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Condo overlays

1 message

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820.15(a): Specific Property Types – Condominiums (12/10/2019)

CONDOMINIUM PROJECT ELIGIBILITY REQUIREMENTS – Delegated Loans

Loans secured by existing and new condominiums (condos) must adhere to Fannie Mae published condo project guidelines when Desktop Underwriter (DU) is used to determine eligibility or Freddie Mac published condo project guidelines when Loan Product Advisor (LPA) is used to determine eligibility.

Eligible condo project reviews

When required, the following project reviews are eligible for delegated underwritten Loans submitted to Wells Fargo Funding:

- Fannie Mae Limited Review.
- Freddie Mac Streamlined Review.
- Reciprocal review of an FHA-approved project.
- Fannie Mae Condo Project Manager (CPM).
- Standard Agency Full Project Review.
- Final Condo Project Acceptance through Fannie Mae Project Eligibility Review Service (PERS). New and existing PERS condo project approvals are acceptable. Refer to the [Fannie Mae website](#) for details.
- Fannie Mae Special Approval Designation for established Florida condos. Refer to the [Fannie Mae website](#) for details.
- Wells Fargo Full Project Review: This review is available for new construction or recent conversion condo projects or projects that may require an exception. The Wells Fargo Full Project Review includes an in-depth analysis of legal, financial and other documents.

Freddie Mac Condo Project Advisor

Loans using single mortgage exceptions from Condo Project Advisor are not eligible for purchase.

CONDO PROJECT ELIGIBILITY REQUIREMENTS – Prior Approval Loans

Refer to [Section 843.04: Eligible Transactions](#) for Super Conforming Mortgage Program condo requirements.

Loans secured by existing and new condos must adhere to Fannie Mae guidelines for condo project eligibility and approval as well as the Wells Fargo Funding guidelines outlined below. DU is the only acceptable Automated Underwriting System (AUS) for Prior Approval Loans.

Eligible condo project reviews

When required, the following project reviews are eligible for Prior Approval Loans submitted to Wells Fargo Funding:

- **Fannie Mae Limited Review.**
- **Reciprocal review of an FHA-approved project.**
- **Wells Fargo Homeowners Association Certification Review. Refer to WELLS FARGO HOMEOWNERS CERTIFICATION REVIEW below for requirements.**
- **Fannie Mae Condo Project Manager (CPM).**
- **Wells Fargo Full Project Review: This review is available for new construction or recent conversion condominium projects when they do not meet eligible condominium project reviews listed above. The Wells Fargo Full Project Review includes an in-depth analysis of legal, financial and other documents.**
- **Final Condo Project Acceptance through Project Eligibility Review Service (PERS).**

Freddie Mac Condo Project Advisor

Loans using single Mortgage exceptions from Condo Project Advisor are not eligible for purchase.

GENERAL CONDO PROJECT ELIGIBILITY REQUIREMENTS – Prior Approval Loans

The following guidelines apply to all condo Loans submitted to Wells Fargo Funding for Prior Approval. Project information may be reported by the appraiser, disclosed by the HOA or developer, shown on the sales contract, or obtained through review of the HOA certification as well as from other types of condo documents.

Additional project review required

The following combination of characteristics require additional review by a Wells Fargo Funding underwriter for eligibility:

- **The project is located in a resort destination.**
- **Live/work or segmented ownership projects.**
- **Projects with nonincidental business operations owned or operated by the HOA such as, but not limited to, a restaurant, a spa, a health club, etc.**
- **Transactions under which the borrower will own more than one unit in the project.**
- **The project name includes “condotel”, “condo hotel”, “hotel”, “motel”, “inn”, “resort” or “lodge”.**
- **The project shares facilities with a hotel or motel.**
- **The project is in an area zoned primarily for transient accommodations.**
- **The unit is in a building that functions like a traditional condo, yet the project contains additional resort type amenities or other buildings with resort type amenities.**
- **Projects with leased back recreational facilities.**
- **The unit is fully furnished.**
- **The unit does not have a full kitchen.**
- **The project provides any of the following services:**
 - **Management desk**
 - **Bellman**
 - **Daily maid service**
 - **Maid service**
 - **Phone service**
 - **Centralized utilities, for example: central telephone or cable**
 - **Centralized key system not in negotiated terms**

Adverse environmental factors

Any adverse environmental factors affecting the condo project must be addressed by the appraiser. Any factors affecting safety, habitability or marketability of the unit or project will render the project ineligible.

Blanket insurance (pooled insurance)

Standard Fannie Mae requirements apply in regards to blanket insurance. Including, but not limited to, the requirement that, condo projects with blanket insurance policies that insure multiple projects are only eligible if all of the insured locations are legally affiliated. Blanket insurance policies that insure multiple unaffiliated projects are ineligible.

- **Affiliated projects are defined as those projects that are under the same master association or that share the use of common facilities; either owned individually or as part of a master development.**
- **Projects that do not meet the above definition, including projects managed by the same management company, are considered unaffiliated.**

Completion

All common areas and amenities within the project (or subject phase) must be complete. If completion is in question, the Seller must obtain one of the following:

- ***Final Certification of Substantial Completion (FNMA 1081)***
- **Equivalent document (appraisal addendum, builder's certification, etc.) which lists the common amenities and facilities that are incomplete**

Litigation

Loans secured by condos where the project is involved in litigation due to construction defects, are ineligible for Prior Approval. Condo projects involved in other types of litigation may be approved depending on the risk and marketability. If the HOA is involved in any litigation, arbitration, mediation or other dispute resolution process, obtain the details from the HOA. This information should be verified with an attorney's letter, insurance information, structural report, and/or other documentation.

- **The following types of litigation generally pose little or no risk to the project and are acceptable:**
 - **HOA is suing individual owners for unpaid dues.**
 - **HOA is being sued for a "slip and fall" liability issue and the project has adequate liability insurance to cover the damages being sought by the plaintiff.**
 - **HOA is plaintiff in the litigation and upon investigation and analysis the lender has reasonably determined that the matter is minor and will result in an insignificant impact to the project's financial stability.**
 - **HOA is seeking to recover funds for issues that have already been remediated, repaired, or replaced by the HOA and there is no material or adverse impact to the HOA if funds are not recovered.**
 - **Other suits filed by the HOA that do not impact the value or livability of the project.**
 - **Litigation concerning localized damage to a unit in the project that does not impact the overall safety, structural soundness, habitability, or functional use of the project.**
 - **Litigation related to reasonably anticipated or known damages, and legal expenses are not expected to exceed 10% of the project's funded reserves.**
 - **Project is involved in a minor matter described below and has been reviewed by Wells Fargo Funding:**

- **Nonmonetary litigation involving neighbor disputes or rights of quiet enjoyment.**
- **Litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the association's insurance.**
- **The HOA is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past-due HOA dues.**
- **Projects involved in pending litigation (lawsuit has not yet been filed) may be approved when the risk to the project is assessed and it is determined that:**
 - **HOA insurance will cover potential damages, or**
 - **HOA is in a position to benefit from the lawsuit.**
- **The following types of litigation may impact the project's marketability and are ineligible:**
 - **HOA suing the developer for construction defects or other property deficiencies that impact health and safety**
 - **Suits filed against the HOA in which the damages exceed or are not covered by the HOA's insurance**

Right of first refusal

Any right of first refusal in the condo project documents will not adversely impact the rights of a Mortgagee or its assignee to:

- **Foreclose or take title to a condo unit pursuant to the remedies in the Mortgage**
- **Accept a deed-in-lieu of foreclosure in the event of default by a mortgagor**
- **Sell or lease a unit acquired by the Mortgagee**

WELLS FARGO HOMEOWNERS ASSOCIATION CERTIFICATION REVIEW – Prior Approval Loans

In addition to the GENERAL CONDO PROJECT ELIGIBILITY REQUIREMENTS above, the following eligibility requirements apply when reviewing a project with more than four units using the [Wells Fargo Homeowners Certification Review \(Form 25\)](#).

Minimum eligibility requirements

- **Project may be subject to additional phasing or add-ons.**
- **70% of the units sold must be sold to owner-occupants for use as primary residence or second home.**
- **At least 70% of the units in the project or subject phase must be sold. This includes closed sales and units under contract with bona fide purchasers.**
 - **In a project subject to additional phasing a section or phase may be included with existing sections or phases to meet the pre-sale requirement. If, however, there is evidence that units in the subject phase are not selling at an acceptable rate, prior phases should not be included in determining the pre-sale requirements.**
 - **For conversion projects when all units are not for sale, pre-sale may be calculated using the total number of units available for sale in the project.**
- **Project has demonstrated market acceptance.**
- **Maximum financing for an established project in the state of Florida is the lesser of the product/program maximum or:**
 - **75/90% LTV/CLTV for a primary residence.**
 - **70/75% LTV/CLTV for a second/vacation home.**
- **If conversion, legal phase of conversion must be complete.**

Documentation requirements

- **Individual condo appraisal report**
- **Form 25 completed by a representative of the HOA or CondoCerts.com**
 - **If the condo association information was obtained through CondoCerts.com, the information must be no older than 45 days.**

Ineligible

The characteristics below render a condo project ineligible for the Wells Fargo Homeowners Association Certification Review. If the transaction has any of these characteristics, or the Wells Fargo Homeowners Association Certification Review determines a project is ineligible, the Seller may be able to use another acceptable review option to obtain project approval. Refer to Eligible condo project reviews above.

- **Delegated underwriting**
- **All new construction and new conversion projects located in the state of Florida**
- **All investment transactions located in the state of Florida**
- **Investment transactions with an LTV/CLTV greater than 80%**
- **Condo projects that have incomplete items**
- **New conversion projects which did not have a full gut-rehabilitation**

The opinions contained herein are based on a proposed loan scenario presented to us by you. They are non-binding, intended to be informational only, and under no circumstances are to be construed as a commitment to purchase the loan. The Seller is responsible for making its own credit decision with respect to the loan. All loans submitted for purchase are subject to the terms and conditions of the Wells Fargo Funding Seller Guide.

We want to ensure we have fully answered your questions. Please let us know if you need further assistance.

Thank you,

Darren Henry

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Wells Fargo Scenario Helpline

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