

CONDO PROJECT MANAGER (CPM)/FULL HOMEOWNER ASSOCIATION (HOA) WARRANTY REQUIREMENTS

A. REQUIRED DOCUMENTS:

- Appraisal
 - Preliminary Title Policy
 - Full HOA Certification
 - DU or LP AUS Findings
 - Budget (Current Year, Adopted; waived with current PERS/1028 FNMA Approval)
 - Master Insurance Declaration Page/Loss Payee Certificate Page
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B. INSURANCE REQUIREMENTS

Although a full policy is no longer required, the Insurance Company must provide documentation that the following are included in the policy. The Insurance Representative can provide an **ACORD 101/SPECIAL INSTRUCTIONS**, an **ADDITIONAL REMARKS SCHEDULE** or an **ENDORSEMENT PAGE/LISTING** noting these all apply to this policy (i.e. State Farm provides a limited ‘packet’ that provides all the information below in its policy).

C. ENDORSEMENTS REQUIRED

(Information in *green italic font* reflects FNMA Guidelines.)

- **EQUIPMENT BREAKDOWN ENDORSEMENT** (N/A if Unit Owner is responsible for HVAC service/maintenance.)
B7-3-04, Property Insurance Coverage for Units in Project Developments (07/29/2014)
Boiler and Machinery/Equipment Breakdown Endorsement if the project has central heating or cooling. This endorsement should provide for the insurer’s minimum liability per accident at least equal to the lesser of \$2MM or the insurable value of the building(s) housing the boiler or machinery.
- **CO-INSURANCE** (N/A. Insurance Policy must have an **Agreed Amount Endorsement** waiving co-insurance.)
B7-3-04, Property Insurance Coverage for Units in Project Developments (07/29/2014)
Policies with coinsurance provisions can create additional risk for an HOA in the event of a loss if the amount of insurance coverage is less than the full insurable value. Master property policies that provide coverage at 100% of the insurable replacement cost of the project improvements, including the individual units, alleviate the risk of a co-insurance penalty being applied in the event of loss. If the policy has a co-insurance clause, inclusion of an Agreed Amount Endorsement or selection of the Agreed Value Option (which waives the requirement for co-insurance) is considered acceptable evidence that the 100% insurable replacement cost requirement has been met.
- **CANCELLATION**
Must be able to review cancellation language in master liability policy: **First Lien Mortgage Holder must receive a minimum 10-day notice for changes and/or cancellation** (only required if the project carries Walls-in/HO6 coverage for the borrower).
B7-3-04, Property Insurance Coverage for Units in Project Developments (07/29/2014)
The policy must require the insurer to notify in writing the HOA (or insurance trustee) and each first mortgage loan holder named in the mortgagee clause at least 10 days before it cancels or substantially changes a condo project’s coverage.
- **WINDSTORM/HAIL COVERAGE** (Only required if policy indicates it is ‘exempt.’)
- **SEVERABILITY OF INTEREST/SEPARATION OF INSURED**
- **BUILDING ORDINANCE OR LAW ENDORSEMENT** (N/A if Agent can document it is not available in market area)

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D. INSURANCE DEC PAGE REQUIREMENTS**• CALIFORNIA LIABILITY REQUIREMENTS**

\$2MM Coverage minimum per any single occurrence (CA projects with 100 or fewer units)

Liability Insurance/Coverage per state law 1365.9: This law protects individual owners in a Condo Association or HOA where the owners have some interest as tenants-in-common in common areas. If certain levels of insurance are carried, it prevents the individual owners from being sued individually for accidents that happen in the common areas. The minimum amount of coverage required for this protection is \$2MM if 100 or fewer separate interest units and \$3MM if more than 100 separate interests. Condo Association should have this level of protection.

\$3MM Coverage minimum per any single occurrence (CA projects with > 100 units)

Additional liability coverage may be in the form of an “umbrella” or “additional liability” policy.

• LIABILITY REQUIREMENTS, ALL OTHER STATES

\$1MM Coverage minimum

• FIDELITY INSURANCE

Must cover the amount of annual income off budget (waived if less than 21 units or less than \$5,000 in revenue. 3 X Dues X Units in the project).

Fidelity Insurance/Crime Coverage must ≥ budgeted revenue. Budgeted Revenue: \$_____

OR an amount equal to 3 months of HOA Assessments. If financial controls are in place, separate accounts for reserves and two signers must be verified by the HOA. (This is an exception to allow reduced Fidelity/Crime Insurance coverage.) Fidelity Coverage: \$_____ 3 X Assessment Balance: \$_____

• PROPERTY INSURANCE (Must cover 100% of the insurable replacement cost of the project improvements, including the individual units in the project.)

- **Guaranteed Replacement Cost** – Insurer agrees to replace the insurable property regardless of cost.
- **Extended Replacement Cost** – Insurer agrees to pay more than the property’s insurable replacement cost.
- **Replacement Cost** – Insurer agrees to pay up to 100% of the property’s insurable replacement cost.

If the HOA does not carry Property Insurance for all units in the project, the legal documents (CC&Rs) must support this, and the borrower must provide an HO3 Policy that meets guidelines.

NOTE: CIBA, CCAI, Beck & Company Real Estate Services, and some Wells Fargo Insurance policies are NOT eligible. (These are pooled policies, which are not allowed.) If more than one project is insured, the Insurer must document that the others insured are under the same master association or share the use of common facilities. If not, it is considered unaffiliated and not eligible under the ‘pooled insurance guidelines.’ (See exceptions in LP guidelines.)

E. CURRENT YEAR ADOPTED BUDGET:

Budget must show 10% line item allocation for reserves and adequate funding for insurance deductibles (mandatory dues, other than HOA dues, i.e., clubs, pools, golf, etc., are not allowed).

[B4-2.2-09, Condo Project Manager \(CPM\) Expedited Review for New and Established Condo Projects \(05/28/2013\)](#)

The lender’s review of the budget must conclude that:

- *The budget is adequate (that is, it includes allocations for the line items pertinent to the type of condo);*
- *The budget provides for the funding of replacement reserves for capital expenditures and deferred maintenance (at least 10% of the budget); and*
- *The budget provides adequate funding for insurance deductible amounts.*

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NOTE: Increased insurance costs have resulted in homeowners' associations increasing their insurance deductible amounts to reduce annual premiums. Insurance deductibles can be quite substantial. Fannie Mae does not require a separate budget line item for insurance deductibles, but the potential cost of deductibles must be accounted for in the budget. Insurance deductibles may be included in the reserve fund or may be a separate item. In either case, the lender must determine that the project has the ability to fund insurance deductibles.

B4-2.1-02, Non-incident Income (11/10/2014)

See 'Ineligible Projects' below.

F. INELIGIBLE PROJECTS:

B4-2.1-02, Ineligible Projects (11/10/2014)

- *Projects that Operate as Hotels or Motels*
- *Sources of Information for Researching Hotel or Motel Operations*
- *Projects Subject to Split Ownership Arrangements*
- *Projects that Contain Multi-Dwelling Unit Condos or Co-ops*
- *Projects with Property that Is Not Real Estate*
- *Projects that Operate as a Continuing Care Community or Facility*
- *Non-incident Business Arrangements (Restaurants, Gyms, Leased Parking, etc.)***
- *Commercial Space and Mixed-use Allocation*
- *Live-Work Projects*
- *Litigation*
- *Priority of Common Expense Assessments*

*** Non-incident income from the following sources may be permitted, provided the income does not exceed 15% of the project's budgeted income and:*

- *Income from the use of recreational amenities or services owned by the HOA for the exclusive use by unit owners in the project or leased to another project according to a shared amenities agreement (as noted below)*
- *Income from agreements between the HOA and telephone, cable, and Internet companies for the purpose of providing communication or media services (for example, income related to a cell tower located on the roof of the project)*
- *Laundry and Club House Rentals*

G. PROJECT EXCEPTION WAIVER (PEW):

If the loan is ineligible for one of the reasons below, Forward Lending can send an exception/PEW request to Fannie Mae. This process takes 3—5 business days and approval is not guaranteed.

- Subject is an investment property AND project has less than 51% owner-occupied units
- Project has greater than 25% commercial space
- One entity owns greater than 10% of the project units

H. FLORIDA CONDO PROJECTS

FLORIDA ATTACHED CONDO UNITS – MAXIMUM LTV RATIOS

	NEW AND NEWLY CONVERTED PROJECTS PERS APPROVED ONLY	ESTABLISHED PROJECTS PERS APPROVED FULL REVIEW (WITH OR WITHOUT CPM)
Principal Residence	97% LTV	97% LTV
Second Home	90% LTV	90% LTV
Investment Property	85% LTV	85% LTV