/condlook.cfm>.

For the purposes of calculating the FHA concentration:

- Projects consisting of three or fewer units must have no more than one unit encumbered with FHA insurance.
- Projects consisting of four or more units must have no more than 50 percent of the total units encumbered with FHA insurance.
- Calculation of the level of FHA concentration in a project declared with legal phases must follow the same methodology as owner-occupancy.

## **FHA Concentration Percentage Exceptions:**

The jurisdictional HOC may grant an exception to allow insurance of mortgages in a project with an FHA concentration greater than 50 percent. No exception requests can be processed under the DELRAP option. To be granted an exception, the required documents and a cover letter must be submitted to the jurisdictional HOC for review and eligibility determination. The FHA concentration may be increased to 100 percent if the project meets all of the requirements for project approval and the following additional requirements.

- The project has at least four (4) units.
- The project is 100 percent complete and construction has been completed for at least one year, as evidenced by issuance of the final or temporary/conditional certificate of occupancy for last unit conveyed;
- 100 percent of the units have been sold and no entity owns more than 10 percent of the units in the project (for projects with fewer than 10 units, single entity may own no more than 1 unit) - this requirement does not apply to eligible governmental or nonprofit programs (this means a program operated pursuant to a program established by Federal law, operated by a State or local government, or operated by an eligible nonprofit organization, if the program is designed to assist the purchase of low-or moderate-income housing including rental housing);
- The project's budget provides for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10% of the budget;
- Control of the Homeowners Association has transferred to the owners;
- The owner-occupancy ratio is at least 50 percent.
- The exception terminates with the expiration of the current project approval.

**Note:** Proposed, under construction, gut-rehabilitation condominium conversions are not eligible for this exception.

## **3.7 Insurance Requirements**

In addition to the condominium project being covered by hazard, flood, liability and other insurance required by state or local condominium laws or acceptable to FHA as defined in section 2.1.9 of this Guide, the following insurance requirements must be met for a unit to be eligible for FHA insurance.

### **3.7.1 Hazard**

If the HOA does not maintain 100 percent coverage, the unit owner **may not** obtain “gap” coverage to meet this requirement.

### 3.7.2 Flood

- The HOA, not the borrower or individual unit owner, is responsible for obtaining and maintaining adequate flood insurance under the NFIP on buildings located in a Special Flood Hazard Area (SFHA).
- The flood insurance coverage must protect the interest of borrowers who hold title to an individual unit as well as the common areas of the condominium project.
- If the FHA Roster Appraiser reports that buildings in a condominium project are located in a SFHA, the mortgagee is responsible for ensuring that the HOA obtains and maintains adequate flood insurance on buildings located within the SFHA, per the requirements of Mortgagee Letters 2009-37, 2010-43, and this Guide.

### 3.7.3 HO-6 “Walls-In” Interior Insurance

In cases where the master policy *does not* include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the borrower have made to the unit, the borrower must obtain a “walls-in” coverage policy (HO-6).

**Forward Mortgages:** FHA requires this insurance coverage; therefore, it must be included in the analysis of the borrower’s mortgage-payment-to-income and debt-to-income ratio calculations. Further, as it is required insurance coverage, the servicing lender must collect and escrow for the payment of premiums to the insurance company.

HECM (Reverse Mortgages): The HECM borrower must obtain and maintain HO-6 insurance as specified above; however, the servicing lender will not be responsible for collection and escrowing of this insurance payment.

**Note:** FHA has not established a minimum or maximum amount of coverage required. The borrower is responsible for discussing their insurance needs with their insurance company, and obtaining sufficient coverage based upon the borrower’s improvements.

## 3.8 Proposed, Under Construction or Gut-Rehabilitation Conversion Documentation Requirements

### Building Permit / Certificate of Occupancy

In cases where a building permit and a certificate of occupancy (or its equivalent) are issued by a local jurisdiction that performs a minimum of three inspections (typically the footing, framing and final) neither a HUD approved ten-year warranty plan is required.

For those jurisdictions that do not issue a building permit (or its equivalent) prior to construction and a Certificate of Occupancy (or its equivalent) upon completion of construction, a condominium unit that is one year old or less must be covered by a HUD-approved ten-year warranty plan with a final inspection performed by an FHA Roster Inspector or individual who has the necessary skills and experience inspecting new construction projects.

FHA will require the completion and retention of the following documents when processing proposed, under construction or gut-rehabilitation conversion condominium project approvals.

<b>Required Document</b>	<b>Project or Loan Level Submission</b>
Builder’s Certification of Plans, Specifications and Site, form HUD-92541	Project and Loan Level  Submitted in the project approval submission package and the case binder submitted for insurance endorsement.
Builder’s Warranty, form HUD-92544	Loan Level  Required document in case binder submitted for insurance endorsement.
Building Permit (or its equivalency)	Project and Loan Level  Submitted in the project approval submission package and the case binder submitted for insurance endorsement.
Final Certificate of Occupancy (or its equivalency)	Project and Loan Level  Submitted in the project approval submission package and the case binder submitted for insurance endorsement.
10 Year Warranty	Project and Loan Level  Submitted in the project approval submission package and the case binder submitted for insurance endorsement.
Inspections (if applicable)	Project and Loan Level  Submitted in the project approval

	submission package and the case binder submitted for insurance endorsement.
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**3.9 Temporary / Conditional Certificate of Occupancy**

FHA will accept a temporary / conditional Certificate of Occupancy for proposed, under construction or gut-rehabilitation conversions under the following circumstances:

- All common areas and amenities for the project must be completed.
- The temporary/conditional Certificate of Occupancy that was issued clearly indicates that the unit is habitable and eligible for immediate occupancy.
- The jurisdiction that is issuing the temporary/conditional Certificate of Occupancy has in place a standard protocol whereby permanent certificates are issued and maintained.

Escrow provisions for weather-related delays (common elements, amenities or building structure) will be permitted.

**3.10 Section 203(k) Condominium Eligibility**

Section 203(k) mortgages, regular and streamlined, may be used for individual units in condominium projects that have been approved by FHA and meet the additional requirements defined below.

The 203(k) program was not intended to be a project mortgage insurance program, as large scale development has considerably more risk than individual single family mortgage insurance. Therefore, condominium rehabilitation is subject to the following additional conditions:

- Owner/occupant and qualified non-profit borrowers only;
- Rehabilitation is limited only to the interior of the unit.
- Mortgage proceeds are not to be used for the rehabilitation of exteriors or other areas that are the responsibility of the condominium association, except for the installation of firewalls in the attic of the unit;
- Only the lesser of five units per condominium association, or 25 percent of the total number of units, can be undergoing rehabilitation at any time;
- The maximum mortgage amount cannot exceed 100 percent of the after improved value.
- After rehabilitation is complete, the individual buildings within the condominium must not contain more than four units. By law, Section 203(k) can only be used to rehabilitate units in one-to-four unit structures. However, this does not mean that the condominium project, as a whole, can only have four units or that all individual structures must be detached.

**Example:** A project might consist of 6 buildings each containing 4 units, for a total of 24 units in the project and, thus, be eligible for Section 203(k). Likewise, a project could contain a row of more than four attached townhouses and be eligible for Section 203(k) because HUD considers each townhouse as one structure, provided each unit is separated by a 1 1/2 hour firewall (from foundation up to the roof).

### **3.11 Home Equity Conversion Mortgages (HECMs)**

The policy requirements defined in this ML and / or Guide are applicable to reverse mortgages. Any changes to the general policies that are unique to HECM loans will be identified as such.

### **3.12 FHA-to-FHA Transactions**

Project approval *is not* required for FHA/HUD Real Estate Owned (REO) loan transactions that will be FHA-insured. However, if the condominium project has an assigned project id, mortgagees should enter this information when the FHA case number is requested.

Project approval *is not* required for FHA-to-FHA streamline refinance transactions, not withstanding whether such transactions require an appraisal. However, if the condominium project has an assigned project id, mortgagees should enter this information when the FHA case number is requested.

### **3.13 Loan-Level Certification**

#### **Mortgagee Certification**

If a project is currently or was previously approved, the mortgagee must certify that it has reviewed and verified the investor ownership, percentage of owners in arrears for condominium association fees, and owner-occupancy ratio.

Mortgagees must provide a certification in each case binder submitted for FHA insurance endorsement (see Appendix B, Certification for Individual Unit Financing) on company letterhead signed / dated by a company authorized representative (signature stamps or electronic signatures are not permitted) that:

1. The Mortgagee has verified that the condominium unit connected to the specific loan file is in a project that appears on FHA's list of approved condominium projects as of the date that the FHA case number was assigned;
2. To the best of his / her knowledge and belief, the information and statements contained in this application are true and correct;
3. The Mortgagee has no knowledge or circumstances or conditions that might have an adverse effect on the project or cause a mortgage secured by a unit in the project to become delinquent (including but not limited to defects in construction;

- substantial disputes or dissatisfaction among unit owners about the operation of the project or the owner's association; and disputes concerning unit owners rights, privileges, and obligations); and
4. The Mortgagee has reviewed and verified the project's continued compliance with the initial approval requirements and verified that the investor ownership, percentage of owners in arrears for condominium association fees and owner-occupancy meets FHA requirements.

Additionally, the following requirements must be met:

- The required certification noted above (see Appendix B) **must** be executed (signed / dated - signature stamps or electronic signatures are not permitted) by the underwriter or other mortgagee representative authorized to bind the company when the loan approval decision is made (i.e., the appraisal has been reviewed, the borrower(s) is approved and the loan is ready to close – if there are any conditions, they are conditions to be satisfied at closing).
- The executed (signed / dated) certification must have been executed within the 30 days prior to the date of closing, or a new certification must be executed (signed / dated – signature stamps or electronic signatures are not permitted).
- The required certification cannot be executed (signed / dated) after the loan closed.

### **Builder / Developer**

If the project is new or under construction and a pre-sale certification is required, the Builder / Developer or their authorized representative must execute (sign / date) a pre-sale certification (see Appendix B, Pre-Sale Certification) on company letterhead (signature stamps or electronic signatures are not permitted). The required certification must be placed in each case binder submitted for insurance FHA endorsement. This information will be used to document the required minimum pre-sale requirement of 30 percent.

The certification states that the undersigned hereby certifies that:

In lieu of providing copies of sales agreements and evidence that a mortgagee is willing to make the loan (loan commitment), or evidence that units have closed and are occupied, the builder / developer has attached to the signed and dated certification, a list documenting all units sold, under contract or closed (i.e. an excel spreadsheet).

### **3.14 Site Condominiums**

Although not subject to the general condominium approval requirements, the applicable ADP codes for Site condominiums are 731 (Adjustable Rate Mortgages) and 734.

Appraisal data is collected and reported on Fannie Mae form 1073, Individual Condominium Unit Appraisal Report.

The Condominium Rider (Appendix G) must be included in the FHA case binder submitted for insurance endorsement.

### **3.15 Manufactured Housing Condominium**

The appraisal reporting requirements for condominium manufactured homes are:

1. Appraisals must be reported on the Manufactured Home Appraisal Report (Fannie Mae Form 1004C).
2. The subject condominium project must be inspected and the Project Information section of the Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073) must be completed and included as an addendum to the appraisal report.
3. Comparable sales must be condominium manufactured homes. Detailed explanations must be provided when search parameters are expanded due to the lack of comparable sales in the subject market area.

## **CHAPTER 4: LIABILITIES AND MONITORING**

### **4.1 Mortgagee Liability**

Mortgagees who issue condominium project approvals using the DELRAP process are responsible for compliance with all requirements associated with the project approval and any loan they originate and/or underwrite using the applicable project approval.

Mortgagees who rely upon a condominium project approval issued by another mortgagee or FHA are responsible for ensuring continued compliance with all applicable approval requirements and for certifying as provided in the loan level certification (Attachment B).

### **4.2 Mortgagee Liability – Second and Subsequent Mortgagees**

Mortgagees that submit a unit for insurance in a project that is listed on the FHA-approved condominium list that was approved by a DELRAP mortgagee or FHA **are not** required to take any further actions with respect to the approval of the project beyond that described in this Guide as part of a loan-level review process and as necessary to certify using Appendix B.

### **4.3 Mortgagee's Internal Quality Control Requirement**

In addition to complying with the requirements below, mortgagees who perform reviews of condominium project submissions under the DELRAP option are required to have in place a Quality Control Plan meeting the standards of HUD Handbook 4060.1 (Mortgagee Approval Handbook), Chapter 7 that includes selection and review of project approval requests that are approved or denied by the mortgagee's staff.

Mortgagees must select for review a minimum of 10 percent of all project approval reviews completed by the staff reviewers. The selection for review should be representative of all staff reviewers and include condominium approvals and denials as part of the selection criteria.

The following are the overriding goals of Quality Control. Mortgagees must design programs that meet these basic goals:

- \* Assure compliance with FHA's and the mortgagees own origination or servicing requirements throughout its operations;
- \* Protect the mortgagee and FHA from unacceptable risk;
- \* Guard against errors, omissions and fraud; and
- \* Assure swift and appropriate corrective action.

Failure to comply with specific Quality Control requirements may result in administrative action and / or the imposition of Civil Money Penalties by the Mortgagee Review Board (MRB).

#### **4.4 Quality Assurance**

Monitoring the condominium approval process is critical to the success of the program. Mortgagees who approve or deny condominium projects utilizing the DELRAP option will be required to submit a copy of the complete condominium project approval or denial package through FHA Connection in a pdf file within five (5) business days of final disposition. The submission package should contain only the required documents – extraneous or extra copies of documents should not be submitted.

The first five (5) DELRAP project approvals or denials by the mortgagee will be subject to review by the jurisdictional HOC staff.

If the first five (5) post approval / denial reviews demonstrate that the mortgagee is compliant with all condominium project approval requirements and made a sound determination in approving the projects then 1 of every 5 subsequent project approvals will automatically be selected for post approval / denial review. These reviews will be completed by the jurisdictional HOC. The selection of additional project approvals for review allows FHA to manage and mitigate risk to the insurance fund while ensuring compliance with all condominium project policy requirements.

If, however, the first five (5) post reviews demonstrate non-compliance with applicable requirements, e.g. missing documents, incomplete packages or improper approvals additional project approvals will be selected for review. Serious non-compliance or patterns of non-compliance may result in administrative action and / or the imposition of Civil Money Penalties.

#### **4.5 False Certifications**

Title 18 U.S.C. 1014, provides in part that whoever knowingly and willfully makes or uses a document containing any false, fictitious, or fraudulent statement or entry, in any matter in the jurisdiction of any department or agency of the United States, shall be fined not more than \$1,000,000 or imprisoned for not more than 30 years or both. In addition, violation of this or other requirements may result in administrative action, including Civil Money Penalties, suspension, debarment, or withdrawal of approval and / or civil action for penalties and damages suffered by the Department.

## CHAPTER 5: SYSTEMS

### 5.1 Condominium Project Approval Process

FHAC is the system used to record, list and track all Condominium Project data for projects that have been processed. The information included in the FHAC database provides information regarding project identification number, location and description of the project, type of construction, approval, withdrawn or denial information, how the project was processed and required recertification date.

There are two project approval processing options available, HRAP and DELRAP. The system data entry requirements and described processes will be used by FHA staff and / or participating DELRAP mortgagee staff that has the proper condominium updates authority in FHAC.

### 5.2 FHA Connection Authorization for Condominium Projects

HUD personnel and DELRAP participating mortgagee personnel must request the appropriate authorization in order to use the condominium project functions on the FHAC. On the **FHA Connection ID Administration** page (see below example), an FHA Connection HUD security administrator clicks the *CHUMS* tab to display the following authorizations:

- **Condominium Approval Maintenance:** The *Update* authorization allows the user to establish and update condominium projects. The *Query* authorization allows the user to view condominium project information only.
- **Condominium Approval Review:** The *Update* authorization allows the user to perform a review of condominium projects approved by mortgagees. This function will be available at a future time.

Property/Borrower Validation:	<input checked="" type="radio"/> Validation Tool Report	Condominium Approval Maintenance:	<input checked="" type="radio"/> Update
	<input type="radio"/> Full History		<input type="radio"/> Query (Read-Only)
	<input type="radio"/> Latest Validation Event		<input type="radio"/> Not Authorized
	<input type="radio"/> Not Authorized		
Condominium Approval Review:	<input checked="" type="radio"/> Update		
	<input type="radio"/> Not Authorized		

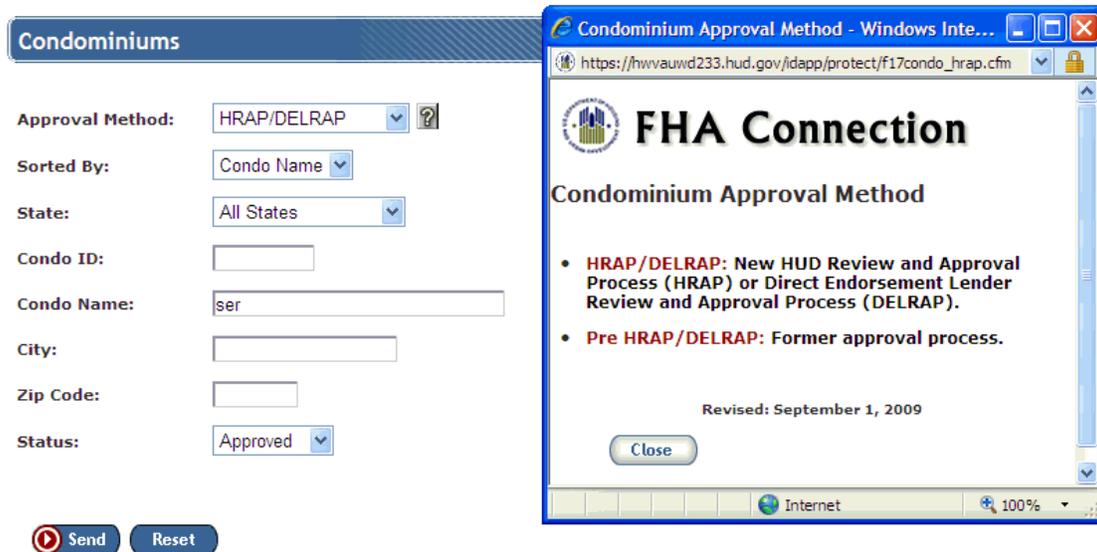
Note: Mortgagees have the same **Condominium Approval Maintenance** authorizations available but the **Condominium Approval Review** authorization will not be available.

### 5.3 Getting Condominium Project Information

The **Condominiums** lookup on the FHAC and HUD's Homes & Communities website ([www.hud.gov](http://www.hud.gov)) was modified to allow users to search for condominium projects that were approved using the new HRAP/DELRAP method or the former approval process (pre-HRAP/DELRAP). Similar changes were made to the B2G **Condo/PUD/Subdivision** lookup.

In order to get condominium project information on the FHAC, the user must have *Query* or *Update* authorization for **Condominium Approval Maintenance**.

The **Approval Method** field was added to the **Condominiums** page as a new search criterion and users can choose between the two methods (see below example). Clicking the “?” next to the **Approval Method** field displays a pop-up page explaining these two methods.



If a match is not found based on the search criteria entered, the Condominiums page is displayed again with an error message. An Establish Condominium Project link is provided to authorized HUD and DELRAP mortgagee users for adding a condominium project record (see below example).

## Condominiums

[Help Links](#)

### ✖ ERROR

CONDOMINIUMS NOT PROCESSED DUE TO ERROR(S) [Review Error\(s\)](#)

**Approval Method:**

**Sorted By:**

**State:**

**Condo ID:**

**Condo Name:**

**City:**

**Zip Code:**

**Status:**

### ✖ Details

Error(s) Detected: [Top](#)

NO RECORDS MATCH YOUR SELECTION CRITERIA

If matches are found based on the search criteria entered, the **Condominiums List** page is displayed. If the list is based on the HRAP/DELRAP **Approval Method**, an **Establish Condominium Project** link is provided to authorized HUD or DELRAP mortgagee users for adding a condominium project record (see below example).

## Condominiums List

[Help Links](#) SUCCESS

CONDOMINIUMS SUCCESSFULLY COMPLETED

Condominiums (HRAP/DELRAP Approval Method) as of 08/27/2009

[Download Report to Excel File](#)

4 records were selected, records 1 through 4 are displayed (page 1 of 1)

Condo Name	Condo ID / Phase	Manufactured Housing	Address	Composition of Project	Status	Approval Date	Expiration Date
<a href="#">SERA CONDOMINIUMS</a>	A000017001	No	77 PEACHTREE RD ATLANTA, GA 30324	1 Phase; 7 Floors	Approved	08/11/2009	08/11/2011
<a href="#">SERENDIPITY SUITES</a>	D000015001	No	4 TAYLOR AVE DENVER, CO 80211	3-floor building; 1 Phase	Withdrawn	08/25/2009	n/a
<a href="#">SERPENTINE LANE</a>	P000024001	No	1360 SERPENTINE LN PHILADELPHIA, PA 19127	25 FLOOR HIGH-RISE; 1 PHASE	Rejected	08/19/2009	n/a
<a href="#">SERRANO VILLAS</a>	S000006001	No	56 W WALNUT ST SANTA ANA, CA 92701	1 PHASE; 2 Stories	Approved	08/04/2009	08/04/2011

**Search criteria:**

Approval Method: HRAP/DELRAP  
Sorted by: Condo Name  
State: All States  
Condo ID:  
Condo Name: ser  
City:  
Zip Code:  
Status: All Statuses

[Send](#) [Reset](#) [New Request](#) [Establish Condominium Project](#)

The information displayed on the **Condominiums List** page differs between the two approval methods. The example above shows the **Condominiums List** page produced for the **HRAP/DELRAP Approval Method** and the below example shows the one produced for the **Pre-HRAP/DELRAP Approval Method**. The **Condominiums List** page for the **HRAP/DELRAP Approval Method** has this additional information: **Composition of Project**, **Approval Date** (i.e., status date), and **Expiration Date** (expiration of Approval status). The entire list of condominium projects displayed on the **Condominiums List** pages can be downloaded as a Microsoft® Excel® file.

## Condominiums List

[Help Links](#) ?

 **SUCCESS**

CONDOMINIUMS SUCCESSFULLY COMPLETED

[Download Report to Excel File](#)

Condominiums (Pre-HRAP/DELRAP Approval Method) as of 09/01/2009  
(4 records were selected, 4 records displayed.)

Condo Name	Condo ID	Manufactured Housing	Address	Status
<a href="#">SERENADE CONDO, PH 4, UNIT 1</a>	93-0025	Unknown	LAS VEGAS, NV	Approved
<a href="#">SERENADE CONDOS PHASE 4 UNIT 1</a>	LV93-0025	Unknown	LAS VEGAS, NV	Approved
<a href="#">SERENADE UNIT 2, PHASE 5</a>	93-0144	Unknown	LAS VEGAS, NV	Approved
<a href="#">SERENADE, UNIT 2, PH 9</a>	93-0536	Unknown	LAS VEGAS, NV	Approved

Search criteria:

Approval Method: Pre HRAP/DELRAP  
 Sorted by: Condo Name  
 State: NV  
 Condo ID:  
 Condo Name: ser  
 City: las vegas  
 Zip Code:  
 Status: All Statures

[Send](#) [Reset](#) [New Request](#)

To view the details of a condominium project, click the link in the **Condo Name** column. The page displayed depends on the **Approval Method** selected and the user's FHAC authorization for **Condominium Approval Maintenance**.

For the Homes & Communities website (www.hud.gov), only the Project Information and Project Address sections of the **Condominium Project Maintenance Results** page are displayed (see below example) and includes the condominium project status. The information in the **HOA TIN** field (homeowners' association taxpayer ID number) is not displayed.

Approval Method	Query Authorization	Update Authorization
HRAP/DELRAP	Condominium Project Maintenance Results (example one below); view only	Condominium Project Maintenance page; can be updated
Pre-HRAP/DELRAP	Condominiums Detail page (example two below); view only	N/A

**Example One:**

**Condominium Project Maintenance Results**
Help Links ?

**SUCCESS**

\* Project Information \*

Condo Project ID: **D000015**      [View Condominium Documents](#)

Condo Legal Name: **SERENDIPITY SUITES**      HOA TIN: **55-5555555**      Jurisdictional HOC: **Denver**

\* Project Address \*

Street Address: **4 TAYLOR AVENUE**      Lot: **N/A**      Block: **N/A**      Plat: **N/A**

City: **DENVER**      State: **Colorado**      Zip Code: **80211**      County Code: **031 DENVER**

\* Project Characteristics \*

Construction Code: **Existing Construction**      Month/Year Completed: **1995**

Manufactured Housing: **No**      Conversion: **No**      Eligible for High Ratio Loan: **No**

Total Units in Project: **75**      Total FHA Units in Project: **5**      Total Exempt Units: **N/A**      FHA Concentration: **6.66%**

Project Description:

**3-floor building; 1 Phase**

**Project was not previously approved by HUD**

\* Approver Decision Information \*

**Project Review for placement on FHA Condominium List was conducted by:**

Name: **H S KAY**

Approver Title: **CONDOMINIUMS SPECIALIST**      Phone Number: **(800) 555-1234**

Project Status	Status Date	Reject/Withdrawn Reason
<input type="radio"/> <i>Approved</i>	<b>08/25/2009</b>	
<input type="radio"/> <i>Rejected</i>		
<input checked="" type="radio"/> <i>Withdrawn</i>	<b>09/01/2009</b>	<b>Results of project review</b>

Comments:

## Condominiums Detail

Help Links



SUCCESS

CONDOMINIUMS SUCCESSFULLY COMPLETED

Message: CONDOMINIUMS SUCCESSFULLY COMPLETED  
SUCCESS

Condo selected on 09/01/2009

This record was last updated on: September 17, 1993			
Name:	SERENADE CONDO, PH 4, UNT 1	Alias:	SERENADE CONDO, PH 4, UNT 1
Condo ID:	93-0025	Phase:	
Location:	LAS VEGAS, NV	Field Office:	Las Vegas, NV
Status:	Approved	Date:	March 29, 1993
Manufactured Housing:	Unknown		
Construction Code:	Proposed Construction		
Completion Year:	N/A	Month:	N/A
High Ratio Eligible:	Yes		
Units Rejected:			
Special Conditions:			
Special Conditions Satisfied for Endorsement:	N/A		
Remarks:			

### 5.4 Establishing a Condominium Project

If a condominium project is not on HUD's condominium list, a record for the condominium can be established by HUD or DELRAP mortgagee personnel with Update authorization for **Condominium Approval Maintenance**.

The basic procedure for establishing a condominium project is as follows:

- Perform a search of the condominium project.
- If not found, enter the required information on the **Condominium Project Maintenance** page, including a decision to approve or reject the condominium project, and process.
- View and/or print instructions for uploading required documents to the FHAC.
- Scan each required condominium document into one Portable Document
- Format (PDF) file. (This is optional for HUD personnel but will be required for mortgagees.)
- Attach and upload the PDF file containing the scanned documents. (This is optional for HUD personnel but will be required for mortgagees.)

First, a search of the condominium project is made using the HRAP/DELRAP **Approval Method** on the **Condominiums** page. This is also applicable to existing condominium

projects being converted to the HRAP/DELRAP **Approval Method**.

If the project is not found, the **Establish Condominium Project** link is displayed. Click the **Establish Condominium Project** link to display the **Condominium Project Maintenance** page. Then, enter condominium project information.

In the Project Information section of the **Condominium Project Maintenance** page, the name under which the condominium was incorporated and the Taxpayer Identification Number (TIN) of the homeowners' association (HOA) are entered. The **Jurisdictional HOC** is system-generated after the page is processed and is based on the project address.

The screenshot shows the 'Condominium Project Maintenance' header in a blue box and a 'Help Links' button in a red box. Below is a section titled '\* Project Information \*' with three input fields: 'Condo Legal Name' containing 'Serene View Condos', 'HOA TIN' containing '12-1212121', and 'Jurisdictional HOC' containing 'N/A'.

In the Project Address section, the legal address of the condominium project is entered. **Lot**, **Block**, and **Plat** information is entered if the **Construction Code** of the condominium project is Proposed Construction or Under Construction. Otherwise, these fields are left blank. The **City** and **County Code** are optional. If they are not entered, the system provides the information based on the zip code when the page is processed. If more than one **County Code** is found for the zip code, an error message is returned. The **Errors Detected** field, located in the Details section at the bottom of the page, displays all applicable county codes. The appropriate code must be manually entered in the **County Code** field. If there is more than one city for the zip code, a dropdown list is provided from which to make a selection.

The screenshot shows a section titled '\* Project Address \*' with several input fields: 'Street Address' (890 Tranquil Way), 'Lot' (blank), 'Block' (blank), 'Plat' (blank), 'City' (Tranquility), 'State' (New Jersey dropdown), 'Zip Code' (07879), and 'County Code' (blank).

In the Project Characteristics section, information is required in all fields, except as noted. Information is optional for the **Total Exempt Units** field. These are units excluded from the **FHA Concentration** calculation and lenders can deduct that number from the total units, thereby increasing the owner-occupancy and presale percentage. Also, if the **Construction Code** is Proposed or Under Construction, the **Month/Year Completed** field is left blank. If the condominium project is two years or older, the month is not required.

The **Project Description** includes the number of buildings, floors, phases, etc. for the condominium project. The **FHA Concentration** field displays the percentage of units in the condominium project with active FHA-insured mortgages or mortgages that were assigned FHA case numbers. The **FHA Concentration** is calculated when the **Condominium Project Maintenance** page is processed and is the result of dividing the **Total FHA Units in Project** by the **Total Units in Project**. For example, the

calculation is:  $10 / 100 = 10.00\%$ . The percentage fluctuates as case numbers are assigned, cases are cancelled, and FHA mortgage insurance is terminated for units in the condominium project.

If the condominium project is being converted from the pre-HRAP/DELRAP to the HRAP/DELRAP approval method, Yes is selected in the **Was this Project previously approved by HUD?** field. The ID issued for the condominium project under the pre-HRAP/DELRAP approval method must be entered in the **Old Condo ID**. **Old Condo Phase** information is optional. If the user does not know the **Old Condo ID**, the search icon can be clicked to look up the condominium project information. This displays a pop-up **Condominiums** page for performing a search of condominium projects. Then, the procedure explained in 5.3 Getting Condominium Project Information is followed. The Pre HRAP/DELRAP **Approval Method** must be selected as a search criterion.

\* Project Characteristics \*

<b>Construction Code:</b> Existing Construction	<b>Month/Year Completed:</b> /2007		
<b>Manufactured Housing:</b> No	<b>Conversion:</b> No	<b>Eligible for High Ratio Loan:</b> No	
<b>Total Units in Project:</b> 100	<b>Total FHA Units in Project:</b> 10	<b>Total Exempt Units:</b> 2	<b>FHA Concentration:</b> N/A

---

**Project Description:** Characters Remaining: 171

Two phases for entire project; first phase is a 3-floor building with 100 units

---

**Was this Project previously approved by HUD?**  Yes  No

**If Yes, please enter:**

<b>Old Condo ID:</b> Serene-1	<b>Old Condo Phase:</b> 
----------------------------------	-----------------------------

In the *Approver Decision Information* section, the name of the user (approver) is system-generated when the **Condominium Project Maintenance** page is processed and appears in the **Name** field. The **Approver Title** is In the *Approver Decision Information* section, the name of the user (approver) is system-generated when the **Condominium Project Maintenance** page is processed and appears in the **Name** field. The **Approver Title** is optional, but the **Phone Number** is required. A decision to approve or reject the condominium project must be entered in the **Approver Decision** field. If the project is rejected, a reason must be selected from the drop-down list in the **If Rejected, please select reason** field. If the *Other* is selected as the reject reason, an explanation must be entered in the **Comments** field.

\* Approver Decision Information \*

Project Review for placement on FHA Condominium List was conducted by:

Name: N/A	
Approver Title: Condominiums Specialist	Phone Number: (800 ) 555 -1234

Approver Decision:  Approve Project  Reject Project

If Rejected, please select reason:

Select Reject Reason

- Select Reject Reason
- No insurance coverage (hazard, liability or flood)
- No active owner association
- Missing documents or incomplete package submission
- Environmental conditions not avoided or mitigated
- Insufficient reserve funds
- Insufficient cash flow
- Significant pending litigation
- Significant pending special assessment
- Other (specify in comments)

Comments:

The **Condominium Project Maintenance** page is processed when all of the required information is entered. If there are no errors, the **Condominium Project Maintenance - Upload File** page appears. Note: If there is an error and the project address cannot be validated, a pop-up **Validate Address** page is provided for resolving the matter.

The information on the **Condominium Project Maintenance - Upload File** page is reviewed. If information needs to be added or changed, the user can click **Go Back and Edit** to return to the **Condominium Project Maintenance** page to make changes.

The **Instructions** link at the top of the **Condominium Project Maintenance - Upload File** page is clicked to display instructions on attaching and uploading documents for the condominium project. The uploading of documents for an approved (or rejected) condominium project is optional for HUD personnel but will be required for lenders.

Condominium Project Maintenance - Upload File

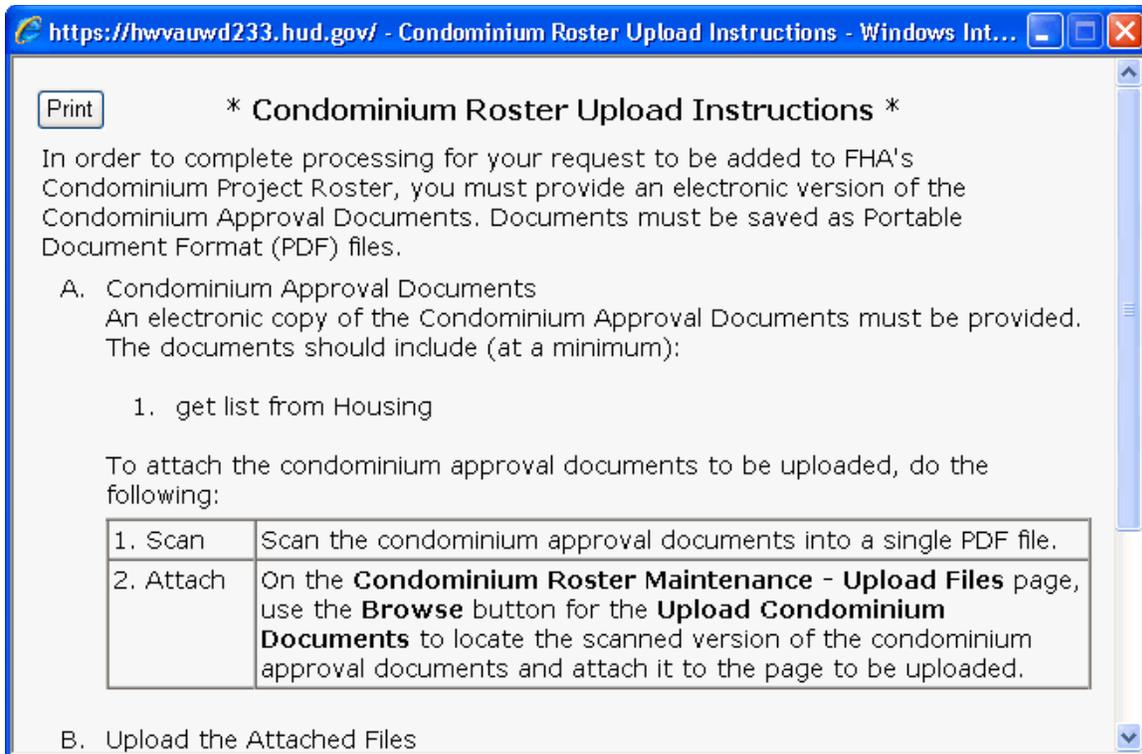
Help Links ?

**SUCCESS**

Review the information on this page. To continue, follow the [Instructions](#). To correct information, select **Go Back and Edit**.

\* Project Information \*

Condo Legal Name: SERENE VIEW CONDOS	HOA TIN: 12 -1212121	Jurisdictional HOC: Philadelphia
---	-------------------------	-------------------------------------



The path and the file name of the PDF file with all of the scanned documents are entered in the **Upload Condominium Documents** field in the *Approver Decision Information* section of the page.

**\* Approver Decision Information \***

**Project Review for placement on FHA Condominium List was conducted by:**

<b>Name:</b> H S KAY	
<b>Approver Title:</b> CONDOMINIUMS SPECIALIST	<b>Phone Number:</b> (800 ) 555 -1212

**Project was approved on:** 09/01/2009

**Comments:**

**Upload Condominium Documents:**

When the **Condominium Project Maintenance – Upload File** page is processed, the file is uploaded

to HUD’s server and the **Condominium Project Maintenance Results** page appears. A unique seven-character identifier is generated and assigned to the condominium project and appears in the **Condo Project ID** field. The first character distinguishes the HUD Homeownership Center (HOC) jurisdiction: A=Atlanta, D=Denver, P=Philadelphia, and S=Santa Ana. Clicking the **View Condominium Documents** link displays the uploaded PDF file on a pop-up Adobe® Reader® page.

The screenshot displays the 'Condominium Project Maintenance Results' page. At the top, there is a blue header with the title and a red 'Help Links' button. Below the header is a success message: 'SUCCESS CONDOMINIUM PROJECT QUERY ONLY'. The main content is divided into two sections: '\* Project Information \*' and '\* Project Address \*'. The project information section includes the Condo Project ID (P000075), a link to 'View Condominium Documents', the Condo Legal Name (SERENE VIEW CONDOS), HOA TIN (12-1212121), and Jurisdictional HOC (Philadelphia). The project address section includes Street Address (890 TRANQUIL WAY), Lot (N/A), Block (N/A), Plat (N/A), City (TRANQUILITY), State (New Jersey), Zip Code (07879), and County Code (037 SUSSEX).

## 5.5 Adding a Phase

A phase (referred to in FHA Connection as a submission) can be added to an existing condominium project by HUD personnel with *Update* authorization for **Condominium Approval Maintenance**. The condominium project must have an *Approved* status.

The basic procedure is as follows:

- The user gets the condominium project information (see 5.3 *Getting Condominium Project Information*). On the **Condominium Project Maintenance** page, the **Add a Phase** link is clicked in the *Project Characteristics* section of the page. The **Establish Phase for Condominium** pop-up page appears.
- Required information about the phase of the condominium project is entered, including a decision to approve or reject the phase.
- When the page is processed, the user is prompted to upload the required documents for the phase of the condominium project. The documents must be scanned into one PDF file. Then, the PDF file is attached and uploaded to HUD’s server. The uploading of documents for an approved (or rejected) phase of a condominium project is optional for HUD personnel but will be required for lenders.
- When processing is completed, a unique three-digit identifier for the phase of the condominium project is generated (whether approved or rejected).

## 5.6 Updating Existing Condominium Project Information

Condominium project and phase information can be updated by HUD personnel with *Update* authorization for **Condominium Approval Maintenance**. Information for condominium projects converted from the old approval method can be added, such as the project's complete address and homeowners' association (HOA) Taxpayer Identification Number (TIN). The necessary additions and changes are made on the **Condominium Project Maintenance** page.

Also, the status of a condominium project can be changed by making another selection in the *Approver Decision Information* section of the **Condominium Project Maintenance** page. An *Approved* condominium can only be changed to a *Withdrawn* status. If the condominium status is changed to *Withdrawn*, a reason must be selected from the drop-down list in the **Reject/Withdrawn Reason** field. If *Other* is selected as the reason, an explanation must be entered in the **Comments** field.

The **Condominium Project Maintenance** page contains the initial or base condominium project information. If the condominium project has more than one phase, the **Condominium Project Maintenance** page contains the information for the first phase, or phase 001. Links to information on additional phases of the project are provided in the **Phases on file** field in the *Approver Decision Information* section of the page. When the phase number is clicked, the **Update Phase for Condominium** pop-up page appears for viewing and updating phase information.

## 5.7 Condominium Project Recertification and Full Project Approval

An **approved** condominium project must be recertified every two years. Recertification is required to determine if the project is still in compliance with HUD's rules. When the condominium project is recertified, all submissions for the project are recertified as well. Recertification is processed by authorized mortgagee or HUD personnel beginning six months before or until 6 months after the expiration date of the condominium project's approval status ("recertification period").

Full project approval is processed by authorized mortgagee or HUD personnel (a) if recertification was not processed within the recertification period or (b) the condominium project was approved before the year 2000. Full project approval covers all submissions for the project. (Refer to section 2.3 of this Guide for project recertification requirements.)

## CHAPTER 6: MORTGAGEE SYSTEM REQUIREMENTS

### 6.1 Condominium Project Approval Process for Mortgagees

Mortgagees with unconditional Direct Endorsement authority and qualified staff for reviewing and approving condominium projects can participate in the Direct Endorsement Lender Review and Approval Process (DELRAP).

Mortgagees can determine the eligibility of a condominium project and use the FHA Connection to:

- Enter condominium project information and approve or reject the project.
- Submit required condominium documents in Portable Document Format (PDF) via the FHA Connection.

Mortgagees will be able to recertify approved condominium projects every two years, subject to the terms of this Guide, if they determine the projects are still in compliance with HUD rules.

Mortgagees use the same process as HUD personnel for establishing a condominium project through the FHA Connection.

Information for a condominium project with an *Approved* status cannot be updated by a mortgagee unless it is the same day the mortgagee established it through the FHA Connection. Information for a *Rejected* condominium project can be updated by any qualified mortgagee and approved if a project was rejected more than 12 months ago (Refer to section 2.2 of this Guide). The mortgagee that approves the project can differ from the mortgagee that initially established and rejected the project. Once the project has an *Approved* status, it cannot be rejected by a mortgagee. The appropriate HOC must be contacted to withdraw the approval.

Approver information (approver name, title, organization, and phone number) can be viewed by authorized personnel of the approving mortgagee. Approver information of HUD personnel or other mortgagees is not disclosed.

When establishing a project in FHA Connection, authorized mortgagee personnel must complete the certification on the Condominium Project Maintenance screen. The certification language is as follows: “I certify that to the best of my knowledge and belief that all the information provided is true and accurate.”

### 6.2 Condominium Project Review

Reviews of mortgagee-approved condominium projects are conducted by authorized HOC personnel. The first five projects approved (or rejected) by each mortgagee nationwide are selected by the system for HOC review. If the first five project reviews are acceptable, then 1 of 5 future project decisions (approval or rejection) is selected for post review by authorized HOC personnel.

### 6.3 FHA Connection Authorization for Condominium Projects

A mortgagee's FHA Connection Application Coordinator grants the appropriate condominium project authorization for the mortgagee's users. On the FHA Connection ID Administration page, the Application Coordinator clicks the *CHUMS* tab to display the Condominium Approval Maintenance authorization.

The following options are available:

- *Update*: User can add, update, or view information on condominium projects.
- *Query (Read-Only)*: User can view condominium project details, including the Condominium Project maintenance page.
- *Not Authorized*: User can only get basic condominium information displayed on the Condominiums List page.

<b>Property/Borrower Validation:</b>	<input checked="" type="radio"/> Query	<b>Condominium Approval Maintenance:</b>	<input checked="" type="radio"/> Update
	<input type="radio"/> Not Authorized		<input type="radio"/> Query (Read-Only)
			<input type="radio"/> Not Authorized

Appendix A PROJECT CERTIFICATION	
<p>PROJECT NAME: _____</p> <p>PROJECT LOCATION: _____</p> <p>The undersigned hereby certifies that:</p> <ol style="list-style-type: none"> <li>1. They have reviewed the project and it meets all State and local condominium laws and all FHA condominium approval requirements thereto applicable to the review of condominiums;</li> <li>2. To the best of his or her knowledge and belief, the information and statements contained in the application are true and correct; and</li> <li>3. The submitter has no knowledge of circumstances or conditions that might have an adverse effect on the project or cause a mortgage secured by a unit in the project to become delinquent (including but not limited to: defects in construction; substantial disputes or dissatisfaction among unit owners about the operation of the project or the owners association; and disputes concerning unit owners, rights privileges, and obligations). The submitter understands and agrees that the submitter is under a continuing obligation to inform HUD if any material information compiled for the review and acceptance of this project is no longer true and correct.</li> </ol>	
<p>_____</p> <p>Authorized Mortgagee Representative (Print and Sign) and Title</p> <p style="text-align: right;">_____</p> <p style="text-align: right;">Date</p>	<input type="checkbox"/>
<p>_____</p> <p>Homeowner's Association (Print and Sign) and Title</p> <p style="text-align: right;">_____</p> <p style="text-align: right;">Date</p> <p>_____ (if applicable)</p> <p>Authorized Homeowner's Association Representative (Print and Sign)</p> <p style="text-align: right;">_____</p> <p style="text-align: right;">Date</p>	<input type="checkbox"/>  <input type="checkbox"/>
<p>_____</p> <p>Developer/Builder (Print and Sign) and Title</p> <p style="text-align: right;">_____</p> <p style="text-align: right;">Date</p> <p>_____ (if applicable)</p> <p>Authorized Developer/Builder's Representative (Print and Sign) and Title</p> <p style="text-align: right;">_____</p> <p style="text-align: right;">Date</p>	<input type="checkbox"/>  <input type="checkbox"/>
<p>Title 18 U.S.C. 1014, provides in part that whoever knowingly and willfully makes or uses a document containing any false, fictitious, or fraudulent statement or entry, in any matter in the jurisdiction of any department or agency of the United States, shall be fined not more than \$1,000,000 or imprisoned for not more than 30 years or both. In addition, violation of this or others may result in debarment and civil liability for damages suffered by the Department.</p>	

<b>Appendix B      CERTIFICATION FOR INDIVIDUAL UNIT FINANCING</b>	
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<p>PROJECT NAME: _____</p> <p>PROJECT LOCATION: _____</p> <p>The undersigned hereby certifies that:</p> <ol style="list-style-type: none"> <li>1. The Mortgagee has verified that the condominium unit in connection with this loan file has been verified to be in a project that appears on FHA's list of approved condominium projects as of the date that the FHA case number is assigned;</li> <li>2. To the best of his or her knowledge and belief, the information and statements contained in this application are true and correct;</li> <li>3. The Mortgagee has no knowledge of circumstances or conditions that might have an adverse effect on the project or cause a mortgage secured by a unit in the project to become delinquent (including but not limited to defects in construction; substantial disputes or dissatisfaction among unit owners about the operation of the project or the owners association; and disputes concerning unit owners, rights privileges, and obligations); and</li> <li>4. The Mortgagee has reviewed and verified that the investor ownership, percentage of owners in arrears for condominium association fees and owner-occupancy percentage meets FHA requirements.</li> </ol> <p>_____</p>	<input style="width: 20px; height: 20px; border: 1px solid black;" type="checkbox"/>
<p>Authorized Mortgagee Representative (Print and Sign) and Title _____</p> <p style="text-align: right;">Date _____</p>	

<b><u>PRE-SALE CERTIFICATION</u></b>	
<p>The undersigned hereby certifies that in lieu of providing:</p> <ol style="list-style-type: none"> <li>1. Copies of sales agreements and evidence that a mortgagee is willing to make the loan; or</li> <li>2. Evidence that units have closed and are occupied;</li> </ol> <p>That the Builder / Developer has attached to the signed and dated certification, a list documenting all units sold, under contract or closed (i.e. an excel spreadsheet). This information will be used to document the required minimum presale requirement of 30 percent.</p> <p>_____</p>	<input style="width: 20px; height: 20px; border: 1px solid black;" type="checkbox"/>
<p>Builder / Developer (Print and Sign) and Title _____</p> <p style="text-align: right;">Date _____</p>	
<p>_____</p> <p>Authorized Builder's / Developer's Representative (Print and Sign) and Title _____</p> <p style="text-align: right;">Date _____</p>	
<p>Title 18 U.S.C. 1014, provides in part that whoever knowingly and willfully makes or uses a document containing any false, fictitious, or fraudulent statement or entry, in any matter in the jurisdiction of any department or agency of the United States, shall be fined not more than \$1,000,000 or imprisoned for not more than 30 years or both. In addition, violation of this or others may result in debarment and civil liability for damages suffered by the Department.</p>	

## Appendix C

### GLOSSARY

**Certificate of Occupancy** - A document issued by a local government agency or building department certifying a building's compliance with applicable building codes and other laws, and indicating it to be in a condition suitable for occupancy.

**Commercial Space** - The area within a project and/or unit that is used for business purposes, e.g., office space, stores, restaurants, service outlets etc.

**Condo Conversion** - Changing the title of an existing structure generally under one title, to property that is separated into units so that the title to most units can be held separately. Examples: apartment complexes, churches, schools, warehouse.

**Condo Legal Name** - Name under which the condominium project appears in the legal documents and recorded in local and/or state public records.

**Condotel** – A building used in multiple ways, e.g. used as both a condominium and a hotel. When units are not in use by the legal owner, they can leverage the marketing and management done by the hotel chain to rent and manage the condo unit as it would any other hotel room.

**Deed Restriction** - A limitation that passes with the land regardless of the owner; usually limits the property's type or intensity of use.

**DELRAP** - Direct Endorsement Lender Review and Approval Process.

**Exempt Units** - Units in projects that are excluded from FHA Concentration calculations.

**Existing Construction** - Properties that are 100% complete at the time of appraisal. "Complete" means everything is complete including the installation of buyer preferences (flooring, appliances, etc.), utilities are on and fully function and all site improvements completed at the time of the appraisal (Ready for Occupancy).

**Federal Emergency Management Agency (FEMA)** - A federal agency that provides assistance in areas that have suffered a major disaster or other emergency. It also maintains flood insurance rate maps that identify the special flood hazard areas where FHA requires flood insurance to obtain insurance endorsement.

**FHA Concentration** - Total units within a project with active FHA-insured mortgages or mortgages that were assigned case numbers.

**Fidelity Bond** - A type of bond that is obtained by an employer to protect against economic loss from dishonest acts of its employees.

**Fidelity Insurance** - A type of insurance that a condo or PUD homeowner's association or a co-op corporation obtains to protect itself against economic loss from dishonest acts of anyone who either handles (or is responsible for) funds that the association or corporation holds or administers, whether or not that individual receives compensation for services.

**Ground Rent** - The amount of money that is paid for the use of land when title to a property is held as a leasehold estate, rather than as fee simple.

**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.

**Hazard Insurance** - Insurance coverage that compensates for physical damage-by fire, wind, or other natural disasters-to the property.

**Homeowner Association (HOA)** - is an organization consisting of homeowner's within a condominium project for the purpose of managing the financial and common-area assets. Association boards are composed of homeowners elected at the annual meeting to maintain the common areas and enforce the governing documents.

**HOA TIN** - Taxpayer Identification Number (TIN) or, the Employer Identification Number (EIN) of the condominium project's homeowners' association.

**HRAP** - HUD Review and Approval Process.

**Jurisdictional HOC** - HUD Homeownership Center (HOC) jurisdiction in which the condominium project is located: Atlanta, Denver, Philadelphia or Santa Ana.

**Leaseholds** - is a form of property tenure where one party buys the right to occupy land or a building for a given length of time. As lease is a legal estate, "leasehold estate" can be bought and sold on the open market.

**Legal Phasing** - also known as annexation is the process of adding units to a condominium project by amending the original declaration. Only projects undergoing construction are able to legally phase in unit(s).

**Manufactured Home** - Any dwelling built on a permanent chassis and attached to a permanent foundation system. Compliance with established standards will be evidenced by the presence of a HUD Data Plate that is affixed in a permanent manner near the main electrical panel or in another readily accessible and visible location. The towing hitch, wheels, and axles must be removed and the dwelling must assume the characteristics of site built housing.

**Master Association** - A homeowners' association in a large condo project that is made up of representatives from associations covering specific areas within the project. In effect, it is a "second level" association that handles matters affecting the entire development, while the "first level" associations handle matters affecting their particular portions of the project.

**Modular Homes** - A construction system in which large prefabricated units are combined to create finished structure and treated as stick built construction.

**Phase I Environmental Site Assessment** - The process by which a person or entity seeks to determine if a particular parcel of real property is subject to recognized environmental conditions.

**Project Approval** - The acceptance that is issued for a condominium project to indicate that the project's legal and physical characteristics and marketability are acceptable to FHA, and that mortgages on units within the project may receive FHA Insurance.

**Proposed Construction** - Properties approved for mortgage insurance prior to the beginning of construction, defined as the first placement of concrete or other permanent materials. This means that the DE Statement of Appraised Value or Early Start letter has been issued by the DE Underwriter for the property prior to the first placement of concrete or other permanent materials.

**REO** - Real estate owned by FHA or other lending institutions resulting from conveyance such as foreclosure.

**Reciprocity Agreement** - An agreement relating to the acceptance of information and/or documentation with relatively little or no review of either party's documentation.

**Recorded Documents** - Condominium project documents that were recorded with the local government or state, and available for public view.

**Rent Control** - Limits the rent an owner may charge for an apartment and restricts the right of any owner to evict tenants.

**Rent Stabilization** - Provides protections to tenants besides limitations on the amount of rent. Tenants are entitled to receive required services, to have their leases renewed, and may not be evicted except on grounds allowed by state law.

**Reserve Study** - A reserve study is a budget planning tool which identifies the current status of the Reserve fund and a stable and equitable Funding Plan to offset the anticipated future major common area expenditures.

**Site Condo** - A site condominium is defined as a single family totally detached dwelling (no shared garages or any other attached buildings) encumbered by a declaration of condominium covenants or condominium form of ownership.

**Timeshare Condominiums** - Also considered segmented ownership type projects, is a form of ownership or right to the use of a property, or the term used to describe such properties. These properties are typically resort condominium units, in which multiple parties hold rights to use the property, and each sharer is allotted a period of time in which they may use the property.

**Under Construction** – Properties where the first placement of concrete or other permanent materials has begun, but construction is not yet 100% complete.

**Waiver - Permits** an exception to a rule or guideline.

**Working Capital Fund** - A fund (consisting of liquid assets) that is set aside to enable the homeowners' association of a condo project to meet its liabilities for unforeseen expenditures or for the purchase of additional equipment or services.

## Appendix D

### **RESOURCES**

This Appendix provides information for additional resources that may be of assistance to the user of this guide.

#### **Mortgagee Letters:**

Current and past Mortgagee Letters that are still applicable can be found on HUDCLIPS using the following link:

<https://www.hud.gov/offices/adm/hudclips/letters/mortgagee/index.cfm>

#### **FHA Condominium Mortgage Insurance Page:**

The subject page provides an overview of condominiums and contains links to other applicable condominium information. Use the following link to access this page:

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/condo](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/condo)

#### **Search for Approved Condominiums:**

The subject page allows users to search for FHA-approved condominium projects by location, name, or status. These properties are not for sale by the FHA. The search can be configured to find specific types of projects through the use of the pull-down menus and entry fields. Use the following link to access this page:

<https://entp.hud.gov/idapp/html/condlook.cfm>

#### **FHA Connection:**

The FHA Connection provides FHA-approved lenders and business partners with direct, secure, online access to computer systems of the U.S. Department of Housing and Urban Development (HUD). Use the following link to access this database:

<https://entp.hud.gov/clas/index.cfm>

#### **FHA Resource Center:**

Search [www.fhaoutreach.gov/FHAFAQ](http://www.fhaoutreach.gov/FHAFAQ). The FHA online knowledge base helps you find answers 24/7. Use the following link to access this database:

<http://www.fhaoutreach.gov/FHAFAQ/>

Lenders, industry members, consumers or other interested parties can use the following links for inquiries by email or telephone.

Email questions to the FHA Resource Center at [info@fhaoutreach.com](mailto:info@fhaoutreach.com).

Call toll free to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342).

**Homeownership Center (HOC) Locations:**

Use the below link to determine the jurisdictional HOC. Link to the “List of States” by accessing this link and selecting the state in which the condominium project is located

<http://www.hud.gov/offices/hsg/sfh/hoc/hsghocscfm>

**Mailing and Physical HOC addresses:**

**Atlanta HOC**

U.S. Department of Housing and Urban Development  
Five Points Plaza  
Attn: Processing and Underwriting Division – Condominium Project  
Approval  
40 Marietta Street  
Atlanta, GA 30303

**Denver HOC**

U.S. Department of Housing and Urban Development  
Attn: Processing and Underwriting Division – Technical Support Branch  
1670 Broadway  
Denver, CO 80202

**Philadelphia HOC**

U.S. Department of Housing and Urban Development  
The Wanamaker Building  
Attn: Processing and Underwriting Division – Condominium Project  
Approval  
100 Penn Square East  
Philadelphia, PA 19107

**Santa Ana HOC**

U.S. Department of Housing and Urban Development  
Santa Ana Federal Building  
Attn: Condominium Project Processing  
34 Civic Center Plaza, Room 7015  
Santa Ana, CA 92701

**Appendix E-1**

**CONDOMINIUM APPROVAL COVER LETTER/DOCUMENT**

**General Condo Information:**

Condo ID: \_\_\_\_\_ (Condo ID begins with A, D, P or S) as applicable

Condominium Legal Name: \_\_\_\_\_

HOA Tax Payer ID, if available: \_\_\_\_\_

Project Address: \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Major Cross Streets: \_\_\_\_\_

Lot \_\_\_\_\_ Block \_\_\_\_\_ Plat \_\_\_\_\_ \*Metes & Bounds \_\_\_\_\_

Tract \_\_\_\_\_ \*Attach legal description

Construction Type:  Proposed  Under Construction  Existing < less than 12 months old (New)  Existing >12 months old  Newly Converted Conversion (Non-Gut Rehab)  Conversion (Gut-Rehab)

Month/Year Project Completed (For a project 100 percent complete):

\_\_\_\_\_

First legal phase completion date \_\_\_\_\_

Completion date of the previous legal phase \_\_\_\_\_

Manufactured Housing: Yes/No \_\_\_\_\_

Project Composition: Describe the project, e.g. high-rise, duplex, number units, etc.

\_\_\_\_\_

\_\_\_\_\_

**Request Submitted By:**

\*\*Name: \_\_\_\_\_

\*\*Identify as applicable: Lender, Builder/Developer, Homeowners Association, Management Company, Attorney, or Consultant

Address: \_\_\_\_\_

Contact Person: \_\_\_\_\_

Contact Phone Number and \*Email Address:

\_\_\_\_\_

\*General Email Address Box (if applicable):

\_\_\_\_\_

\*Provide both email addresses.

## CONDOMINIUM PROJECT APPROVAL CHECKLIST

**PLEASE ENSURE THAT THE PROJECT MEETS ALL APPLICABLE REQUIREMENTS PRIOR TO SUBMITTING FOR REVIEW AND CONSIDERATION.**

### BASIC REQUIRED DOCUMENTATION

- **RECORDED DOCUMENTS MUST BE SUBMITTED WHERE AVAILABLE; OTHERWISE, UNRECORDED DOCUMENTS MAY BE SUBMITTED.**
- **NO LOAN WILL BE INSURED IN A PROJECT UNTIL RECORDED DOCUMENTS ARE RECEIVED BY FHA.**
- **IF LEGAL DOCUMENTS, PER STATE LAW, ARE NOT ENFORCEABLE WITHOUT RECORDATION, RECORDED DOCUMENTS MUST BE SUBMITTED.**
- **BASIC DOCUMENTATION IS REQUIRED FOR ALL DEFINED SUBMISSION TYPES.**
- **IF THERE HAS BEEN A CHANGE IN SPONSOR OWNERSHIP, ALL APPLICABLE LEGAL DOCUMENTS MUST BE INCLUDED AS PART OF THE PROJECT APPROVAL SUBMISSION PACKAGE REGARDLESS OF THE CONSTRUCTION STATUS.**

- Cover letter/document with all requested fields entered
- Condo legal documents and all amendments thereto
  - Recorded plat map indicating legal description
  - Recorded covenants, conditions and restrictions (CC&Rs)/Declaration/Master Deed
  - Signed and adopted bylaws; if State law does not require signed bylaws, provide copy of applicable State statute
  - Articles of Incorporation, Articles of Association or Condominium Trust filed with the State; if State law does not require incorporation, provide copy of applicable State statute
  - Recorded condominium site plans

Financial Documents:

Current year's Budget

Previous year's actual year-end results (Income and Expense Statement)

Current balance sheet to support adequacy of Budget (current balance sheet to be dated within the last 90 days)

**Note:** Reserve Study required if budget is deemed inadequate to support project.

Management Agreement - signed (if applicable); in lieu of an executed agreement, an executed (signed/dated) document defining the terms and services provided by the management company on behalf of the homeowners association may be provided

FEMA Flood Map (must be official FEMA Flood Map; must identify location of project on FEMA Flood Map; flood certification is acceptable to augment the FEMA Flood Map but cannot replace it)

LOMA,  LOMR or an  Elevation Certificate – an Elevation Certificate may not be used for proposed or under construction projects (if applicable)

Evidence of Required Insurance Coverage (minimum coverage must comply with HUD standards)

Master Flood Insurance Policy (as applicable)

Liability Insurance

Hazard Insurance – Master policy

Fidelity Bond Insurance (could also be titled as an Employee Dishonesty Policy or Crime policy – if so, must meet all standards and all endorsements thereto must be provided); Copy of entire policy required, including all endorsements thereto; If the homeowners association has a management company under contract then the management company must also obtain and maintain their own insurance coverage – this does not replace the HOA required coverage noted above.

Current Declaration pages for all policies required

Has Transfer of Control to the HOA occurred?  Yes  No; If yes, provide the date \_\_\_\_\_

Outstanding, pending or recently mitigated litigation (mitigation / arbitration for 2-4 unit projects)?  Yes  No; (If yes, provide an explanation.)

Project is in receivership / bankruptcy / deed-in-lieu of foreclosure / foreclosure?  Yes  No; (If yes, provide an explanation and supporting documentation.)

Change in sponsor ownership (builder / developer / construction lender / or other party) that holds title?  Yes  No (If yes, provide an explanation.)

Special Assessment(s) (current or pending)?  Yes  No (If yes, provide an explanation and supporting documentation.)

Is the condominium in a leasehold estate (ground lease)?  Yes  No (If yes, submit a copy of the leasehold agreement.) (DELRAP participating mortgagees – leasehold agreement is to be reviewed by HUD to determine eligibility prior to DELRAP approval of the project.

Does the project contain affordable housing and / or below market rate (BMR) units?  Yes  No (If yes, provide: (a) number of defined affordable housing units; (b) identify the designated units in the recorded legal documents; and (c) provide an executed affordable housing agreement between the local housing jurisdiction and the developer.)

Does the project contain any rent-stabilized units?  Yes  No (If yes, provide: (a) number of defined rent stabilized units \_\_\_\_\_; (b) identify the designated units in the recorded legal documents; and (c) provide the rent stabilization agreement.)

Does the project contain any live / work units?  Yes  No

Does the project contain commercial / non-residential space?  Yes  No (If yes, provide: the percentage of commercial / non-residential space \_\_\_\_\_%.)

**PROPOSED, UNDER-CONSTRUCTION OR EXISTING < LESS THAN 12 MONTHS OLD (NEW) REQUIRED DOCUMENTATION**

Builder's Certification of Plans, Specifications and Site, Form HUD-92541 must be signed and dated; documentation must be submitted to mitigate conditions noted on the Form HUD-92541

- AFHMP (Form HUD-935.2C), VAMA or Item 11d on Form HUD-92541, Builder's Certification must be signed and dated
- Estimated Construction Completion Date / Completion Date of the Previous Legal Phase (include legal phasing schedule)
- Building Permit, or equivalent
- Certificate of Occupancy, or equivalent, if issued
- Phase I Environmental Assessment Report (required for HRAP and DELRAP approval)
- Current site photographs

**NEWLY CONVERTED (LESS THAN TWO YEARS FROM RECORDATION DATE)**

- Conversion date \_\_\_\_\_ (Recordation date of original declaration CC&Rs)
- If tenant occupied, provide a spreadsheet listing the number of units rented and the remaining term of the leases.
- AFHMP (Form HUD-935.2C), VAMA or Item 11d on Form HUD-92541, Builder's Certification must be signed and dated
- If gut-rehab, provide Form HUD-92541, Builder's Certification of Plans, Specifications and Site
- If gut-rehab, provide an engineer's report
- If gut-rehab, provide a Phase 1 environmental report
- Building Permit, or equivalent
- Certificate of Occupancy, or equivalent, if issued

**2-4 UNIT PROJECTS**

FHA will defer to State and/or local law regarding documentation requirements.

- All recorded documents, e.g. Declaration or its equivalent and other documentation as required by the State.
- A plan or evidence of homeowner's agreement (if required by the State).

A recorded Memorandum of Understanding between the homeowners defining each unit owner's responsibilities for example, maintenance/repair/replacement of common areas including sidewalks, driveways, common walls (includes side by side or vertical type units), etc.

Evidence of insurance. The insurance policy must be in either the individual homeowners name(s) or the HOA.

Litigation or Mitigation / Arbitration (current or pending)  Yes  No (If yes, provide an explanation and supporting documentation)

**Additional Required Information**

Is the association self managed?  Yes  No

Is there required maintenance that has not been completed?  Yes  No (If yes, provide an explanation)

What is the current balance (within 30 days of submission) in the reserve account?

\_\_\_\_\_

Total number of declared legal phases within the project

\_\_\_\_\_

Total number of units in declared legal phases

\_\_\_\_\_

Total number of planned units within project

\_\_\_\_\_

Number of owner-occupied units

\_\_\_\_\_

Number of tenant occupied units

\_\_\_\_\_

Number of tenant occupied units owned by the developer

\_\_\_\_\_

Number of units vacant and unsold

\_\_\_\_\_

Number of bank-owned units (REO)

\_\_\_\_\_

Number of investor owned units within the project\* \_\_\_\_\_ \* this does not include an investor's primary residence. Identify all individual investors and include the number of units owned (attach additional pages as necessary)

Number of units where HOA dues (all assessments for monthly dues including parking) are >30 days delinquent (Includes REO owned units) \_\_\_\_\_

Provided below is the required certification that must be completed by the submitter.

**I certify that the condominium legal documents reviewed and submitted for project approval meet the current FHA requirements for condominium project approval.**

---

Printed Name

Date

---

Signature Line

---

Title and Company Name

**Appendix E-2**

**CONDOMINIUM RECERTIFICATION OR RE-APPROVAL COVER  
LETTER/DOCUMENT**

**General Condo Information:**

Condo ID: \_\_\_\_\_ (Condo ID begins with A, D, P or S) as applicable

Condominium Legal Name: \_\_\_\_\_

HOA Tax Payer ID, if available: \_\_\_\_\_

Project Address: \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Major Cross Streets: \_\_\_\_\_

Lot \_\_\_\_\_ Block \_\_\_\_\_ Plat \_\_\_\_\_ \*Metes & Bounds \_\_\_\_\_

Tract \_\_\_\_\_ \*Attach legal description

Construction Type:  Proposed  Under Construction  Existing < less than 12 months old (New)  Existing >12 months old  Newly Converted Conversion (Non-Gut Rehab)  Conversion (Gut-Rehab)

Month/Year Project Completed (For a project 100 percent complete):

\_\_\_\_\_

First legal phase completion date \_\_\_\_\_

Completion date of the previous legal phase \_\_\_\_\_

Manufactured Housing: Yes/No \_\_\_\_\_

Project Composition: Describe the project, e.g. high-rise, duplex, number units, etc.

\_\_\_\_\_

\_\_\_\_\_

**Request Submitted By:**

\*\*Name: \_\_\_\_\_

\*\*Identify as applicable: Lender, Builder/Developer, Homeowners Association,  
Management Company, Attorney, or Consultant

Address: \_\_\_\_\_

Contact Person: \_\_\_\_\_

Contact Phone Number and \*Email Address:  
\_\_\_\_\_

\*General Email Address Box (if applicable):  
\_\_\_\_\_

\*Provide both email addresses.

**PLEASE ENSURE THAT THE PROJECT MEETS ALL APPLICABLE REQUIREMENTS PRIOR TO SUBMITTING FOR REVIEW AND CONSIDERATION.**

**BASIC REQUIRED DOCUMENTATION**

- **RECORDED DOCUMENTS MUST BE SUBMITTED WHERE AVAILABLE; OTHERWISE, UNRECORDED DOCUMENTS MAY BE SUBMITTED.**
- **NO LOAN WILL BE INSURED IN A PROJECT UNTIL RECORDED DOCUMENTS ARE RECEIVED BY FHA.**
- **IF LEGAL DOCUMENTS, PER STATE LAW, ARE NOT ENFORCEABLE WITHOUT RECORDATION, RECORDED DOCUMENTS MUST BE SUBMITTED.**
- **BASIC DOCUMENTATION IS REQUIRED FOR ALL DEFINED SUBMISSION TYPES.**
- **IF THERE HAS BEEN A CHANGE IN SPONSOR OWNERSHIP, ALL APPLICABLE LEGAL DOCUMENTS MUST BE INCLUDED AS PART OF THE PROJECT APPROVAL SUBMISSION PACKAGE REGARDLESS OF THE CONSTRUCTION STATUS.**

- Cover letter/document with all requested fields entered
- Condo legal documents and all amendments thereto
  - Recorded plat map indicating legal description
  - Recorded covenants, conditions and restrictions (CC&Rs)/Declaration/Master Deed
  - Signed and adopted bylaws; if State law does not require signed bylaws, provide copy of applicable State statute
  - Articles of Incorporation, Articles of Association or Condominium Trust filed with the State; if State law does not require incorporation, provide copy of applicable State statute
  - Recorded condominium site plans
- Financial Documents:
  - Current year's Budget

Previous year's actual year-end results (Income and Expense Statement)

Current balance sheet to support adequacy of Budget (current balance sheet to be dated within the last 90 days)

**Note:** Reserve Study required if budget is deemed inadequate to support project.

Management Agreement - signed (if applicable); in lieu of an executed agreement, an executed (signed/dated) document defining the terms and services provided by the management company on behalf of the homeowners association may be provided

FEMA Flood Map (must be official FEMA Flood Map; must identify location of project on FEMA Flood Map; flood certification is acceptable to augment the FEMA Flood Map but cannot replace it)

LOMA,  LOMR or an  Elevation Certificate – an Elevation Certificate may not be used for proposed or under construction projects (if applicable)

Evidence of Required Insurance Coverage (minimum coverage must comply with HUD standards)

Master Flood Insurance Policy (as applicable)

Liability Insurance

Hazard Insurance – Master policy

Fidelity Bond Insurance (could also be titled as an Employee Dishonesty Policy or Crime policy – if so, must meet all standards and all endorsements thereto must be provided); Copy of entire policy required, including all endorsements thereto; If the homeowners association has a management company under contract then the management company must also obtain and maintain their own insurance coverage – this does not replace the HOA required coverage noted above.

Current Declaration pages for all policies required

Has Transfer of Control to the HOA occurred?  Yes  No; If yes, provide the date

\_\_\_\_\_

Outstanding, pending or recently mitigated litigation (mitigation / arbitration for 2-4 unit projects)?  Yes  No; (If yes, provide an explanation.)

Project is in receivership / bankruptcy / deed-in-lieu of foreclosure / foreclosure?  Yes  No; (If yes, provide an explanation and supporting documentation.)

Change in sponsor ownership (builder / developer / construction lender / or other party) that holds title?  Yes  No (If yes, provide an explanation.)

Special Assessment(s) (current or pending)?  Yes  No (If yes, provide an explanation and supporting documentation.)

Is the condominium in a leasehold estate (ground lease)?  Yes  No (If yes, submit a copy of the leasehold agreement.) (DELRAP participating mortgagees – leasehold agreement is to be reviewed by HUD to determine eligibility prior to DELRAP approval of the project.)

Does the project contain affordable housing and / or below market rate (BMR) units?  Yes  No (If yes, provide: (a) number of defined affordable housing units; (b) identify the designated units in the recorded legal documents; and (c) provide an executed affordable housing agreement between the local housing jurisdiction and the developer.)

Does the project contain any rent-stabilized units?  Yes  No (If yes, provide: (a) number of defined rent stabilized units \_\_\_\_; (b) identify the designated units in the recorded legal documents; and (c) provide the rent stabilization agreement.)

Does the project contain any live / work units?  Yes  No

Does the project contain commercial / non-residential space?  Yes  No (If yes, provide: the percentage of commercial / non-residential space \_\_\_\_%.)

**PROPOSED, UNDER-CONSTRUCTION OR EXISTING < LESS THAN 12 MONTHS OLD (NEW) REQUIRED DOCUMENTATION**

Builder's Certification of Plans, Specifications and Site, Form HUD-92541 must be signed and dated; documentation must be submitted to mitigate conditions noted on the Form HUD-92541

AFHMP (Form HUD-935.2C), VAMA or Item 11d on Form HUD-92541, Builder's Certification must be signed and dated

- Estimated Construction Completion Date / Completion Date of the Previous Legal Phase \_\_\_\_\_ (include legal phasing schedule)
- Building Permit, or equivalent
- Certificate of Occupancy, or equivalent, if issued
- Phase I Environmental Assessment Report (required for HRAP and DELRAP approval)
- Current site photographs

**NEWLY CONVERTED (LESS THAN TWO YEARS FROM RECORDATION DATE)**

- Conversion date (Recordation date of original declaration CC&Rs)
- If tenant occupied, provide a spreadsheet listing the number of units rented and the remaining term of the leases.
- AFHMP (Form HUD-935.2C), VAMA or Item 11d on Form HUD-92541, Builder's Certification must be signed and dated
- If gut-rehab, provide Form HUD-92541, Builder's Certification of Plans, Specifications and Site
- If gut-rehab, provide an engineer's report
- If gut-rehab, provide a Phase 1 environmental report
- Building Permit, or equivalent
- Certificate of Occupancy, or equivalent, if issued

**2-4 UNIT PROJECTS**

FHA will defer to State and/or local law regarding documentation requirements.

- All recorded documents, e.g. Declaration or its equivalent and other documentation as required by the State.
- A plan or evidence of homeowner's agreement (if required by the State).
- A recorded Memorandum of Understanding between the homeowners defining each unit owner's responsibilities for example, maintenance/repair/replacement of

common areas including sidewalks, driveways, common walls (includes side by side or vertical type units), etc.

Evidence of insurance. The insurance policy must be in either the individual homeowners name(s) or the HOA.

Litigation or Mitigation / Arbitration (current or pending)  Yes  No (If yes, provide an explanation and supporting documentation)

**Additional Required Information**

Is the association self managed?  Yes  No

Is there required maintenance that has not been completed?  Yes  No (If yes, provide an explanation)

What is the current balance (within 30 days of submission) in the reserve account?

\_\_\_\_\_

Total number of declared legal phases within the project

\_\_\_\_\_

Total number of units in declared legal phases

\_\_\_\_\_

Total number of planned units within project

\_\_\_\_\_

Number of owner-occupied units

\_\_\_\_\_

Number of tenant occupied units

\_\_\_\_\_

Number of tenant occupied units owned by the developer

\_\_\_\_\_

Number of units vacant and unsold

\_\_\_\_\_

Number of bank-owned units (REO)

\_\_\_\_\_

Number of investor owned units within the project\* \_\_\_\_\_ \* this does not include an investor's primary residence. Identify all individual investors and include the number of units owned (attach additional pages as necessary)

Number of units where HOA dues (all assessments for monthly dues including parking) are >30 days delinquent (Includes REO owned units) \_\_\_\_\_

Provided below is the required certification that must be completed by the submitter.

**I certify that the condominium legal documents reviewed at the time of recertification or re-approval:**

**Do not contain any changes or conditions since the project was initially FHA approved**

**-OR-**

**Change(s) have been made since the initial project approval and have been identified. The changes do not affect the eligibility of the project.**

---

Printed Name

Date

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Signature Line

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Title and Company Name

**APPENDIX E-3**

**CONDOMINIUM ANNEXATION COVER LETTER/DOCUMENT**

**General Condo Information:**

Condo ID: \_\_\_\_\_ (Condo ID begins with A, D, P or S)

Condominium Legal Name: \_\_\_\_\_

HOA Tax Payer ID, if available: \_\_\_\_\_

Project Address (provide one address):

\_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Major Cross Streets: \_\_\_\_\_

Lot \_\_\_\_\_ Block \_\_\_\_\_ Plat \_\_\_\_\_ \*Metes & Bounds \_\_\_\_\_

Tract \_\_\_\_\_ \*Attach legal description

Month/Year Project Completed: \_\_\_\_\_

First legal phase completion date \_\_\_\_\_

Completion date of the previous legal phase \_\_\_\_\_

Manufactured Housing: Yes/No \_\_\_\_\_

**Request Submitted By:**

\*\*Name: \_\_\_\_\_

\*\*Identify as applicable: Lender, Builder/Developer, Homeowners Association, Management Company, Attorney, or Consultant

Address: \_\_\_\_\_

Contact Person: \_\_\_\_\_

Contact Phone Number and Email Address:

\_\_\_\_\_

General Email Address (if applicable):

\_\_\_\_\_

## **CONDOMINIUM PROJECT ANNEXATION CHECKLIST**

### **ANNEXATION OF ADDITIONAL LEGAL PHASES**

**The following exhibits are required for consideration of an annexation of additional legal phases to a current project approval. Letter of request defined in Item #2 must include the information requested in Item #3.**

- Cover letter/document
- Letter of request for annexation of additional legal phase(s) to current condominium project listed on the FHA approval list that includes the Condo ID Number and a summary of all exhibits submitted
- Composition of Legal Phase(s) / (Unit/Building numbers), including total number of units
- Recorded Declaration or Amendment(s) to the Declaration citing the Annexed Units along with the Legal Description
- Recorded Plat Map(s) indicating Legal Description of Annexed Area
- Actual budget (including Annexed Units) indicating Reserve Allocation
- Insurance declaration page(s) to reflect annexed units – ensure that there is sufficient fidelity bond coverage (if applicable)

Appendix F

**CONDOMINIUM RIDER**

**CONDOMINIUM RIDER**

THIS CONDOMINIUM RIDER is made this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Note ("Note") to \_\_\_\_\_ ("Lender") of the same date and covering the Property described in the Security Instrument and located at:

[Property Address]

The Property includes a unit in, together with an undivided interest in the common elements of, a condominium project known as:

[Name of Condominium Project]

("Condominium Project"). If the owners association or other entity which acts for the Condominium Project ("Owners Association") holds title to property for the benefit or use of its members or shareholders, the Property also includes Borrower's interest in the Owners' Association and the uses, proceeds and benefits of Borrower's interest.

**CONDOMINIUM COVENANTS.** In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

So long as the Owners Association maintains, with a generally accepted insurance carrier, a "master" or "blanket" policy insuring all property subject to the condominium documents, including all improvements now existing or hereafter erected on the Property, and such policy is satisfactory to Lender and provides insurance coverage in the amounts, for the periods, and against the hazards lender requires, including fire and other hazards included within the term "extended coverage," and loss by flood, to the extent required by the Secretary, then: (i) Lender waives the provision in the Security Instrument for the monthly payment to Lender of one-twelfth of the yearly premium installments for hazard insurance on the Property, and (ii) Borrower's obligation under the Security Instrument to maintain hazard insurance coverage on the Property is deemed satisfied to the extent that the required coverage is provided by the Owners Association policy. Borrower shall give Lender prompt notice of any lapse in required hazard insurance coverage and of any loss occurring from a hazard. In the event of a distribution of hazard insurance proceeds in lieu of restoration or repair following a loss to the Property, whether to the condominium unit or to the common elements, any proceeds payable to Borrower are hereby assigned and shall be paid to Lender for application to the sums secured by this Security Instrument, with any excess paid to the entity legally entitled thereto.

Borrower promises to pay all dues and assessments imposed pursuant to the legal instruments creating and governing the Condominium Project.

If Borrower does not pay condominium dues and assessments when due, then Lender may pay them. Any amounts disbursed by Lender under this paragraph shall become additional debt of Borrower secured by the Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and provisions contained in this Condominium Rider.

\_\_\_\_\_(SEAL)  
Borrower

\_\_\_\_\_(SEAL)  
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]