

Announcement 07-18

November 15, 2007

Amends these Guides: Selling

Lender Delegation of Project Review Processes and Related Changes for Condominiums, Cooperatives, and Planned Unit Developments (PUDs)

Introduction

Lender Letter 04-07, *Condominium, Cooperative, and Planned Unit Development (PUD) Project Review Process*, dated August 17, 2007, and updated in Lender Letter 05-07, *Condominium, Cooperative, and Planned Unit Development (PUD) Project Review Process – Update*, dated October 19, 2007, informed lenders of Fannie Mae’s intention to fully delegate the project review processes for condominiums, cooperatives, and PUDs to our lenders. With this Announcement, we are completing this transition by making changes to and/or clarifying our project eligibility, project review, and loan eligibility requirements. Fannie Mae will continue to review our project standards and may make additional changes as warranted in the future.

This Announcement amends the Selling Guide *Part XII*, Project Standards. These changes provide lenders with fully delegated processes for reviewing the acceptability of condominiums, cooperatives, and PUDs based on a combination of project and loan-level risk factors. Except as otherwise stated in this Announcement, all provisions of *Part XII* of the Selling Guide continue to apply to mortgages secured by properties in condominiums, cooperatives, and PUDs. Due to the complex requirements associated with certain types of projects, we expect lenders to have appropriate processes and procedures in place to perform project reviews.

This Announcement addresses:

- Retirement of the Fannie Mae Review process for condominiums, cooperatives, and PUDs;
- Introduction of Conditional Final Project Acceptance status;
- Changes to the Limited Review process;

- Changes to the Expedited Review process using Condo Project Manager™ (CPM™) for condominium projects; and
- Introduction of the Lender Full Review process for condominiums, cooperatives, and PUDs.

In addition, we address requirements related to manufactured housing projects, FHA-approved condominium projects, insurance requirements for projects, and the eligibility of projects involved in litigation.

Retirement of the Fannie Mae Review Process for Condominiums, Cooperatives, and PUDs

Effective immediately, we will no longer perform project reviews or issue acceptances for condominium, cooperative, and PUD projects with the exception of most projects consisting of manufactured homes, which lenders must continue to submit for review and acceptance by Fannie Mae.

We will continue to publish our listing of Accepted Condos, Co-ops, and PUDs, with their applicable expiration date, searchable by state, on www.efanniemae.com. Lenders must represent and warrant that all requirements for delivering mortgages under the Fannie Mae Review process, as stated in the Selling Guide *Part XII, Chapter 1, Section 103*, General Warranty of Project Eligibility, have been met.

Introduction of Conditional Final Project Acceptance Status

In conjunction with the phase-out of the Fannie Mae Review process, we have reviewed each project with an unexpired Conditional Project Acceptance letter and moved many of these projects into Conditional Final Project Acceptance status, thus minimizing the effect of the phase-out on lender pipelines. If the only conditions listed on the Conditional Project Acceptance letter relate to presale and/or completion of construction, Fannie Mae will issue a Conditional Final Project Acceptance.

Effective immediately, the Conditional Project Acceptance status expires for projects that have not been granted Final Project Acceptance or Conditional Final Project Acceptance.

We will publish a list of all projects that receive Conditional Final Project Acceptance status on www.efanniemae.com. For each project, this list will include the project name, project/phase ID number, Conditional Final Project Acceptance expiration date, and the condition(s) that must be cleared before a mortgage secured by a unit in the project can be delivered.

Previously, only the lender that submitted a project for Fannie Mae Review was permitted to clear outstanding conditions. However, we will now permit any approved Fannie Mae seller/servicer to deliver mortgages secured by units in projects that receive a Conditional Final Project Acceptance. The lender must provide documentation in the individual

mortgage file evidencing that the project met our presale and/or construction completion requirements prior to mortgage delivery. The documentation may include Fannie Mae's *Warranty of Presales* (Form 1029) and *Appraisal Update and/or Completion Report* (Form 1004D), or other substantially similar documents. The lender must also represent and warrant that all other requirements for delivering mortgages under the Fannie Mae Review process, as stated in the Selling Guide *Part XII, Chapter 1, Section 103*, General Warranty of Project Eligibility, have been met.

Changes to the Limited Review Process

In order to better manage the risks associated with mortgages submitted under the Limited Review process, we are modifying our eligibility criteria for loans secured by attached units in condominiums. These changes do not apply to mortgages secured by detached units in condominiums or units in PUD projects.

The following changes will take effect on December 15, and will be implemented in Desktop Underwriter[®] (DU[®]) with the release of the DU Version 5.7 December Update during the weekend of December 15:

- Mortgages secured by attached units in new condominium projects, as defined in the Selling Guide *Part XII, Chapter 2, Condominium Project Review*, are no longer eligible for a Limited Review, whether they are manually underwritten or submitted to DU;
- The maximum LTV/CLTV ratio for loans secured by attached condominium units to be occupied as the borrowers' principal residence is reduced from 100 percent to 90 percent for DU Approve recommendations only; and
- Mortgages secured by attached condominium units that are investment properties are not eligible for the Limited Review process.

Our Limited Review process enables lenders to deliver individual loans secured by units in a project based on loan-level characteristics and DU recommendation, if applicable, without a full project review. This process is intended to be used on a "spot loan" basis and must not be used to deliver multiple mortgages within the same condominium project to Fannie Mae. Lenders must use one of the other project review methods described in this Announcement to deliver multiple mortgages from a given project.

Lenders must follow the new Limited Review eligibility criteria for all loans secured by attached units in condominium projects that are submitted, or resubmitted, to DU Version 5.7 on or after the weekend of December 15, 2007. These new eligibility criteria will not be reflected in DU Version 5.6 loan casefiles. However, regardless of the method of underwriting or the DU Version to which the loan casefile was submitted, all Limited Review mortgages secured by attached units in condominium projects that are delivered to Fannie Mae on or after February 1, 2008, must comply with these new Limited Review guidelines.

Limited Review: Established Projects – Attached Condominium Units¹			
Occupancy Type	Maximum LTV/CLTV%		
	DU Approve Recommendations²	All Other DU Recommendations³	Manual Underwriting
Principal Residence	≤ 90%	≤ 80%	≤ 80%
Second Home	≤ 75%	≤ 75%	≤ 75%
Investment Property	Not allowed	Not allowed	Not allowed

¹ To be eligible for a Limited Review:

- The project must meet the warranty requirements of the Selling Guide *Part XII, Chapter 1, Section 103*, General Warranty of Project Eligibility.
- The project may not be an ineligible project as stated in the Selling Guide *Part XII, Chapter 1, Section 102*, Ineligible Projects;
- The mortgage may not be secured by a manufactured home;
- The units, common areas, and facilities must be 100 percent complete; and
- The project must be covered by insurance in accordance with the Selling Guide *Part XII, Chapter 5*, Insurance Requirements, as amended by this Announcement.

² Expanded Approval[®] recommendations are not eligible.

³ Expanded Approval recommendations included.

Changes to the Expedited Review Process Using Condo Project Manager (CPM) for Condominium Projects

Fannie Mae’s lender-delegated Expedited Review process is being renamed “CPM Expedited Review.” CPM is a web-based tool that is used to provide lender-specific project acceptance for attached and detached, new, established, and two-unit to four-unit condominium projects – that is, all condominium projects except those consisting of manufactured housing units. Lenders may go to www.efanniemae.com to register for CPM.

Effective January 15, 2008, CPM will be updated to reflect the following additional criteria for certification of a condominium project. However, we encourage our lenders to apply these additional requirements immediately:

- For an established project, no more than 15 percent of condominium/association fee payments can be more than one month delinquent.
- Lenders must review the homeowners’ association budget (the actual budget for established projects or the projected budget for new projects) for all projects except two-unit to four-unit projects. This review must determine that the budget is adequate (i.e., it includes allocations for line items pertinent to the type of condominium), provides for the funding of replacement reserves for capital expenditures and deferred maintenance (at least 10 percent of the budget), and provides adequate funding for insurance deductible amounts.

- Lenders must also represent and warrant to Fannie Mae that the project meets the legal requirements addressed in Exhibit 1 of this Announcement.

We are also updating CPM to include the following additional ineligible project types, as stated in the Selling Guide *Part XII, Chapter 1, Section 102*, Ineligible Projects:

- Projects with non-incident business operations owned or operated by the homeowners' association such as, but not limited to, a restaurant, spa, health club, etc.
- Investment securities, defined as projects that have documents on file with the Securities and Exchange Commission or projects where unit ownership is characterized or promoted as an investment opportunity.
- Any project or building that is owned by several owners as tenants-in-common, or by a homeowners' association in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building.

Introduction of the Lender Full Review Process for Condominiums, Cooperatives, and PUDs

The Lender Full Review process is another method for the review of new and established condominium, cooperative, and PUD projects. Lenders performing a Full Review must ensure that the project meets all applicable eligibility criteria. For condominiums and cooperatives, projects must meet both our general eligibility criteria and additional criteria that are specific to each type of project.

Lender Full Review: General Eligibility Requirements for Condominiums and Cooperatives

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

- The project must meet the requirements of the Selling Guide *Part XII, Chapter 1, Section 103*, General Warranty of Project Eligibility.
- The project must not be an ineligible project in accordance with Selling Guide *Part XII, Chapter 1, Section 102*, Ineligible Projects.
- The project must not be a manufactured housing project.
- The project must meet our insurance requirements, as stated in the Selling Guide *Part XII, Chapter 5*, Insurance Requirements, as amended by this Announcement.
- Phase I and II environmental hazard assessments are not required for condominium and cooperative projects unless the lender identifies an environmental problem through the performance of its project underwriting and/or due diligence. In the event that environmental problems are identified, they must be determined to be acceptable, as described in the Selling Guide *Part XII, Chapter 6*, Environmental Hazard Assessment.
- All rehabilitation work involved in a condominium or cooperative conversion must have been completed in a professional manner.

- If the project is a conversion that does not involve gut rehabilitation, the lender must review an engineer's report, or other substantially similar report, to verify that (a) all necessary repair(s) are complete and (b) replacement reserves are identified for all capital improvements and noted as adequate by the party evaluating the project. (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.)
- For a conversion that was legally created during the past three years, the architect's or engineer's report, or functional equivalent, that was originally obtained for the conversion must comment favorably on the structural integrity of the project and the condition and remaining useful life of the major project components—such as the heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc.
- All mortgages in the project must be delivered to Fannie Mae within six months of the lender's review of the project.
- The lender must warrant that it is not aware of any change in circumstances since its review of the project that would result in the project no longer satisfying our eligibility criteria.

The lender must retain all the project documentation that supports its warranty that the project meets our eligibility criteria. This documentation must be retained from the time the lender first originates mortgages secured by units in the project until all such mortgages that were sold to us have been liquidated.

Lender Full Review: Additional Eligibility Requirements for Established Condominium Projects (Excluding Two-Unit to Four-Unit Projects)

When performing a Lender Full Review of an established condominium project, the review must comply with the general eligibility requirements for all projects, as listed above, as well as the requirements stated in the Selling Guide *Part XII, Chapter 2, Section 203.06*, Fannie Mae Review of Established Projects, and *Section 203.07*, Underwriting Considerations, including but not limited to, the following requirements:

- All units, common elements, and facilities within the project must be 100 percent complete, and the project cannot be subject to additional phasing or annexation.
- At least 51 percent of the total units in the project must have been conveyed to owner-occupant principal residence or second home purchasers. However, this requirement shall not apply when a lender delivers a mortgage to us that is secured by an owner-occupant principal residence or second home.
- Lenders must represent and warrant to Fannie Mae that the project meets the legal requirements addressed in Exhibit 1 of this Announcement.
- Lenders must review the homeowners' association actual budget to determine that it is adequate (i.e., it includes allocations for line items pertinent to the type of condominium), provides for the funding of replacement reserves for capital expenditures and deferred maintenance (at least 10 percent of the budget), and provides adequate funding for insurance deductible amounts.
- No more than 15 percent of condominium/association fee payments can be more than one month delinquent.
- No single entity (the same individual, investor group, partnership, or corporation) may own more than 10 percent of the total units in the project.

- No more than 20 percent of the total square footage of the project can be used for nonresidential purposes.
- All facilities related to the project must be owned by the unit owners or the homeowners' association. The developer may not retain any ownership interest in any of these facilities. In addition, the amenities and facilities—including parking and recreational facilities—may not be subject to a lease between the unit owners or the homeowners' association and another party.
- The individual units should be separately metered. If they are not, the project's plans should provide for the ready adoption of unit metering.
- The units in the project must be owned in fee simple or leasehold (see the Selling Guide *Part VII, Chapter 1, Section 102.03*, Leasehold Estates), and the unit owners must be the sole owners of, and have rights to the use of, the project's facilities, common elements, and limited common elements.

Lender Full Review: Additional Eligibility Requirements for New Condominium Projects (Excluding Two-Unit to Four-Unit Projects)

When performing a Lender Full Review of a new condominium project, the review must comply with the general eligibility requirements for all projects, as listed above, as well as the requirements stated in the Selling Guide *Part XII, Chapter 2, Section 203.01*, Fannie Mae Review of New Projects, and *Section 203.02*, Underwriting Considerations, including but not limited to, the following requirements:

- The project, or the subject legal phase, must be “substantially complete.” This means that a certificate of occupancy (or other substantially similar document) has been issued by the applicable governmental agency for the project or subject phase and that all the units in the building in which the unit securing the mortgage is located are complete, subject to the installation of “buyer selection items” such as appliances.
- At least 51 percent of the total units in the project or subject legal phase must have been conveyed or be under a bona fide contract for purchase to owner-occupant principal residence or second home purchasers. For a specific legal phase (or phases) in a new project, at least 51 percent of the total units in the subject legal phase(s), considered together with all prior legal phases, must have been conveyed (or be under contract to be sold) to owner-occupant principal residence or second home purchasers. For the purposes of this review process, a project consisting of one building cannot have more than one legal phase.
- Lenders must represent and warrant to Fannie Mae that the project meets the legal requirements addressed in Exhibit 1 of this Announcement.
- Lenders must review the homeowners' association projected budget to determine that it is adequate (i.e., it includes allocations for line items pertinent to the type of condominium), provides for the funding of replacement reserves for capital expenditures and deferred maintenance (at least 10 percent of the budget), and provides adequate funding for insurance deductible amounts.
- No single entity (the same individual, investor group, partnership, or corporation), other than the developer during the initial marketing period, may own more than 10 percent of the total units in the project.
- No more than 20 percent of the total square footage of the project can be used for nonresidential purposes.

- The units in the project must be owned in fee simple or leasehold (see the Selling Guide *Part VII, Chapter 1, Section 102.03*, Leasehold Estates), and the unit owners must be the sole owners of, and have rights to the use of, the project's facilities, common elements, and limited common elements.

Lender Full Review: Additional Eligibility Requirements for Two-Unit to Four-Unit Condominium Projects

When performing a Lender Full Review of a project consisting of two to four units, the review must comply with the general eligibility requirements for all projects, listed above, as well as the requirements stated in the Selling Guide *Part XII, Chapter 2, Section 202.05*, Lender Delegated Expedited Review of Two-Unit to Four-Unit Projects, including but not limited to, the following requirements:

- No single entity (the same individual, investor group, partnership, or corporation) may own more than one unit within the project.
- All units, common elements, and facilities within the project – including those that are owned by any master association – must be 100 percent complete.
- All but one unit in the project must have been conveyed to owner-occupant principal residence or second home purchasers.
- The units in the project must be owned in fee simple or leasehold (see the Selling Guide *Part VII, Chapter 1, Section 102.03*, Leasehold Estates), and the unit owners must be the sole owners of, and have rights to the use of, the project's facilities, common elements, and limited common elements.

Lender Full Review: Additional Eligibility Requirements for Cooperative Projects

Effective immediately, Fannie Mae is retiring the Type 2 Fannie Mae project review classification for cooperatives. All cooperative project reviews, with the exception of projects consisting of manufactured housing, are delegated to lenders that are approved by Fannie Mae to sell and service cooperative share loans. These lenders must apply the general eligibility requirements for all projects, which are listed above, as well as the requirements stated in the Selling Guide *Part XII, Chapter 4, Types 1 and 2 Cooperatives*, including but not limited to, the following requirements:

- The project must be located in an area with a demonstrated market acceptance for the cooperative form of ownership, as reflected by the availability of similar comparable sales for cooperative units in the market area.
- The project must meet the eligibility requirements discussed in the Selling Guide *Part VII, Chapter 1, Section 102.06*, Cooperative Units.
- All units, common areas, and facilities within the project must be 100 percent complete.
- The project cannot be subject to additional phasing or annexation.
- Stock or share ownership and the accompanying occupancy rights that represent at least 80 percent of the total number of units in the project must have been conveyed (or for new projects, must be under a bona fide contract for sale) to owner-occupant principal residence purchasers only.
- No more than 10 percent of the stock or shares in the cooperative corporation and the related occupancy rights may be owned by a single entity (the same individual, investor

- group, partnership, or corporation), except for the developer or sponsor during the sales period.
- Facilities related to the project (such as parking, recreational facilities, etc.) must be owned by the cooperative corporation. The developer or sponsor may not retain an ownership interest in any of them.
 - Any commercial space in the project should be compatible with the overall residential nature of the project and there should not be an inordinate amount of nonresidential space. The corporation's income from commercial space is limited to 20 percent of its total income.
 - The cooperative corporation's operating budget must be consistent with the nature of the project, provide for adequate cash flow to service the current debt and operating expenses, and provide for adequate replacement and operating reserves.
 - The project must be demonstrably well managed. If it is professionally managed, the management contract must be for a reasonable term and its termination provision must not require the payment of a penalty or advance notice of more than 90 days.
 - The project must have a good financial record, and no more than 15 percent of cooperative/association fee payments can be more than one month delinquent.
 - Any blanket mortgage for the project must not be a balloon mortgage with a remaining term of less than three years or a mortgage that provides for interest rate adjustments.
 - The project may not be the recipient of any subsidies or similar benefits (such as tax or assessment abatements) that will terminate partially or fully within the next three years.
 - The project documentation and the share loan documentation must comply with Fannie Mae's legal requirements, as defined in the Selling Guide *Part XII, Chapter 4, Exhibit 1, Legal Requirements for Cooperative Projects*, as well as any legal requirements established by the state in which the project is located.
 - The units in the project must be owned in fee simple, and the unit owners must be the sole owners of, and have rights to the use of, the project's facilities, common elements, and limited common elements.

Lender Full Review: Eligibility Requirements for PUD Projects

Fannie Mae classifies PUD projects as Type E, established PUD projects, and Type F, new PUD projects. Whereas previously lenders had the option of requesting a Fannie Mae Review of new PUDs, we will no longer review any PUD projects except those consisting of single-width manufactured housing units.

Fannie Mae does not require a lender to perform a review of a PUD project if the mortgage being delivered is secured by a detached unit within a PUD, as stated in the Selling Guide *Part XII, Chapter 3, PUD Project Review*.

Effective immediately, we are streamlining the requirements for Lender Review of PUDs with attached units. When reviewing a PUD project with attached units (whether new or established), lenders should determine that the project meets the following requirements:

- The project satisfies the warranty requirements of the Selling Guide *Part XII, Chapter 1, Section 103, General Warranty of Project Eligibility*.
- The project is not an ineligible project, in accordance with the Selling Guide *Part XII, Chapter 1, Section 102, Ineligible Projects*.

- The project does not consist of single-width manufactured housing units.
- The individual unit securing the mortgage satisfies our insurance requirements for PUD projects, in accordance with the Selling Guide *Part XII, Chapter 5, Insurance Requirements*, as amended by this Announcement.
- The individual unit securing the mortgage is 100 percent complete.

Fannie Mae Review of Manufactured Housing Projects

Fannie Mae will continue to require lenders to submit all projects consisting of manufactured homes, with the exception of multi-width manufactured homes that are part of a PUD project, to Fannie Mae for our review and acceptance. Effective immediately, a lender who would like to submit a project consisting of manufactured housing for Fannie Mae Review must contact Project Standards at 202-752-2916 to discuss the project and our project submission requirements. Lenders should continue to use project type code T, as well as special feature code (SFC) 235, when delivering mortgages secured by a manufactured home that is a unit in a condominium, cooperative, or PUD project.

FHA-Approved Project Review for Condominiums

We continue to accept for delivery mortgages secured by units in condominium projects appearing on the FHA-approved condominium list. The lender must represent and warrant project eligibility, as set forth in the Selling Guide *Part XII, Chapter 1, Section 103, General Warranty of Project Eligibility*, and *Chapter 2, Section 204, FHA-Approved Project Acceptance*.

Insurance Requirements

Hazard Insurance

Currently, Fannie Mae requires lenders to verify hazard insurance at the project level as part of their project review, as discussed in the Selling Guide *Part XII, Chapter 5, Insurance Requirements*. We are updating this policy to allow, in certain circumstances, for unit owners to obtain a hazard insurance policy on their individual unit.

If the project's legal documents allow for the individual unit owners to obtain their own hazard insurance policy and allow for a blanket insurance policy to cover the project's common elements, we will accept two policies to satisfy our insurance requirements. A lender must verify that both the project and individual unit are covered by the required hazard insurance policies before it delivers a mortgage or cooperative share loan secured by a unit in a condominium, cooperative, or PUD project.

Fidelity Insurance

The Selling Guide *Part XII, Chapter 5, Section 504*, Fidelity Insurance, states that we require fidelity insurance coverage for PUD Type F projects. Effective immediately, we will no longer require lenders to verify the fidelity insurance coverage for PUD projects.

Clarification Relating to Eligibility of Projects Involved in Litigation

The Selling Guide *Part XII, Chapter 1, Section 102*, Ineligible Projects, states our requirements related to ineligible projects. We are clarifying these requirements to state that projects where the homeowners' association or cooperative corporation is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due homeowners' association dues, are not considered ineligible projects.

Existing Variances for Condominiums, Cooperatives, and PUDs

If a lender intends to deliver a mortgage secured by a unit in a project to us that does not meet the eligibility criteria outlined in the Selling Guide, as amended in this Announcement, the lender must have a negotiated Master Agreement that allows for the delivery of such mortgages. In light of current market conditions, all condominium, cooperative, and PUD variances will be reviewed during the next contract negotiation process.

Project Review Type Codes

We are revising the definition of several project review type codes to reflect the changes discussed in this Announcement. When a lender delivers a mortgage for purchase or securitization, it must identify the project review type code based on the following:

Condominiums

- P – Limited Review – New Project (not applicable for loans secured by attached condominium units delivered on or after February 1, 2008)
- Q – Limited Review – Established Project or Established Two-Unit to Four-Unit Project
- R – CPM Expedited Review or Lender Full Review – New Project
- S – CPM Expedited Review or Lender Full Review – Established Project or Established Two-Unit to Four-Unit Project
- T – Fannie Mae Review – For projects consisting of manufactured housing (in addition to SFC 235) or projects with unexpired Final or Conditional Final Project Acceptance status
- U – FHA-Approved Project

Cooperatives

- 1 – Lender Full Review
- 2 – Fannie Mae Review – For projects with an unexpired Final Project Acceptance
- T – Fannie Mae Review – For projects consisting of manufactured housing

PUDs

- E – Established Projects
- F – New Projects
- T – Fannie Mae Review – For projects with an unexpired Final Project Acceptance or projects consisting of manufactured housing

Effective Dates

The changes described in this Announcement are effective immediately except as otherwise stated in this Announcement. In summary, the effective dates are as follows:

Effective Immediately:

- The Lender Full Review process for condominiums;
- Changes to the Lender Full Review process for cooperatives and PUDs;
- Changes to our hazard and fidelity insurance requirements;
- Clarification concerning eligibility of projects involved in litigation; and
- Expiration of Conditional Project Acceptance letters with outstanding conditions.

December 15, 2007:

- Changes to the eligibility requirements for Limited Review of mortgages secured by units in attached condominium projects.

Weekend of December 15, 2007:

- Changes to the Limited Review process will be implemented in DU with the release of the DU Version 5.7 December Update.

January 15, 2008:

- CPM will be updated to reflect changes in the CPM Expedited Review process.

February 1, 2008:

- All Limited Review mortgages delivered on or after this date must comply with our new Limited Review guidelines.

Additional Information

Fannie Mae will publish a Frequently Asked Questions (FAQ) document to provide additional guidance concerning the information in this Announcement. These FAQs, lender training opportunities, and any other related reference materials will be available on www.efanniemae.com.

Lenders who have questions about Announcement 07-18 should contact their Customer Account Team or Fannie Mae at 800-752-6440 for additional information.

Michael A. Quinn
Senior Vice President
Single-Family Risk Officer

Attachment (1)

Attachment 1

Exhibit 1: Legal Requirements for CPM Expedited Review and Lender Full Review Processes for Condominiums – Lender Representations and Warranties

Compliance with laws – The condominium project has been created and exists in full compliance with the state law requirements of the jurisdiction where the condominium project is located and all other applicable laws and regulations.

Limitations on ability to sell/Right of first refusal – Any right of first refusal in the condominium project documents will not adversely impact the rights of a mortgagee or its assignee to:

- a. Foreclose or take title to a condominium unit pursuant to the remedies in the mortgage;
- b. Accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor; or
- c. Sell or lease a unit acquired by the mortgagee or its assignee.

Amendments to Documents –

- a. The project documents must provide that amendments of a material adverse nature to mortgagees be agreed to by mortgagees that represent at least 51 percent of the votes of unit estates that are subject to mortgages.
- b. The project documents must provide for any action to terminate the legal status of the project after substantial destruction or condemnation occurs or for other reasons to be agreed to by mortgagees that represent at least 51 percent of the votes of the unit estates that are subject to mortgages.
- c. The project documents may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 60 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a “return receipt” requested.

Rights of Condo Mortgagees and Guarantors – The project documents must give the mortgagee and guarantor of the mortgage on any unit in a condominium project the right to timely written notice of:

- a. Any condemnation or casualty loss that affects either a material portion of the project or the unit securing its mortgage;
- b. Any 60-day delinquency in the payment of assessments or charges owed by the owner of any unit on which it holds the mortgage;
- c. A lapse, cancellation, or material modification of any insurance policy maintained by the homeowners’ association; and
- d. Any proposed action that requires the consent of a specified percentage of mortgagees.

First mortgagee's rights confirmed – No provision of the condominium project documents gives a condominium unit owner or any other party priority over any rights of the first mortgagee of the condominium unit pursuant to its mortgage in the case of payment to the unit owner of insurance proceeds or condemnation awards for losses to or a taking of condominium units and/or common elements.

Unpaid dues - Any first mortgagee who obtains title to a condominium unit pursuant to the remedies in the mortgage or through foreclosure will not be liable for more than six months of the unit's unpaid regularly budgeted dues or charges accrued before acquisition of the title to the unit by the mortgagee. If the condominium association's lien priority includes costs of collecting unpaid dues, the lender will be liable for any fees or costs related to the collection of the unpaid dues.

Attorney's Opinion –Lenders must represent and warrant that a qualified attorney engaged by the lender issued a written legal opinion based upon a review of the project's legal documents which states that they are in compliance with the legal requirements discussed herein. The attorney may be the same person who prepared the legal documents but he or she cannot be an employee, principal, or officer of the developer or sponsor of the project. The attorney's written opinion must be available upon request for the purposes of a Fannie Mae Quality Assurance review. (Selling Guide *Part XII, Chapter 2, Exhibit 2*, Guidelines for Preparing an Attorney's Opinion, provides guidelines that may be used to develop the attorney's opinion)