

WHOLESALE BULLETIN

IMPORTANT INFORMATION: PLEASE READ IMMEDIATELY

[Guidelines](#)

[Bolt Training](#)

[Wholesale Website](#)

[Previous Bulletins](#)

19W-073

Attention: AEs, Business Development Managers & Mortgage Brokers

August 27, 2019

Please take a moment to read the important information contained in this bulletin.

Included in this Bulletin: FHA Condominium Project Approval Changes

FHA announced revisions to the Single Family Policy Handbook (Handbook 4000.1). Effective 8/14/2019 the sections regarding Condominiums including Single Unit Approval, and Condominium Project Approvals have been updated as follows:

II. Condominiums (Handbook 4000.1 - page 477)

- Units Not Requiring Approval
 - HUD REO
 - Streamline Refinances
- Requirements for Units in Approved Condominium Projects
 - Condominium Project Approval Status
 - Confirm that project is on list at time of case number assignment
 - Insurance Concentration
 - Refers to percentage of FHA-insured loans in projects
 - HUD may suspend issuance of case numbers where FHA concentration is greater than 50%
 - Owner occupancy percentage
 - Must determine Project has owner occupancy of at least 35%
 - Lenders report occupancy percentage when functionality is available
 - Occupancy = unit not rented majority of year
 - Units owned by builder/developer do not count
 - Financial stability:
 - Separate accounts for operating and reserve funds:
 - Reserve account is funded by at least 10% of monthly assessments unless lower amount sufficient per Reserve Study
 - No more than 15% of the units are in arrears.
 - Individual owner concentration
 - Any individual owner or related party concentration does not exceed:
 - 10% of the units in projects with 20 or more units
 - In projects with less than 20 units, unit owner does not own more than one unit and no related party owns a unit
 - Insurance:
 - Borrower to get HO-6

- Condominium Association has hazard, liability, fidelity (if more than 20 units) and flood insurance (if in flood zone)
- Leasehold Interest
 - Lender must determine if unit is owned under a Leasehold Interest and complies with leasehold guidance
- New Construction
 - Proposed Construction
 - No concrete or permanent material has been placed
 - Digging of footing is not considered permanent
 - Under Construction
 - First placement of permanent material to 100% completion w/ no Certificate of Occupancy (CO) or equivalent
 - Existing Less Than One Year
 - 100% complete but less than one year since CO or equivalent
 - Property must never have been occupied
 - Must submit documentation for New Construction (p.448)
- Gut Rehabilitation
 - Must submit required documentation for Gut Rehab under New Construction (p.448)
- Manufactured Housing
 - See requirements on p. 154

III. Single Unit Approval (Handbook 4000.1 - p. 484)

- **Borrower eligibility**
 - **Mortgage receives an “Accept”**
 - **Manual underwrites = max LTV of 90%.**
- Property eligibility
 - Project is occupied or Certificate of Occupancy issued at least one year prior
 - Project has five or more units
 - No manufactured homes
 - Condo unit is not in an Approved Project or in unapproved phase of an Approved Project
 - Projects located in Coastal Barrier Resources System are not eligible
 - Projects in Special Flood Hazard Areas (SFHA) are not eligible unless they meet the SFHA requirements for Condominium Project Approval
- Property Requirements
 - Insurance Concentration
 - Refers to percentage of FHA-insured loans in projects
 - HUD may suspend issuance of case numbers where FHA concentration is greater than 10%
 - For projects/ less than 20 units, maximum number of FHA mortgages is 2 mortgages
 - Owner Occupancy of at least 50%
 - Project's legal documents have been recorded in accordance with state and local law
 - Unit owners in control of the condominium association
 - Financial Condition
 - No financial distress event involving the Condominium Association or the builder/developer within the past three years
 - Reserve account is funded by at least 10% of monthly assessments unless lower amount sufficient per Reserve Study
 - No more than 15% of the units are in arrears
 - Individual owner concentration
 - Any individual owner or related party concentration does not exceed:
 - 10% of the units in projects with 20 or more units
 - In projects with less than 20 units, unit owner does not own more than one unit and no related party owns a unit

- If mixed-use project, the Commercial/Non-Residential use:
 - Does not exceed 35% of the project's total floor area
 - Current year budget approved by the Board
 - Year-to-date income and expense statement w/in 90 days if prior year actuals are more than 90 days old
 - Current balance sheet w/in 90 days prior to date of submission
 - Lender must document the percentage of commercial/non-residential space and submit the following:
 - Recorded Site Condominium plans
 - Recorded Covenants, Conditions and Restrictions (CC&Rs)
- Insurance Coverage
 - Project must be insured to FHA and any applicable state and local condominium requirements
 - Borrower must obtain HO-6 policy
 - Condo Association has hazard, liability, fidelity (if more than 20 units) and flood insurance (if in flood zone)
- Live/Work Unit
 - Allows space within individual unit for residential and non-residential purposes
 - Lender must verify that individual Live/Work unit does not contain more than 49% Commercial/Non-residential Space
- Leasehold Interest
 - The Condominium Association must be the lessee under the lease
 - The lease of the Common Elements provides that a default of the Condominium Association does not result in a disturbance of any rights of the Unit owners.
 - The lease provides that the Mortgagee receives notice of any monetary or Non-Monetary Default by the Condominium Association and is given the right to cure any defaults on behalf of the Condominium Association.
 - The lease provides for the payment of taxes and insurance related to the land, in addition to those being paid for the improvements.
 - The Condominium Association must not be in default under any provisions of the lease.
- Litigation:
 - Project not subject to litigation relating to safety, structural soundness, habitability or use of the project; and
 - Project not subject to any other litigation risk not fully covered by insurance.

IV. Site Condominiums (Handbook 4000.1 - p. 495)

- Refers to single-family detached homes or horizontally detached townhouses
 - No attached buildings
- Must have insurance and maintenance costs that are sole responsibility of the Unit owner excluding landscaping
- Must submit following documentation
 - Condominium Rider
 - Appraisal completed on Fannie Mae Form 1073/Freddie Mac Form 465, Individual Condominium Unit Appraisal Report, evidencing that all Units satisfy the Site Condominium definition
 - Certificate of Hazard Insurance or complete copy of the insurance policy evidencing coverage of the entire dwelling
 - If required under the Flood Insurance requirements in the Condominium Project Approval Section,
 - Certificate of Flood Insurance or complete copy of the insurance policy evidencing coverage of the entire dwelling

V. Condominium Project Approval (Handbook 4000.1 - p. 510)

- Classifications for Condominium Project Approval
 - Existing Construction
 - Condominium Project
 - Conversions
- Project has none of these characteristics:
 - Cooperative ownership;
 - Hotel operation;
 - Mandatory rental pooling agreements;
 - Timeshares;
 - Multi-dwelling units;
 - Houseboats;
 - Continuing care
- General Condominium Project Approval Requirements (page 512)
 - Same as above
- FHA Insurance Concentration - 50%
 - FHA may suspend issuance of new case numbers in projects "where FHA Insurance Concentration is greater than 50 percent of the total number of units"
- Owner Occupancy - at least 35%
 - Must report Owner Occupancy percentage when functionality becomes available in FHA Connection
- Units in Arrears
 - No more than 15% of total units more than 60 days past due
- Individual owner concentration
 - 20 or more units - 10% or less individual ownership
- Insurance:
 - Borrower to get HO-6.
 - Condominium Association has hazard, liability, fidelity (if more than 20 units) and flood insurance (if in flood zone)

For additional guidance please refer to the Handbook 4000.1 - [SF Handbook 4000.1 \(08/14/19\)](#)

Author: Underwriting