

I. DOING BUSINESS WITH FHA
A. FHA Lenders and Mortgagees
5. Supplemental Mortgagee Authorities

management and staff will continue to exercise LI responsibilities for the new Mortgagee.

c. Title I Manufactured Housing Loan Direct Endorsement Authority

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-Approved Mortgagees and Title I Manufactured Housing Mortgagees must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to a Title I Manufactured Housing Mortgagee's participation in FHA programs.

d. Title II Multifamily Accelerated Processing Authority

Title II Multifamily Accelerated Processing (MAP) authority permits Mortgagees to underwrite and close multifamily Mortgages for FHA insurance without FHA's review prior to closing. The Office of Multifamily Housing grants this authority. Details on this authority are in the [Multifamily Accelerated Processing \(MAP\) Guide 4430.G](#), which is available in HUD's Client Information and Policy System ([HUDCLIPS](#)).

e. Title II Direct Endorsement Lender Condominium Project Review and Approval Process Authority

i. Scope of Authority

Approval to participate in the Direct Endorsement Lender Review and Approval Process (DELRAP) permits a Mortgagee to review and approve Condominium Projects and submit the Condominium Project for listing on FHA's Approved Condominium Project list.

(A) Definitions

(1) Conditional DELRAP Authority

Conditional DELRAP Authority refers to the authority of a Mortgagee that has provided notice to FHA of its intent to participate in DELRAP and requires the Mortgagee to submit all Condominium Project Approvals to FHA for review.

(2) DELRAP Test Case Phase

The DELRAP Test Case Phase refers to the time period in which a Mortgagee with Conditional DELRAP Authority is required to submit Condominium Project Approvals to FHA for review.

(3) Unconditional DELRAP Authority

Unconditional DELRAP Authority refers to the authority of a Mortgagee to approve Condominium Projects in accordance with HUD requirements and submit the Condominium Projects for listing on FHA's Approved Condominium Project list without any prior Condominium Project review by FHA.

(B) Standard

To obtain Unconditional DELRAP Authority, the Mortgagee must successfully complete the DELRAP Test Case Phase, which permits FHA to evaluate the Mortgagee's qualifications, experience, and expertise to review and approve Condominium Projects.

ii. Eligibility Requirements

(A) Standard

The Mortgagee must meet the following requirements to apply for and participate in FHA's DELRAP.

(1) FHA Title II DE Approval

A Mortgagee must have FHA approval as a Title II Unconditional Direct Endorsement (DE) Mortgagee.

(2) Mortgagee Experience

The Mortgagee must have originated not less than 10 FHA Mortgages in Condominium Projects approved by the Commissioner.

(3) Personnel Requirements

The Mortgagee must have at least one staff member with a minimum of one year of experience underwriting Mortgages on Condominium Units and/or reviewing Condominium Projects for FHA approval and must ensure that staff members participating in the approval of Condominium Projects either:

- meet the experience requirement; or
- are supervised by staff that meet the one-year experience requirement.

(4) Quality Control Plan

The Mortgagee must have a QC Plan that includes specific provisions related to DELRAP.

(B) Exception for Certain Mortgagees Created by Merger, Acquisition, or Reorganization

Unconditional DELRAP Authority may be granted without the need for the DELRAP Test Case Phase following a merger, acquisition, or reorganization, provided that the following criteria are met:

- The surviving FHA-approved Mortgagee or the FHA-approved Mortgagee resulting in a new FHA Lender ID was granted Unconditional DELRAP Authority prior to the merger, acquisition, or reorganization.
- If both institutions have Unconditional DELRAP Authority, then the management and staff of at least one of the Mortgagees involved with the Mortgagee's Unconditional DELRAP Authority prior to the merger, acquisition, or reorganization must continue to exercise those responsibilities for the new Mortgagee.
- If only one institution has Unconditional DELRAP Authority, then the management and staff involved with that Mortgagee's Unconditional DELRAP Authority prior to the merger, acquisition, or reorganization must continue to exercise those responsibilities for the new Mortgagee.

iii. Application and Approval

(A) First-Time Applicants

(1) Application

(a) Request to Enter DELRAP Test Case Phase

The Mortgagee must apply for Unconditional DELRAP Authority to the Jurisdictional Homeownership Center (HOC) for the state where the Mortgagee's home office is located.

(b) Required Documentation

The Mortgagee must submit a letter signed by a Corporate Officer requesting entry into the DELRAP Test Case Phase that:

- specifies the Mortgagee's home office 10-digit FHA Lender ID; and
- certifies that the staff has met the [eligibility requirements](#) prior to Conditional or Unconditional DELRAP Authority being granted.

(2) Notification

If the Mortgagee meets the requirements for DELRAP authority and submits the required documentation, FHA will advise the Mortgagee in writing that they may proceed with submitting Condominium Project Test Cases for review.

(3) Test Case Process

Mortgagees with Conditional DELRAP Authority must review the Condominium Project in accordance with the [Condominium Project Approval requirements](#) to determine if the Condominium Project meets FHA approval requirements.

(4) Test Case Submission Requirements

The Mortgagee must submit all Test Cases to the Jurisdictional HOC. FHA will review these Test Cases for compliance with FHA's Condominium Project Approval requirements.

(5) Approval Decision

(a) Approval of Unconditional DELRAP Authority

The Mortgagee must satisfactorily complete a minimum of five DELRAP reviews with no more than one review being rated unacceptable. The Jurisdictional HOC may require less than five DELRAP reviews and will consider previous experience. The Condominium Project Test Cases must be submitted within a period of 12 consecutive months following the date of application, or such other extended time as determined by the HOC, in order to be granted Unconditional DELRAP Authority. After the Mortgagee successfully completes the required Condominium Project Test Cases, the Mortgagee will be notified that they have been granted Unconditional DELRAP Authority.

(b) Denial of Unconditional DELRAP Authority

The Mortgagee will be denied approval for Unconditional DELRAP Authority if, at any time during the DELRAP Test Case Phase, FHA determines that the Mortgagee's submissions demonstrate a lack of knowledge of FHA requirements, or FHA identifies unacceptable practices.

(i) Denial Decision

FHA will provide the Mortgagee with notice of a denial of Unconditional DELRAP Authority that specifies the reason for the denial.

(ii) Denial Appeal

The applicant may submit an appeal of the denial decision to the Jurisdictional HOC within 30 Days of the date of the denial.

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(iii) Informal Conference

If the denial is sustained, the applicant may submit a second appeal to the Office of Single Family Program Development. The Director or designee will conduct an informal conference with the Mortgagee and its counsel, if any, no later than 60 Days from the date of the HOC appeal denial.

(iv) Determination

FHA will issue a determination following the informal conference stating whether Unconditional DELRAP Authority is approved or denied.

(v) Reapplication Following Denial

If Unconditional DELRAP Authority is denied, the applicant is ineligible to apply for DELRAP Authority for a period of 12 months after the date of the original denial decision or the date of the informal conference sustaining the denial decision.

(B) Applications from Mortgagees Created by Merger, Acquisition or Reorganization

(1) Standard

The Mortgagee must apply for Unconditional DELRAP Authority to the Jurisdictional HOC for the state where the Mortgagee's home office is located.

(2) Required Documentation

The Mortgagee must submit a letter signed by a Corporate Officer requesting Unconditional DELRAP Authority that specifies:

- the FHA-approved and non-approved Entities involved in the merger, acquisition, or reorganization;
- which Entity is the surviving Entity;
- the effective date of the merger, acquisition, or reorganization; and
- supporting documentation evidencing that the Mortgagee meets the exception criteria.

(C) Post-Approval Requirement

(1) FHAC Authorization

A Mortgagee approved for Conditional DELRAP Authority or Unconditional DELRAP Authority must register and maintain all Mortgagee employees designated to review/approve Condominium Projects in the Condominium Reviewer Registry function in [FHAC](#).

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

A. Title II Insured Housing Programs Forward Mortgages

1. Origination/Processing

(a) Standard

A condominium development is created by state or local law and is characterized by fee-simple ownership of a unit, which is defined in the condominium documents, together with common areas. The property interest in these areas is both common and undivided on the part of all unit owners, each of whom belongs to the HOA that typically maintains the Property and collects assessments or dues from each unit owner.

A [Condominium Project](#) must be FHA approved before a Mortgage on an individual Condominium Unit can be insured.

(b) Site Condominiums

A Site Condominium refers to:

- a Condominium Project that consists entirely of single family detached dwellings that have no shared garages, or any other attached buildings; or
- a Condominium Project that:
 - consists of single family detached or horizontally attached (townhouse) dwellings where the unit consists of the dwelling and land;
 - does not contain any Manufactured Housing units; and
 - is encumbered by a declaration of condominium covenants or a condominium form of ownership.

Manufactured Housing condominium units may not be processed as Site Condominiums.

(5) Manufactured Housing

(a) Definition

Manufactured Housing is a Structure that is transportable in one or more sections. It may be part of a [Condominium Project](#), provided the project meets applicable FHA requirements.

(b) Standard

To be eligible for FHA mortgage insurance as a Single Family Title II Mortgage, all Manufactured Housing must:

- be designed as a one-family dwelling;
- have a floor area of not less than 400 square feet;
- have the HUD Certification Label affixed or have obtained a [letter of label verification](#) issued on behalf of HUD, evidencing the house was constructed on or after June 15, 1976, in compliance with the [Federal Manufactured Home Construction and Safety Standards](#);

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p. Condominiums

The Federal Housing Administration (FHA) will insure Mortgages on Condominium Units (Units) in [Approved Condominium Projects](#) that have been approved under the HUD Review and Approval Process (HRAP) or Direct Endorsement Lender Review and Approval Process (DELRAP). In addition, FHA will insure Mortgages on Units approved in accordance with the [Single-Unit Approval](#) section or that meet the definition and standards for a [Site Condominium](#).

i. Units Not Requiring Approval

(A) Real Estate Owned Mortgages

HUD Real Estate Owned (REO) Mortgage transactions do not require Condominium Project Approval or Single-Unit Approval. If the Unit is in a Condominium Project that has an FHA Condo ID, the Mortgagee must enter the FHA Condo ID when the FHA case number is requested.

(B) Streamline Refinances

Streamline Refinances do not require Condominium Project Approval or Single-Unit Approval. If the Unit is in a Condominium Project that has an FHA Condo ID, the Mortgagee must enter the FHA Condo ID when the FHA case number is requested.

ii. Requirements for Units in Approved Condominium Projects

The Mortgagee must verify the following requirements for individual Units located in an Approved Condominium Project or Legal Phase.

(A) Condominium Project Approval Status

The Mortgagee must confirm the Condominium Project is on the list of [FHA-Approved Condominium Projects](#) at the time of case number assignment and must enter the FHA Condo ID in the Federal Housing Administration Connection ([FHAC](#)) Case Assignment screen.

(B) FHA Insurance Concentration

(1) Definition

FHA Insurance Concentration refers to the number of FHA-insured Mortgages within a Condominium Project.

(2) Standard

FHA may suspend the issuance of new FHA case numbers for a Mortgage on a Unit in a Condominium Project where the FHA Insurance Concentration is greater than 50 percent of the total number of Units in the Condominium Project.

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(C) Owner Occupancy Percentage

(1) Definition

Owner Occupancy Percentage refers to the percentage of Units considered owner-occupied as shown in the calculation.

(2) Standard

The Mortgagee must determine the Approved Condominium Project has an Owner Occupancy Percentage of at least 35 percent of the total number of Units.

The Mortgagee must report the Owner Occupancy Percentage in [FHAC](#) when the functionality becomes available.

(3) Required Documentation

The Mortgagee must verify and document the Owner Occupancy Percentage.

(4) Calculation

For the sole purposes of calculating the Owner Occupancy Percentage, the numerator of the calculation for a multi-phased Condominium Project includes the total number of the following Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases, or for a single-phased Condominium Project, all of the following Units in the numerator of the calculation:

- any Unit that is occupied by the owner as his or her place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year;
- any Unit listed for sale, and not listed for rent, that was previously occupied by the owner as his or her place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year; or
- any Unit sold to an owner who intends to occupy the Unit as his or her place of abode for any portion of the calendar year and has no intent to rent the Unit for a majority of the calendar year.

For the sole purposes of calculating the Owner Occupancy Percentage, the following Units are included in the denominator of the calculation for a:

- multi-phased Condominium Project, the total number of Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases; or
- single-phased Condominium Project, all Units.

A Unit owned by the builder/developer is not an owner-occupied Unit.

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(D) Financial Condition

(1) Units in Arrears

(a) Definition

Units in Arrears refer to each Unit with Condominium Association dues or any special assessments that are more than 60 Days past due.

(b) Standard

The Mortgagee must verify that no more than 15 percent of the total Units are Units in Arrears (does not include late fees or administrative expenses).

(c) Required Documentation

The Mortgagee must document the percentage of total Units that are Units in Arrears.

(2) Individual Owner Concentration

(a) Definition

Individual Owner Concentration refers to the percentage of Units owned by a single owner or Related Party.

Related Party includes any individual or Entity related to the Unit owner, including but not limited to:

- an individual related to the Unit owner by blood, marriage or operation of law;
- an individual serving as the Unit owners' officer, director, or employee; or
- a Unit owner's direct parent, subsidiary, or any related Entity with which the Unit owner shares a common officer or director.

(b) Standard

The Mortgagee must determine that for Condominium Projects with 20 or more Units, the Individual Owner Concentration is 10 percent or less.

The Mortgagee must determine that for Condominium Projects with fewer than 20 Units, the Unit owner may not own more than one Unit. No Related Party may own a Unit.

(c) Required Documentation

The Mortgagee must verify and document the Individual Owner Concentration for the Condominium Project.

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(d) Calculation

For the Individual Owner Concentration calculation:

- on a multi-phased Condominium Project, the Individual Owner Concentration is calculated based on the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- for a single-phased Condominium Project, all Units are used in the denominator when calculating the Individual Owner Concentration, except that unoccupied and unsold Units owned by a builder/developer are excluded from the numerator and denominator in the Individual Owner Concentration calculation.

The Mortgagee must use the total number of declared Units in the Condominium Project for Complete Condominium Projects and Gut-Rehab to calculate the Individual Owner Concentration.

(E) Insurance

(1) Walls-In (HO-6)

(a) Definition

Walls-In Insurance refers to insurance that covers the interior of the Unit and Personal Property inside the Unit.

(b) Standard

The Mortgagee must verify that the Borrower has obtained a Walls-In 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.

(c) Required Documentation

The Mortgagee must submit the certificate of insurance or complete copy of the insurance policy that meets the requirements.

(2) Hazard Insurance

(a) Definition

Hazard Insurance refers to insurance coverage that compensates for physical damage by fire, wind, natural occurrences, or other events outside of the Condominium Project's control.

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(b) Standard

The Mortgagee must verify that the Condominium Association has a master or blanket Hazard Insurance policy in place for the entire Approved Condominium Project in an amount equal to at least 100 percent of the insurable replacement cost of the Approved Condominium Project, including the individual Units in the Approved Condominium Project.

The Mortgagee must verify that any policy with a coinsurance clause includes an agreed amount endorsement or selection of the agreed value option.

The Mortgagee must verify that any pooled insurance policy satisfies the insurance coverage standard for each Condominium Project insured under the policy.

The insurance policies must list the Condominium Association as the named insured, or, in the case of an affiliated Approved Condominium Project or Condominium Association, the name of the affiliated Approved Condominium Project or Condominium Association may be listed as a named insured.

(c) Required Documentation

The Mortgagee must submit the certificate of insurance or complete copy of the insurance policy that meets the requirements.

(3) Flood Insurance

(a) Definition

Flood Insurance refers to insurance that covers physical damage by floods.

(b) Standard

The Mortgagee must verify that Units in an Approved Condominium Project located in a Special Flood Hazard Area (SFHA) continue to meet the [Flood Insurance requirements in the Condominium Project Approval section](#).

The insurance policies must list the Condominium Association as the named insured, or, in the case of an affiliated Approved Condominium Project or Condominium Association, the name of the affiliated Approved Condominium Project or Condominium Association may be listed as a named insured.

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(c) Required Documentation

The Mortgagee must submit the [required documentation in the Condominium Project Approval section](#).

(F) Leasehold Interest

(1) Definition

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(2) Standard

The Mortgagee must determine if the Unit is owned under a Leasehold Interest and complies with the leasehold guidance.

(3) Required Documentation

The Mortgagee must document verification of compliance and submit the required documentation in the [leasehold guidance](#).

(G) New Construction

(1) Definitions

New Construction refers to Proposed Construction, Properties (or Condominium Projects) Under Construction, and Properties Existing Less than One Year as defined below:

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.
- Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of issuance of the CO or equivalent. The Property must have never been occupied.

Complete Condominium Project refers to a Condominium Project consisting of Units that are Existing Less than One Year and that are ready for occupancy, including completion of all the Infrastructure of the Condominium Project, and not subject to further rehabilitation or construction.

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(2) Standard

For Complete Condominium Projects, the Mortgagee must comply with the [General Condominium Project Approval Requirements](#) and the guidance in [New Construction](#).

(3) Required Documentation

The Mortgagee must submit required documentation for New Construction under the guidance in [New Construction](#).

(H)Gut Rehabilitation

(1) Definition

Gut Rehabilitation (Gut Rehab) refers to the renovation of a Property down to the shell of the structure, including the replacement of all Heating, Ventilation and Air Conditioning (HVAC) and electrical components.

(2) Standard

For Gut Rehab conversion Condominium Projects, the Mortgagee must comply with the [General Condominium Project Approval Requirements](#) and the [New Construction](#) guidance.

(3) Required Documentation

The Mortgagee must submit required documentation for Gut Rehab under the guidance in [New Construction](#).

(I) Manufactured Housing

(1) Definition

Manufactured Housing refers to Structures that are transportable in one or more sections and meet the additional definition standards prescribed in [Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages](#). They may be part of an Approved Condominium Project, provided the Condominium Project meets applicable FHA requirements.

A Manufactured Home refers to a single dwelling unit of Manufactured Housing.

(2) Standard

For a Manufactured Home, the Mortgagee must comply with the [General Condominium Project Approval Requirements](#) and the guidance in [Property Types - Manufactured Housing](#).

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(3) Required Documentation

The Mortgagee must submit the required documentation for Manufactured Housing under the guidance in [Property Types - Manufactured Housing](#).

iii. Single-Unit Approval

Single-Unit Approval refers to approval of a Unit in a Condominium Project that is not an Approved Condominium Project.

The Mortgagee must verify the following requirements for Single-Unit Approval.

(A) Condominium Project Approval Status

The Mortgagee must confirm the Condominium Project is not on the list of [FHA-Approved Condominium Projects](#) at the time of case number assignment.

(B) Borrower Eligibility

To be eligible for Single-Unit Approval, the Mortgagee must verify that the mortgage application receives an Accept from TOTAL Mortgage Scorecard or has a maximum Loan-to-Value (LTV) of 90 percent.

(C) Property Eligibility

The Mortgagee must confirm that the Condominium Project:

- has a CO that was issued at least one year ago or has been occupied;
- has at least five Units;
- is not a Manufactured Home;
- does not have [Ineligible](#) Characteristics; and
- is not located in an Approved Condominium Project or unapproved phase of a Condominium Project with an approved Legal Phase.

(D) Requirements for Eligible Properties

(1) FHA Insurance Concentration

(a) Definition

FHA Insurance Concentration refers to the number of FHA-insured Mortgages within a Condominium Project.

(b) Standard

FHA may suspend the issuance of new FHA case numbers for a Mortgage on a Unit in a Condominium Project when the FHA Insurance Concentration exceeds 10 percent of the total number of Units in the Condominium Project

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for Condominium Projects with 10 or more Units. For Condominium Projects with less than 10 Units, the number of FHA-insured Mortgages cannot exceed two.

(2) Owner Occupancy Percentage

(a) Definitions

Owner Occupancy Percentage refers to the percentage of Units considered owner-occupied as shown in the calculation.

(b) Standard

The Mortgagee must determine that the Condominium Project has an Owner Occupancy Percentage of at least 50 percent of the total number of Units.

The Mortgagee must report the Owner Occupancy Percentage in [FHAC](#) when the functionality becomes available.

(c) Required Documentation

The Mortgagee must verify and document the Owner Occupancy Percentage.

(d) Calculation

For the sole purposes of calculating the Owner Occupancy Percentage, the numerator of the calculation for a multi-phased Condominium Project includes the total number of the following Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases, or for a single-phased Condominium Project, all of the following Units are included in the numerator of the calculation:

- any Unit that is occupied by the owner as his or her place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year;
- any Unit listed for sale, and not listed for rent, that was previously occupied by the owner as his or her place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year; or
- any Unit sold to an owner who intends to occupy the Unit as his or her place of abode for any portion of the calendar year and has no intent to rent the Unit for a majority of the calendar year.

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For the sole purposes of calculating the Owner Occupancy Percentage, the following units are included in the denominator of the calculation for a:

- multi-phased Condominium Project, the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- single-phased Condominium Project, all Units.

A Unit owned by the builder/developer is not an owner-occupied Unit.

(3) Recorded Documents

(a) Definition

Recorded Documents refer to the Condominium Project's legal, project and governing documents that are required to operate legally as required by state and local law.

(b) Standard

The Condominium Project's Recorded Documents must be recorded in accordance with applicable state and local law to ensure the Condominium Project can be legally operated in the local jurisdiction.

(c) Required Documentation

The Mortgagee must submit evidence that the Recorded Documents have been recorded.

(4) Transfer of Control

(a) Definitions

Transfer of Control refers to the shift of existing control over the Condominium Association from the developer/builder to the Unit owners.

Control of the Condominium Association refers to the ability to directly or indirectly control, direct, modify or veto any action of the Condominium Association.

(b) Standard

The Mortgagee must verify Control of the Condominium Association has been transferred to the Unit owners and the Covenants, Conditions, and Restrictions (CC&R) have been recorded.

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(c) Required Documentation

The Mortgagee must document the status of Transfer of Control and submit the recorded CC&Rs.

(5) Financial Condition

(a) Financial Stability

(i) Definitions

Financial Stability refers to the ability of the Condominium Association to meet the Condominium Project's needs in the future through positive cash flow and adequately funded reserves.

(ii) Standard

The Mortgagee must verify the Financial Stability of the Condominium Project and that:

- the Condominium Association maintains separate accounts for operating and reserve funds;
- a reserve account for capital expenditures and deferred maintenance that is funded with at least 10 percent of the aggregate monthly Unit assessments, unless a lower amount is deemed sufficient based upon an acceptable reserve study; and
- no more than 15 percent of the total Units are Units in Arrears (does not include late fees or administrative expenses).

(iii) Required Documentation

The Mortgagee must document compliance of the Condominium Project with the Financial Stability requirements.

(b) Financial Distress Event

(i) Definition

A Financial Distress Event refers to a Condominium Project or builder/developer that has:

- sought protection under bankruptcy laws;
- been placed into receivership (mandated or voluntary);
- been subject to foreclosure or any seizure of assets by creditors; or
- offered a Deed-in-Lieu (DIL) of Foreclosure.

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(ii) Standard

The Mortgagee must verify that a Condominium Project has not experienced a Financial Distress Event within the last three years.

(iii) Required Documentation

The Mortgagee must document that the Condominium Project has not experienced a Financial Distress Event within the last three years.

If applicable, the Mortgagee must submit a dated legal document evidencing Resolution of Financial Distress Event and a signed and dated explanation.

(c) Individual Owner Concentration

(i) Definition

Individual Owner Concentration refers to the percentage of Units owned by a single owner or Related Party.

Related Party includes any individual or Entity related to the Unit owner, including but not limited to:

- an individual related to the Unit owner by blood, marriage or operation of law;
- an individual serving as the Unit owners' officer, director, or employee; or
- Unit owner direct parent, subsidiary, or any related Entity with which the Unit owner shares a common officer or director.

(ii) Standard

The Mortgagee must determine that for Condominium Projects with 20 or more Units, the Individual Owner Concentration is 10 percent or less.

The Mortgagee must determine that for Condominium Projects with fewer than 20 Units, the Unit owner may not own more than one Unit. No Related Party may own a Unit.

(iii) Required Documentation

The Mortgagee must verify and document the Individual Owner Concentration.

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(iv) Calculation

For the Individual Owner Concentration calculation:

- on a multi-phased Condominium Project, the Individual Owner Concentration is calculated based on the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- for a single-phased Condominium Project, all Units are used in the denominator when calculating the Individual Owner Concentration, except that unoccupied and unsold Units owned by a builder/developer are excluded from the numerator and denominator in the Individual Owner Concentration calculation.

The Mortgagee must use the total number of declared Units in the Condominium Project for Complete Condominium Projects and Gut-Rehab to calculate the Individual Owner Concentration.

(d) Commercial/Non-Residential Financial Independence

(i) Definition

Commercial/Non-Residential Financial Independence refers to the ability of the Residential Space and Commercial/Non-Residential Space of the Condominium Project to be independently sustainable such that neither portion of the Condominium Project is financially reliant on the other.

(ii) Standard

For projects with [Commercial/Non-Residential Space](#), the Mortgagee must verify there is Commercial/Non-Residential Financial Independence.

(iii) Required Documentation

The Mortgagee must document Commercial/Non-Residential Financial Independence.

For Condominium Projects with Commercial/Non-Residential Space, the Mortgagee must submit:

- a current year budget approved by the board(s);
- a year-to-date income and expense statement dated within 90 Days if the prior year to date actuals are more than 90 Days old;
- an income and expense statement for the previous year's actual year end results; and
- a current balance sheet dated within 90 Days prior to the date of submission.

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(6) Insurance Coverage

The Condominium Project where the single Unit is located must be insured to FHA standards as well as any applicable state and local condominium requirements.

The insurance policies must list the Condominium Association as the named insured, or in the case of an affiliated Condominium Project or Condominium Association, the name of the affiliated Condominium Project or Condominium Association may be listed as a named insured.

(a) Walls-In (HO-6)

(i) Definition

Walls-In Insurance refers to insurance that covers the interior of the Unit and Personal Property inside the Unit.

(ii) Standard

The Mortgagee must verify that the Borrower has obtained a Walls-In 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.

(iii) Required Documentation

The Mortgagee must submit a certificate of insurance or complete copy of the insurance policy that meets the requirements.

(b) Hazard Insurance

(i) Definition

Hazard Insurance refers to insurance coverage that compensates for physical damage by fire, wind, natural occurrences, or other events outside of the Condominium Project's control.

(ii) Standard

The Mortgagee must verify that the Condominium Association has a master or blanket Hazard Insurance policy in place for the entire Condominium Project in an amount equal to at least 100 percent of the insurable replacement cost of the Condominium Project, including the individual Units in the Condominium Project.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

A. Title II Insured Housing Programs Forward Mortgages

8. Programs and Products - Condominiums

The Mortgagee must verify that any policy with a coinsurance clause includes an agreed amount endorsement or selection of the agreed value option.

The Mortgagee must verify that any pooled insurance policy satisfies the insurance coverage standard for each Condominium Project insured under the policy.

(iii) Required Documentation

The Mortgagee must submit a certificate of insurance or complete copy of the insurance policy that meets the requirements.

(c) Liability Insurance

(i) Definition

Liability Insurance refers to insurance that protects against legal claims.

(ii) Standard

The Mortgagee must verify that the Condominium Association maintains comprehensive Liability Insurance for the entire Condominium Project, including all common areas, elements, public ways, and all other areas that are under its supervision, in the amount of at least \$1 million for each occurrence.

(iii) Required Documentation

The Mortgagee must submit a certificate of insurance or complete copy of the insurance policy that meets the requirements.

(d) Fidelity Insurance

(i) Definition

Fidelity Insurance refers to insurance that protects the Condominium Association against employee dishonesty, crime, or other fraudulent acts conducted by one or more employees.

(ii) Standard

The Mortgagee must verify that for all Condominium Projects with more than 20 Units, the Condominium Association maintains Fidelity Insurance for all officers, directors, and employees of the Condominium Association and all other persons handling or responsible for funds administered by the Condominium Association.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

A. Title II Insured Housing Programs Forward Mortgages

8. Programs and Products - Condominiums

The Mortgagee must verify that the insurance coverage is the greater of:

- three months of aggregate assessments on all Units plus reserve funds; or
- the minimum amount required by state law.

If the Condominium Project engages a management company, the policy or policies must demonstrate that they specifically meet the standard for both the Condominium Association and the management company.

(iii) Required Documentation

The Mortgagee must submit the certificate of insurance or a complete copy of the insurance policy from the Condominium Association and/or from the management company that meets the requirements.

(e) Flood Insurance

(i) Definition

Flood Insurance refers to insurance that covers physical damage by floods.

(ii) Standard

The Mortgagee must verify that Units in a Condominium Project located in a Special Flood Hazard Area meet the [Flood Insurance requirements in the Condominium Project Approval section](#).

(iii) Required Documentation

The Mortgagee must submit the [required documentation in the Condominium Project Approval Section](#).

(7) Projects in Coastal Barrier Resources System or Special Flood Hazard Areas

(a) Projects in Coastal Barrier Resources System

If any part of the Condominium Project is located within the Coastal Barrier Resources System (CBRS), the Condominium Project is [not eligible](#) for FHA Single-Unit Approval.

(b) Special Flood Hazard Areas

If any portion of the Structures or equipment essential to the value of the Condominium Project is located within an SFHA, then the Condominium Project is not eligible for Condominium Project Approval, unless the

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

A. Title II Insured Housing Programs Forward Mortgages

8. Programs and Products - Condominiums

Condominium Project meets the [Special Flood Hazard Areas requirements in the Condominium Project Approval section](#).

(8) Commercial/Non-Residential Space

(a) Definitions

Commercial/Non-Residential Space refers to floor area allocated to:

- retail and commercial square footage (excludes [Live/Work Units](#));
- multi-level parking garage square footage that is separate from multi-level parking garage square footage allocated to residential Unit owners;
- building common areas not reserved for the exclusive use of residential Unit owners; and
- any square footage that is owned by a private individual or Entity outside of the Condominium Association.

Residential Space refers to floor area allocated to:

- all Unit square footage;
- all building common area square footage exclusively for the use of residential Unit owners; and
- all parking garage square footage allocated to residential Unit owners.

Parking lot square footage is not considered Residential or Commercial/Non-Residential Space.

Total Floor Area refers to all Residential Space and Commercial/Non-Residential Space.

(b) Standard

The Mortgagee must verify that the Condominium Project's Commercial/Non-Residential Space does not exceed 35 percent of the Condominium Project's Total Floor Area.

(c) Required Documentation

The Mortgagee must document the percentage of Commercial/Non-Residential Space and submit the following documentation:

- recorded Site Condominium plans; and
- recorded CC&Rs.

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A. Title II Insured Housing Programs Forward Mortgages

8. Programs and Products - Condominiums

(9) Live/Work Unit

(a) Definitions

A Live/Work Condominium Project refers to a Condominium Project that allows space within the individual Unit to be used jointly for non-residential and residential purposes.

A Live/Work Unit refers to a Unit in a Live/Work Condominium Project.

(b) Standard

The Mortgagee must verify that the Condominium Project governing documents allow Live/Work arrangements.

The Mortgagee must verify that the individual Live/Work Unit does not contain more than 49 percent Commercial/Non-Residential Space.

(c) Required Documentation

The Mortgagee must document compliance with the Live/Work requirements.

(10) Leasehold Interest

(a) Definition

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(b) Standard

The Mortgagee must determine if Condominium Projects with Units or Common Elements owned under a Leasehold Interest are eligible and meet the following requirements:

- 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.

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A. Title II Insured Housing Programs Forward Mortgages

8. Programs and Products - Condominiums

- The lease does not include any default provisions that could result in forfeiture or termination of the lease except for nonpayment of lease rents.
- The Condominium Project must comply with the Title II or Home Equity Conversion Mortgage (HECM) [Leasehold guidance](#) as applicable.

(c) Required Documentation

The Mortgagee must submit the lease and comply with the required documentation in the [Leasehold guidance](#).

(11) Litigation

(a) Definition

Litigation refers to a current or pending lawsuit or proceedings in a court, arbitration, or mediation involving the Condominium Project or Condominium Association, or those concluded within 12 months of the application date. Litigation does not include foreclosure or actions to collect past due assessments brought by the Condominium Association or Condominium Project as plaintiff.

(b) Standard

The Mortgagee must verify that the Condominium Project or Condominium Association is not subject to Litigation that relates to the safety, structural soundness, habitability, or functional use of the Condominium Project.

The Mortgagee must verify that the Condominium Project or Condominium Association is not subject to any other Litigation risk not covered by insurance or that exceeds the amount of insurance coverage relating to the potential losses for that matter.

(c) Required Documentation

The Mortgagee must document if the Condominium Project or Condominium Association are subject to pending litigation or any other litigation risk.

iv. Site Condominium

(A) Definition

A Site Condominium refers to:

- a Condominium Project that consists entirely of single family detached dwellings that have no shared garages, or any other attached buildings; or
- a Condominium Project that:

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A. Title II Insured Housing Programs Forward Mortgages

8. Programs and Products - Condominiums

- consists of single family detached or horizontally attached (townhouse) dwellings where the unit consists of the dwelling and land;
- does not contain any Manufactured Housing units; and
- is encumbered by a declaration of condominium covenants or a condominium form of ownership.

(B) Standard

Site Condominiums must have insurance and maintenance costs that are the sole responsibility of the Unit owner, excluding landscaping.

Site Condominiums do not require Condominium Project Approval or Single-Unit Approval.

(C) Required Documentation

The Mortgagee must submit the 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; and
- 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.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

1. Definitions

C. CONDOMINIUM PROJECT APPROVAL

Condominium Project Approval can be issued by FHA staff through the [HUD Review and Approval Process \(HRAP\)](#) or by an FHA-approved Mortgagee through the [Direct Endorsement Lender Review and Approval Process \(DELRAP\)](#). Mortgagees with Unconditional DELRAP Authority are authorized to review condominium documentation, determine Condominium Project eligibility, and certify to compliance with section 203(b) of the National Housing Act and [24 CFR Part 203](#) of FHA's regulations as part of the Condominium Project Approval process.

1. Definitions

Condominium Project refers to a project in which one-family Dwelling Units are attached, semi-detached, detached, or Manufactured Home units, and in which owners hold an undivided interest in Common Elements.

Common Elements refer to the Condominium Project's common areas and facilities including underlying land and buildings, driveways, parking areas, elevators, outside hallways, recreation and landscaped areas, and other elements described in the condominium declaration.

Condominium Unit (Unit) refers to real estate consisting of a one-family Dwelling Unit in a Condominium Project.

Infrastructure refers to the Condominium Project's streets, storm water management, water and sewage systems, and utilities, along with the Condominium Project's Common Elements and any similar items, called for in the Condominium Project or [Legal Phase](#).

Condominium Project Approval refers to the process to determine a Condominium Project's compliance with FHA's [Condominium Project Approval requirements](#).

Approved Condominium Project refers to a Condominium Project that meets FHA Condominium Project Approval requirements as determined by review under DELRAP or HRAP.

Condominium Association refers to the organization, regardless of its formal legal name, that consists of homeowners within a Condominium Project for the purpose of managing the financial and common-area assets.

2. Project Eligibility

a. Classifications and Ineligible Characteristics

i. Classifications

Condominium classifications eligible for Condominium Project Approval include:

- Existing Construction;
- Complete Condominium Project;
- Conversions:

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

- Gut Rehab (completed)
- Non-Gut Rehab
- Two- to Four-Unit Condominium Project;
- Manufactured Housing; and
- Leasehold Interest.

ii. Ineligible Characteristics

FHA will not approve Condominium Projects with the following characteristics:

- cooperative ownership;
- condominium hotel or condotel;
- 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;
- timeshare or segmented ownership projects;
- multi-dwelling condominiums (more than one dwelling per Condominium Unit);
- houseboat project;
- continuing care facility;
- [Coastal Barrier Resources System location](#); or
- subject to adverse determination for significant issues as identified by FHA.

b. Phasing

i. Definition

Phasing refers to Condominium Projects that are legally declared in separate stages by amending and recording the governing documents.

Legal Phases refer to specific phases of a Condominium Project that allow additions to the Condominium Project and are defined by state authority.

ii. Standard

Condominium Projects may be approved in stages as Legal Phases are completed; however, all completed Legal Phases must be evaluated.

Each Legal Phase must be complete as demonstrated by the Certificate of Occupancy (CO) or its equivalent prior to submission of a Legal Phase.

Legal Phases may be submitted for New Construction and Conversion (both Gut and Non-Gut Rehabilitation) Condominium Projects.

The submitted Legal Phases must be independently sustainable without future planned Legal Phases, as demonstrated by the budget and financial documentation, such that the submitted Legal Phases of the Condominium Project will not be jeopardized by the failure to complete additional Legal Phases.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

(A) Vertical Buildings

For vertical buildings, legal Phasing is acceptable if:

- all Units in the phase are built out; and
- at least a temporary CO, or its equivalent, has been obtained for the Units.

(B) Detached and Semi-Detached Buildings

For a detached or semi-detached development, Phasing is acceptable if:

- all Units in the phase are built out; and
- at least a temporary CO, or its equivalent, has been obtained for the Units.

(C) Required Documentation

Documentation of the verification that all Legal Phases have been submitted for approval and are independently sustainable must be submitted along with:

- the CO or its equivalent for each Unit in the Legal Phase; or
- a temporary CO or its equivalent.

c. General Condominium Project Approval Requirements

These general requirements apply to all construction types, including Existing Construction Condominium Projects. Additional or different standards may apply for certain construction types.

To be eligible for Condominium Project Approval, the Condominium Project must:

- be primarily residential in nature and not be intended for Rental for Transient or Hotel Purposes;
- consist only of one-family Dwelling Units;
- be in full compliance with all applicable federal, state, and local laws with respect to zoning, fair housing, and accessibility;
- be complete and ready for occupancy; and
- be reviewed and approved by the local jurisdiction.

In addition, the Condominium Project must also meet the following requirements in this section.

i. Recorded Documents

(A) Definition

Recorded Documents refer to the Condominium Project's legal, project and governing documents that are required to operate legally as required by state and local law.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

(B) Standard

The Condominium Project's Recorded Documents must be recorded in accordance with applicable state and local law to ensure the Condominium Project meets the legal and operational requirements in the local jurisdiction.

(C) Required Documentation

Copies of Recorded Documents must be submitted.

ii. FHA Insurance Concentration

(A) Definition

FHA Insurance Concentration refers to the number of FHA-insured Mortgages within a Condominium Project.

(B) Standard

FHA may suspend project eligibility of Condominium Projects where the FHA Insurance Concentration is greater than 50 percent of the total number of Units in the Condominium Project.

iii. Owner Occupancy Percentage

(A) Definition

Owner Occupancy Percentage refers to the percentage of Units considered owner-occupied as shown in the calculation.

(B) Standard

(1) Existing Construction

The acceptable level of Owner Occupancy Percentage is at least 50 percent of the total number of Units.

(2) New Construction - Complete Condominium Projects

For Complete Condominium Projects and Gut Rehab conversions, the acceptable level of Owner Occupancy Percentage is at least 30 percent of the total number of declared Units in the Condominium Project.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

(C) Exception for Existing Construction

Existing Construction Condominium Projects that are greater than 12 months old, with an Owner Occupancy Percentage of at least 35 percent and less than 50 percent are eligible for approval with the following conditions:

- applications must be submitted for processing and review under the HRAP option; and
- no more than 10 percent of the total Units are Units in Arrears (does not include late fees or other administrative expenses).

(D) Required Documentation

Documentation of the verification of the Owner Occupancy Percentage and any exceptions must be submitted.

(E) Calculation

For the sole purposes of calculating the Owner Occupancy Percentage, the numerator of the calculation for a multi-phased Condominium Project includes the total number of the following Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases, or for a single-phased Condominium Project, all of the following Units in the numerator of the calculation:

- any Unit that is occupied by the owner as his or her place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year;
- any Unit listed for sale, and not listed for rent, that was previously occupied by the owner as his or her place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year; or
- any Unit sold to an owner who intends to occupy the Unit as his or her place of abode for any portion of the calendar year and has no intent to rent the Unit for a majority of the calendar year.

For the sole purposes of calculating the Owner Occupancy Percentage, the following Units are included in the denominator of the calculation for a:

- multi-phased Condominium Project, the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- single-phased Condominium Project, all Units.

A Unit owned by the builder/developer is not an owner-occupied Unit.

iv. Transfer of Control

(A) Definition

Transfer of Control refers to the shift of existing control over the Condominium Association from the developer/builder to the Unit owners.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

Control of the Condominium Association refers to the ability to directly or indirectly control, direct, modify or veto any action of the Condominium Association.

(B) Standard

The legal documents must:

- require Transfer of Control from the developer/builder to the Unit owners;
- specify the conditions for Transfer of Control;
- indicate the number of Units in the Condominium Project; and
- be recorded, as applicable, in the CC&R, declaration, master deed, condominium plat, and/or condominium site plans.

The developer/builder must relinquish control to the Condominium Association no later than the earlier of the following:

- 120 Days after the date 75 percent of the Units in the Condominium Project have been conveyed to Unit owners;
- three years after completion of the Condominium Project as evidenced by the first conveyance to a Unit owner; or
- the time frame regarding Transfer of Control established under state or local condominium laws, if applicable.

Any [contracts](#) entered into by the builder/developer prior to the Transfer of Control and subsequently assigned to the Condominium Association, must give the right to Condominium Association to terminate the contracts with no more than 90 Days' notice.

(C) Required Documentation

The following documentation must be submitted for Transfer of Control:

- documentation of the verification of compliance with the Transfer of Control requirements;
- recorded CC&Rs, declaration, and/or master deed, and all amendments;
- signed and adopted bylaws; and
- articles of incorporation, articles of association, declaration of trust, or other governing documents, if applicable and in accordance with state law.

v. Financial Stability and Controls

(A) Definitions

Financial Stability refers to the ability of the Condominium Association to meet the Condominium Project's needs in the future through positive cash flow and adequately funded reserves.

Financial Controls refer to the financial policies and procedures that a Condominium Association has in place to protect its funds from fraud and mismanagement.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

A Financial Distress Event refers to a Condominium Project or builder/developer that has:

- sought protection under bankruptcy laws;
- been placed into receivership (mandated or voluntary);
- been subject to foreclosure or any seizure of assets by creditors; or
- offered a DIL of Foreclosure.

Resolution of Financial Distress Event refers to:

- bankruptcy discharge;
- termination of receivership;
- issuance of foreclosure judgment; or
- execution of DIL of Foreclosure.

(B) Standard

(1) All Projects

To demonstrate Financial Stability, FHA requires Condominium Projects to have financial documents that itemize and address income and expenditures that are sufficient and pertinent to the Condominium Project including:

- an operating income that demonstrates a stable income stream over the past two years with decreases of no higher than 15 percent;
- ability to cover the cost of insurance coverage and deductibles;
- a reserve account for capital expenditures and deferred maintenance that is funded with at least 10 percent of the aggregate monthly Unit assessments, unless a lower amount is deemed sufficient based upon an acceptable reserve study;
- evidence that the budget provides for the periodic funding to maintain the reserve account balance of at least 10 percent of the aggregate monthly Unit assessments, unless a lower amount is deemed sufficient based upon an acceptable reserve study;
- evidence that no more than 15 percent of the total Units are Units in Arrears (does not include late fees or other administrative expenses); and
- financial records that are consistent with the application package, including special assessments, loans, or other financial variations.

If a reserve study is required to justify a reserve account funded less than 10 percent, it must:

- be 36 months old or less;
- include a site visit;
- demonstrate that the Condominium Project has adequate funded reserves that provide financial protection for the Condominium Project equivalent to the reserve requirements;
- demonstrate that the Condominium Project's funded reserves meet or exceed the recommendations included in the reserve study; and

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

- be prepared by an independent third party that has demonstrated knowledge of and experience in completing reserve studies.

The Condominium Project demonstrates Financial Controls by:

- maintaining separate accounts for operating and reserve funds;
- requiring the Condominium Association's management company to maintain separate records and bank accounts for the Condominium Association; and
- restricting the management company from drawing checks on, or transferring funds from, the reserve account of the Condominium Association without approval from the Condominium Association.

(2) Financial Distress

A Condominium Project or builder/developer that has completed a Resolution of Financial Distress Event within 12 months prior to the application date is not eligible for initial approval or recertification. If the Resolution of Financial Distress Event was completed more than 12 months but less than 36 months, the application package must be submitted through HRAP for evaluation.

If there has been a Resolution of Financial Distress Event within the last 36 months, the Condominium Project or builder/developer must demonstrate the cause has been resolved and a Financial Distress Event is unlikely to recur.

(3) Individual Owner Concentration

(a) Definition

Individual Owner Concentration refers to the percentage of Units owned by a single owner or Related Party.

Related Party includes any individual or Entity related to the Unit owner, including but not limited to:

- an individual related to the Unit owner by blood, marriage or operation of law;
- an individual serving as the Unit owners' officer, director, or employee; or
- a Unit owner, direct parent, subsidiary, or any related Entity with which the Unit owner shares a common officer or director.

(b) Standard

For Condominium Projects with 20 or more Units, the Individual Owner Concentration must be 10 percent or less.

For Condominium Projects with fewer than 20 Units, the Unit owner may not own more than one Unit. No Related Party may own a Unit.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

(c) Calculation

For the Individual Owner Concentration calculation:

- on a multi-phased Condominium Project, the Individual Owner Concentration is calculated based on the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- for a single-phased Condominium Project, all Units are used in the denominator when calculating the Individual Owner Concentration, except that unoccupied and unsold Units owned by a builder/developer are excluded from the numerator and denominator in the Individual Owner Concentration calculation.

The Mortgagee must use the total number of declared Units in the Condominium Project for Complete Condominium Projects and Gut-Rehab to calculate the Individual Owner Concentration.

(d) Required Documentation

Documentation of the verification of compliance with the requirements for Financial Stability, Financial Controls, Financial Distress Event Resolution and Individual Owner Concentration must be submitted.

(4) Phasing

For Condominium Projects that are subject to additional Phasing, the Condominium Project must contain arrangements that guarantee the future completion of all facilities and Common Elements.

The Condominium Project must demonstrate positive cash flow from the revenue and expenditures of the completed Legal Phases and Common Elements.

(5) Projects with Commercial/Non-Residential Space

(a) Definition

Commercial/Non-Residential Financial Independence refers to the ability of the Residential Space and Commercial/Non-Residential Space of the Condominium Project to be independently sustainable such that neither portion of the Condominium Project is financially reliant on the other.

(b) Standard

For projects with [Commercial/Non-Residential Space](#), the Mortgagee must verify there is Commercial/Non-Residential Financial Independence.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

(C) Required Documentation

The following documentation must be submitted:

- documentation of the verification of Commercial/Non-Residential Space Financial Independence and compliance with Phasing requirements;
- current year's budget approved by the Condominium Association board;
- year-to-date income and expense statement dated within 90 Days if the prior year-to-date actuals are more than 90 Days old;
- income and expense statement for the previous year's actual year end results;
- current balance sheet dated within 90 Days prior to the date of submission;
- if applicable, documentation supporting any loans or special assessments, including information regarding the purpose, term, payment status, total amount of the assessment, amount of the assessment per Unit and overall impact on marketability and value of the Property;
- if applicable, a dated legal document evidencing Resolution of Financial Distress Event and a letter of explanation describing the cause of the event and measures taken by the Condominium Association to prevent a future Financial Distress Event; and
- evidence of financial arrangements that guarantee the future completion of all facilities and Common Elements, as applicable.

vi. Insurance Coverage

The Condominium Project must be insured to FHA standards as well as any applicable state and local condominium requirements.

The insurance policies must list the Condominium Association as the named insured, or in the case of an affiliated Condominium Project or Condominium Association, the name of the affiliated Condominium Project or Condominium Association may be listed as a named insured.

(A) Hazard Insurance

(1) Definitions

Hazard Insurance refers to insurance coverage that compensates for physical damage by fire, wind, natural occurrences, or other events outside of the Condominium Project's control.

(2) Standard

The Condominium Association must have a master or blanket Hazard Insurance policy in place for the entire Condominium Project. The Condominium Association's master or blanket Hazard Insurance policy must be in an amount equal to at least 100 percent of the insurable replacement cost of the

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

Condominium Project, including the individual Units in the Condominium Project.

Any policy with a coinsurance clause must include an agreed amount endorsement or selection of the agreed value option.

Any pooled insurance policy must satisfy the insurance coverage standard for each Condominium Project insured under the policy.

(3) Required Documentation

The certificate of insurance or a complete copy of the insurance policy that meets the requirements must be submitted.

(B) Liability Insurance

(1) Definition

Liability Insurance refers to insurance that protects against legal claims.

(2) Standard

The Condominium Association must maintain comprehensive Liability Insurance for the entire Condominium Project, including all Common Elements and areas, public ways, and other areas that are under its supervision, in the amount of at least \$1 million for any single occurrence.

(3) Required Documentation

The certificate of insurance or a complete copy of the insurance policy that meets the requirements must be submitted.

(C) Fidelity Insurance

(1) Definition

Fidelity Insurance refers to insurance that protects the Condominium Association against employee dishonesty, crime or other fraudulent acts conducted by one or more employees.

(2) Standard

For all Condominium Projects with more than 20 Units, the Condominium Association must maintain Fidelity Insurance for all officers, directors, and employees of the Condominium Association and all other persons handling or responsible for funds administered by the Condominium Association.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

This insurance coverage must be the greater of:

- three months of aggregate assessments on all Units plus reserve funds; or
- the minimum amount required by state law.

If the Condominium Project engages a management company, it must have a policy that covers both or separate policies. The policy or policies must demonstrate that they specifically meet the standard for both the Condominium Association and the management company.

Required Documentation

The certificate of insurance or a complete copy of the insurance policy from the Condominium Association and/or from the management company that meets the requirements must be submitted.

(D) Flood Insurance (Existing Construction)

(1) Definition

Flood Insurance refers to insurance that covers physical damage by floods.

(2) Standard

The Condominium Association must have Flood Insurance in place for buildings in the Condominium Project that are located within Special Flood Hazard Areas (SFHA) including “A” or “V” zones, which are determined by the Federal Emergency Management Agency (FEMA).

The Condominium Association must have Flood Insurance under the National Flood Insurance Program (NFIP) for all Units in buildings that are located in an SFHA.

Coverage must be equal to the replacement cost of the covered improvements or the NFIP maximum per Unit multiplied by the number of Units, whichever is less.

(3) Required Documentation

The following documentation must be submitted:

- documentation of the verification of compliance with the Flood Insurance coverage requirements;
- FEMA flood map with the Condominium Project location clearly marked;
- if applicable, the certificate of insurance or a complete copy of the NFIP policy; and
- if applicable, the Letter of Map Amendment (LOMA), Letter of Map Revision (LOMR), or elevation certificate.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

vii. Projects in the Coastal Barrier Resources System and Special Flood Hazard Areas

(A) All Projects in the Coastal Barrier Resources System

If any part of the Condominium Project is located within the Coastal Barrier Resources System ([CBRS](#)), the Condominium Project is [not eligible](#) for FHA project approval.

(B) Special Flood Hazard Areas

(1) Complete Condominium Project

If any portion of the Structures or equipment essential to the value of the Condominium Project is located within an SFHA, then the Condominium Project is not eligible for Condominium Project Approval, unless the Condominium Project:

- obtains a final LOMA or final LOMR from FEMA that removes the Property from the SFHA; or
- obtains a FEMA National Flood Insurance Program Elevation Certificate ([FEMA Form 086-0-33](#)) prepared by a licensed engineer or surveyor. The Elevation Certificate must document that the lowest floor, including the basement of the residential building(s), 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 NFIP criteria, and insurance under the NFIP is obtained.

(2) Manufactured Housing

If any portion of the Structures or equipment essential to the value of the Manufactured Housing Condominium Project for both new and existing Manufactured Homes are located within an SFHA, the Property is not eligible for FHA mortgage insurance unless the following is submitted:

- a FEMA issued LOMA or LOMR that removes the Property from the SFHA; or
- FEMA Form 086-0-33 prepared by a licensed engineer or surveyor stating that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation, and insurance under the NFIP is obtained.

(3) Required Documentation

The following documentation must be submitted:

- if applicable, FEMA LOMA;
- if applicable, FEMA LOMR; or
- if applicable, [FEMA Form 086-0-33](#).

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

viii. Commercial/Non-Residential Space

(A) Definitions

Commercial/Non-Residential Space refers to floor area allocated to:

- retail and commercial square footage (excludes [Live/Work Units](#));
- multi-level parking garage square footage that is separate from multi-level parking garage square footage allocated to residential Unit owners;
- building common areas not reserved for the exclusive use of residential Unit owners; and
- any square footage that is owned by a private individual or Entity outside of the Condominium Association.

Residential Space refers to floor area allocated to:

- all Unit square footage;
- all building common area square footage exclusively for the use of residential Unit owners; and
- all parking garage square footage allocated to residential Unit owners.

Parking lot square footage is not considered Residential or Commercial/Non-Residential Space.

Total Floor Area refers to all Residential Space and Commercial/Non-Residential Space.

(B) Standard

The Condominium Project's Commercial/Non-Residential Space must not exceed 35 percent of the Condominium Project's Total Floor Area.

(C) Exception

The Condominium Project's Commercial/Non-Residential Space may exceed 35 percent of the Condominium Project's Total Floor Area up to a maximum of 49 percent if it is determined that the residential character of the Condominium Project is maintained. To determine that the residential character is maintained, the economy for the locality of the Condominium Project or specific to the Condominium Project and the total number of residential Units in the Condominium Project must be considered.

The following documentation must be reviewed and analyzed by the Mortgagee under DELRAP to support its decision or submitted for HRAP:

- an opinion from a certified residential appraiser that addresses market acceptance of the Condominium Project as residential in character;

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

- a current market study performed by an independent third party that addresses factors relating to the economy for the locality of the Condominium Project or specific to the Condominium Project; and
- the total number of residential Units in the Condominium Project.

(D) Required Documentation

The following documentation must be submitted for Commercial/Non-Residential Space:

- documentation of the verification of compliance with the requirements for the Commercial/Non-Residential percentage and any exceptions;
- budget and financials;
- recorded condominium site plans;
- CC&Rs; or
- if applicable, exception documentation.

ix. Live/Work Units

(A) Definitions

A Live/Work Condominium Project refers to a Condominium Project that allows space within the individual Unit to be used jointly for non-residential and residential purposes.

A Live/Work Unit refers to a Unit in a Live/Work Condominium Project.

(B) Standard

The Condominium Project's governing documents must allow Live/Work arrangements.

The Mortgagee must verify the Condominium Project's governing documents allow Live/Work.

All individual Live/Work Units must not contain more than 49 percent Commercial/Non-Residential Space.

(C) Required Documentation

The following documentation must be submitted:

- documentation of the verification that Live/Work requirements have been met; and
- recorded CC&Rs.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

x. Leasehold Interest

(A) Definition

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(B) Standard

Condominium Projects with Common Elements owned under a Leasehold Interest are eligible if the Condominium Project meets the following requirements:

- 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 Mortgagees receive notice of any monetary or Non-Monetary Default by the Condominium Association and be 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; and
- the lease does not include any default provisions that could result in forfeiture or termination of the lease except for nonpayment of the lease rents.

(C) Required Documentation

The lease must be submitted.

xi. Additional Requirements

(A) Management Agreement

(1) Definition

A Management Agreement refers to an agreement between a third-party company and the Condominium Association to manage the Condominium Project.

(2) Standard

If the Condominium Association employs the services of a management company, the Management Agreement must give the Condominium Association the right to terminate the Management Agreement with no more than 90 Days' notice.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

(3) Required Documentation

The current, executed Management Agreement must be submitted.

(B) Existing Contracts

(1) Definition

Existing Contracts refer to contracts executed prior to the Transfer of Control to the Condominium Association.

(2) Standard

Any contracts entered into by the builder/developer prior to the [Transfer of Control](#) and subsequently assigned to the Condominium Association, must give the Condominium Association the right to terminate the contracts with no more than 90 Days' notice. This does not apply to ground leases or contracts in which the Condominium Association or Unit owners are granted a possessory or ownership interest in real estate.

(3) Required Documentation

Documentation of the verification of compliance with the requirements for Existing Contracts must be submitted.

(C) Recreational Leases/Easement

(1) Definitions

Recreational Leases refer to separate ownership of recreational facilities at a Condominium Project with the owner leasing its use to the Unit owners.

An Easement refers to an interest in land owned by another person, consisting of the right to use or control the land, or an area above or below it, for a specific limited purpose.

(2) Standard

Condominium Projects with Recreational Leases/Easements are acceptable under the following circumstances:

- if the Recreational Lease or Easement holder is a nonprofit Entity under the Control of the Condominium Association; or
- if each Unit owner has the right to cancel the membership with no more than 90 Days' notice and without penalty.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

(3) Required Documentation

The following documents must be submitted:

- documentation of the verification of compliance with the requirements for Recreational Leases, Easements or contracts must be submitted; and
- Recreational Leases, Easements, or contracts for use of recreational facilities.

(D) Litigation

(1) Definition

Litigation refers to a current or pending lawsuit or proceedings in a court, arbitration, or mediation involving the Condominium Project or Condominium Association, or those concluded within 12 months of the application date. Litigation does not include foreclosure or actions to collect past due assessments brought by the Condominium Association or Condominium Project as plaintiff.

(2) Standard

The Condominium Project or Condominium Association must not be subject to pending Litigation in which the project sponsor is named as a party that relates to the safety, structural soundness, habitability, or functional use of the Condominium Project.

The Condominium Project or Condominium Association must not be subject to any other Litigation risk not covered by insurance or that exceeds the amount of insurance coverage relating to the potential losses for that matter.

(3) Required Documentation

The following documents must be submitted:

- documentation of the verification of compliance with the requirements for pending litigation or any other Litigation risk;
- a signed and dated explanation from the Condominium Association, management company, or an attorney representing the Condominium Association that includes at least the following information:
 - reason(s) for the Litigation;
 - risk of the Litigation;
 - anticipated settlement/judgment date, if any;
 - sufficiency of insurance coverage to pay out a settlement/judgment, if applicable; and
 - impact of the Litigation on the future solvency of the Condominium Association; and
- the following documents, which must be attached to the signed and dated explanation, if applicable:

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

- complaint filed with the court, arbitrator, or mediator; and
- all engineering or expert reports commissioned by the Condominium Association or their attorneys, which must include evidence of the safety, structural soundness, habitability, or functional use of the Condominium Project and evidence of the cost of the repair of any construction defect and status of the repairs.

(E) Legal Restrictions on Conveyance (Free Assumability)

(1) Definitions

Legal restrictions on conveyance have the same meaning as defined in [24 CFR § 203.41](#).

(2) Standard

The Condominium Project must not contain Units encumbered by restrictions on conveyance in violation of the requirements contained in [24 CFR § 203.41](#), subject to certain enumerated exceptions provided below. The Condominium Project's organizing documents may contain one or more of the following provisions:

- All leases must be in writing and subject to the declaration and bylaws 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.
- 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.
- The Condominium Association may have the right of first refusal to purchase or lease any Unit only if it does not violate 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.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

(a) Exceptions for Affordable Housing Units

Legal restrictions on conveyance for eligible government or nonprofit affordable housing programs are acceptable if:

- the government or eligible nonprofit program restriction meets the exceptions defined in [24 CFR § 203.41\(c\) and \(d\)](#); and
- the affordable housing units are identified by recorded legal documents, specifying the Units that are covered under the program.

In accordance with [24 CFR § 203.41 \(d\)\(1\)\(ii\)](#), FHA considers a reasonable share of appreciation to be at least 50 percent. HUD does not object to affordable housing programs whereby the homeowner's share of appreciation is on a sliding scale beginning at zero, provided that within two years the homeowner would be permitted to retain 50 percent of the appreciation. If the program sets a maximum sales price restriction, the Borrower must be permitted to retain 100 percent of the appreciation.

(b) Exceptions for Private Transfer Fees

Notwithstanding the policy of free assumability with no exceptions contained in [24 CFR § 203.41](#), properties with private transfer fee covenants are acceptable provided such covenants are Excepted Transfer Fee Covenants as provided in [12 CFR § 1228](#).

(3) Required Documentation

The following documents must be submitted:

- documentation of the verification of compliance with the requirements for FHA's leasehold, affordable housing unit, and private transfer fee guidance; and
- recorded legal documents.

d. Construction Types

i. New Construction

(A) Definition

New Construction refers to Proposed Construction, Properties (or Condominium Projects) Under Construction, and Properties Existing Less than One Year as defined below:

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the stage from the first placement of permanent material to 100 percent completion with no CO or equivalent.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

- Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of issuance of the CO or equivalent. The Property must have never been occupied.

Complete Condominium Project refers to a Condominium Project consisting of Units that are Existing Less than One Year and that are ready for occupancy, including completion of all the Infrastructure of the Condominium Project, and not subject to further rehabilitation or construction.

Complete Legal Phase refers to a Legal Phase in which all Units are built out and all Units have a CO or the equivalent.

(B) Standard

The Condominium Project, or Legal Phase, as applicable, must be either a Complete Condominium Project or a Complete Legal Phase.

[Form HUD-92541](#) must be signed and dated no more than 30 Days after the appraisal was ordered and show any issues noted by the appraiser and builder/developer proposed mitigation plans.

(C) New Construction Additional Requirements

(1) Financial Condition

If no Units have closed in the Condominium Project, a proposed budget is required.

All [Financial Condition Required Documentation](#) is required if any Unit has closed, with the exception of the Previous Year Income and Expense Statement.

(2) Minimum Insurance Coverage

If no Units have closed in the Condominium Project, a builder's policy is acceptable in lieu of Hazard Insurance, Liability Insurance, and Fidelity Insurance.

All minimum [Insurance Coverage](#) is required if any Unit has closed.

(D) Required Documentation

The following documents must be submitted:

- [Form HUD-92541](#), *Builder's Certification of Plans, Specifications, & Site* signed and dated no more than 30 Days after the appraisal was ordered;
- additional documentation demonstrating mitigation of any issues noted in Form HUD-92541 including the State Licensed engineers' (soil and

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

structural) reports, designs, and/or certifications to ensure the structural soundness of the improvements and the health and safety of the occupants;

- a copy of the builder's policy or the required documentation in [Insurance Coverage](#);
- a CO or its equivalent; and
- photographs of each building.

ii. Newly Converted

A Condominium Project is considered newly converted if the Date of Conversion is within 24 months of the time of Condominium Project submission.

Date of Conversion refers to the date that the legal documents were recorded.

Newly converted Condominium Projects can only be processed under the HRAP option.

(A) Gut Rehabilitation Conversion

(1) Definition

Gut Rehabilitation (Gut Rehab) refers to the renovation of a Property down to the shell of the structure, including the replacement of all Heating, Ventilation and Air Conditioning (HVAC) and electrical components.

(2) Standard

Gut Rehabs must meet the general FHA Condominium [Project Approval Requirements](#) and [New Construction](#) standards.

(3) Required Documentation

The following documents must be submitted:

- documentation of the verification of compliance with the requirements for Gut Rehab;
- an engineering or architectural inspection, dated within 12 months, evidencing all rehabilitation work/repairs have been completed; and
- a CO or its equivalent.

(B) Non-Gut Rehabilitation

(1) Definition

Non-Gut Rehabilitation (Non-Gut Rehab) refers to rehabilitation work that is not structural and is limited to minor property repairs and improvements.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

2. Project Eligibility

(2) Standards

Non-Gut Rehabs must meet the standards for Existing Construction.

A reserve study must be 36 months old or less and have been prepared by an independent third party that has demonstrated knowledge of and experience in completing reserve studies. The reserve study must include analysis of the Non-Gut Rehab.

All Non-Gut Rehab work/repairs must be completed.

(3) Required Documentation

The following documents must be submitted:

- documentation of the verification of compliance with the requirements for Non-Gut Rehab;
- reserve study; and
- evidence that all rehabilitation work/repairs have been completed.

e. Two- to Four-Unit Condominium Project

i. Definition

A Two- to Four-Unit Condominium Project refers to a Condominium Project that comprises of at least two, but no more than four, one-family dwelling Units that are each separately owned with separate legal descriptions.

ii. Standard

All general FHA Condominium Project Approval requirements are applicable except:

- if state law does not require the creation of an annual budget or annual financial statements, a signed and recorded memorandum of understanding may be provided in lieu of the financial documents. The memorandum of understanding must define the individual Unit owner's responsibilities for maintenance/repair/replacement of common areas including sidewalks, driveways, and common walls (includes side by side or vertical type Units) and must provide for a procedure for splitting any shared maintenance costs;
- the project must have an Owner Occupancy Percentage of 75 percent owner-occupied; and
- no Units in Arrears.

iii. Required Documentation

The following documents must be submitted:

- documentation of the verification of compliance with the Two-to Four Unit Condominium Project requirements;

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

3. Project Approval Submission

- annual budget, financial statements or memorandum of understanding if applicable; and
- documented evidence that each Unit is separately owned with a separate legal description.

f. Manufactured Home Condominium Projects

i. Definition

A Manufactured Home Condominium Project (MHCP) refers to a Condominium Project that consists of two or more Manufactured Homes.

ii. Standard

To be eligible, MHCPs must:

- be processed under the HRAP option; and
- comply with the general FHA Condominium Project Approval requirements.

iii. Required Documentation

Documentation of the verification of compliance with requirements for MHCPs must be submitted.

3. Project Approval Submission

To be eligible for Condominium Project Approval, the application must establish that the Condominium Project meets the requirements listed in the [Project Eligibility](#) section and complies with state and local law.

a. Condominium Project Approval

There are three types of review processes:

- Full Review;
- Recertification Review; and
- Phasing Review.

i. Definitions

Full Review refers to the verification and analysis of all required Condominium Project Approval documentation.

Recertification Review refers to the verification and analysis of updated Condominium Project Approval documentation.

Phasing Review refers to the review of an additional Legal Phase of a previously Approved Condominium Project.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

3. Project Approval Submission

ii. Standard

The application must indicate the review type as a Full, Recertification or Phasing Review.

(A) Full Review

Full Review is required for a Condominium Project that has never been approved by FHA, or that has been previously approved, but the Condominium Project Approval has been expired for more than six months.

All required documentation must be submitted as specified in [Condominium Project Approval](#).

(B) Recertification Review

Recertification Review is performed no earlier than six months prior to the Approved Condominium Project expiration date or no later than six months after the Approved Condominium Project expiration date.

If not submitted within the stated time frames, the Condominium Project is not eligible for recertification but must re-apply for Full Review.

All required documentation must be submitted as specified in [Condominium Project Approval](#), except the following documents:

- recorded CC&Rs, declaration, and/or master deed, and all amendments;
- recorded plat map or condominium site plans;
- signed and adopted bylaws; and
- articles of incorporation, articles of association, declaration of trust, or other governing documents, if applicable and as required by state law.

If amendments have been made to the foregoing documents, they must be submitted.

(C) Phasing

All required documentation must be submitted as specified in [Phasing](#).

b. HUD Review and Approval Process

i. Definition

HUD Review and Approval Process (HRAP) refers to the submission of project applications to FHA for approval.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

3. Project Approval Submission

ii. Standard

HRAP may be used for Full Review, Recertification Review, or Phasing Review. HRAP must be used for newly converted Condominium Projects, MHCPs or any Condominium Projects that have completed a Resolution of Financial Distress Event within the past 36 months.

iii. Eligible Submission Sources

Requests for Condominium Project approval must be submitted to the Jurisdictional Homeownership Center (HOC) by one of the following:

- Mortgagee;
- builder;
- developer;
- Condominium Association;
- management company;
- project consultant; or
- attorney acting as an agent for the developer/builder, Condominium Association or management company.

FHA will not pay for any fees associated with the Condominium Project Approval process.

iv. Submission Process

The application package must be submitted to the [Jurisdictional HOC](#) as a single Portable Document Format (PDF) file on a CD-ROM or USB flash drive. Incomplete packages will not be processed.

All application packages must be submitted in English. If the original document was drafted in a language other than English, the original may be submitted accompanied by an English translation.

The Condominium Project Approval application must be arranged in the stacking order as presented in the chart below.

Condominium Project Approval Stacking Order	
#	Documentation
1	Cover Letter
2	Legal Documents
3	Financial Documents
4	Contracts
5	Insurance
6	Flood Insurance and Related Documentation
7	Special Flood Hazard Area
8	Commercial/Non-Residential

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

3. Project Approval Submission

Condominium Project Approval Stacking Order	
#	Documentation
9	Live/Work
10	Litigation
11	Other Required Documents

c. Direct Endorsement Lender Review and Approval Process

i. Definition

Direct Endorsement Lender Review and Approval Process (DELRAP) refers to the review of a Condominium Project by a Mortgagee that has been granted DELRAP authority.

ii. Standard

DELRAP may be used for the Full Review, Recertification Review, or Phasing Review. The Recertification Review or Phasing Review must be completed by the same Mortgagee that previously approved the Condominium Project. DELRAP may not be used for MHCPs, newly converted Condominium Projects or any project that has completed a Resolution of Financial Distress Event within the past 36 months.

If the DELRAP review indicates that the Condominium Project is ineligible, the Mortgagee must complete the review and enter the denial decision and data into FHAC.

If the Mortgagee starts a review for a Condominium Project, the Mortgagee must complete review.

A Mortgagee with DELRAP authority may submit a Condominium Project for approval under HRAP.

iii. Submission Process

FHAC is the system used to record, list and track all data for Condominium Projects that have been processed. FHAC is used for data entry, processing and reporting.

Mortgagees must use [FHAC](#) to:

- determine the existing approval status of a Condominium Project;
- enter the Condominium Project information;
- assign the approval status after the Condominium Project has been reviewed; and
- upload required Condominium Project documents in a PDF.

The Mortgagee must retain all documentation related to the Condominium Project's DELRAP review for a period of seven years and must provide the Condominium Project information and documentation to HUD/FHA upon request.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

C. Condominium Project Approval

3. Project Approval Submission

Mortgagees with Conditional DELRAP Authority must also follow the guidance in [Conditional DELRAP Authority](#).

d. Reconsideration of Rejected or Withdrawn Condominium Projects

If the Condominium Project was rejected or withdrawn under HRAP within the previous 12 months, FHA will reconsider the Condominium Project upon submission of corrected or updated documentation. If the Condominium Project was rejected or withdrawn under HRAP more than 12 months ago, a Full Review is required.

If the Condominium Project was rejected under DELRAP, a Full Review is required under HRAP.

If the Condominium Project was subject to adverse determination for significant issues as identified by FHA, (link to new FHA website identifying Condominium Projects that have been reviewed and are not eligible) a Full Review is required under HRAP.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

D. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

6. Condominium Projects

6. Condominium Projects

a. Definition

Condominium Project refers to a project in which one-family Dwelling Units are either attached, semi-detached, or detached, or are Manufactured Home units, and in which owners hold an undivided interest in Common Elements.

Common Elements refer to the Condominium Project's common areas and facilities including underlying land and buildings, driveways, parking areas, elevators, outside hallways, recreation and landscaped areas, and other elements described in the condominium declaration.

b. Standard

A Condominium Project must be on the list of [FHA-approved condominiums](#) unless it meets the definition for a Site Condominium.

c. Required Analysis and Reporting

The Appraiser must check if the Condominium Project is on the list of [FHA-approved condominiums](#).

d. Site Condominium

i. Definition

A Site Condominium refers to:

- a Condominium Project that consists entirely of single family detached dwellings that have no shared garages, or any other attached buildings; or
- a Condominium Project that:
 - consists of single family detached or horizontally attached (townhouse) dwellings where the unit consists of the dwelling and land;
 - does not contain any Manufactured Housing units; and
 - is encumbered by a declaration of condominium covenants or a condominium form of ownership.

ii. Required Analysis and Reporting

The Appraiser must report the appraisal on [Fannie Mae Form 1073/Freddie Mac Form 465](#), *Individual Condominium Unit Appraisal Report*.

V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE

A. Quality Control of Lenders and Mortgagees

1. Quality Control Program Overview

A. QUALITY CONTROL OF LENDERS AND MORTGAGEES

1. Quality Control Program Overview

a. Purpose of Quality Control Program

Quality Control (QC) Programs must be designed to:

- ensure compliance with FHA and Mortgagee policy and guidelines related to FHA Loan Administration;
- protect FHA and the Mortgagee from unacceptable risk;
- guard against errors, omissions, negligence, and fraud from those involved in the Mortgagee's Loan Administration;
- determine the root cause of any deficiencies and identify potential internal and external control weaknesses;
- alert Mortgagee management to patterns of deficiencies with respect to mortgage process and personnel;
- ensure timely and appropriate corrective action;
- ensure the existence of required documentation (e.g., credit, loan, and appraisal information) that is the basis of underwriting and servicing decisions;
- ensure Mortgages are secured by properties with values sufficient to support the Mortgage; and
- ensure compliance with fair lending laws, including the Fair Housing Act and the Equal Credit Opportunity Act (ECOA).

b. Definitions

i. Quality Control Program

A Quality Control (QC) Program is the process and written procedures through which the Mortgagee seeks to ensure that FHA operations and Loan Administration are in compliance with all applicable requirements.

ii. Quality Control Plan

A Quality Control (QC) Plan is a written plan that sets forth a Mortgagee's procedures for ensuring quality control. A QC Plan is the written element of a Mortgagee's QC Program.

iii. Loan Administration

Loan Administration refers to all aspects of the FHA mortgage lifecycle, including origination, underwriting, closing, endorsement, and servicing of FHA-insured Mortgages that are governed by FHA policies and procedures. Loan Administration includes the approval of a Condominium Project.

V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE

A. Quality Control of Lenders and Mortgagees

1. Quality Control Program Overview

c. Standard

The Mortgagee must adopt and implement a QC Program that fully complies with the requirements of this *SF Handbook*, and, where applicable, the additional Multifamily QC requirements outlined in the [Multifamily Accelerated Processing \(MAP\) Guide, 4430.G](#). The Mortgagee must maintain and update its QC Program as needed to ensure it is fully compliant with all applicable FHA requirements at all times.

The QC Program must cover the lifecycle of an FHA-insured Mortgage, including origination, underwriting, closing, endorsement, and servicing functions that are conducted by the Mortgagee.

The QC Program must cover all policies and procedures, whether performed by the Mortgagee or outsourced to a contractor, to ensure full compliance with FHA requirements for Loan Administration.

The QC Program must provide the Mortgagee's management with information sufficient to adequately monitor and oversee the Mortgagee's compliance, and measure performance as it relates to the Mortgagee's FHA mortgage activity.

i. Exception for Multifamily Mortgagees

The following QC Program requirements do not apply to Mortgagees with an Originate Multifamily, Service Multifamily, or Service/Organize Multifamily only authority. For Mortgagees with Originate Single Family/Multifamily, Service Single Family/Multifamily, or Service/Organize Single Family/Multifamily authority, these QC Program requirements do not apply to its Multifamily operations.

- V.A.2.b.iii(A) Rejected Mortgage Applications
- V.A.2.b.iv Escrow Funds
- V.A.2.b.vi Timely and Accurate Submission for Insurance
- V.A.2.d.iv(F) Method of Reporting
- V.A.3.a.i Time Frame for Selection and Review
- V.A.3.a.iii Sample Size Standard
- V.A.3.a.iv Sample Composition Standard
- V.A.3.b Loan Sample Risk Assessment
- V.A.3.c Origination and Underwriting Loan File Compliance Review
- V.A.3.d Quality Control Reviews of Specialized Mortgage Programs
- V.A.3.e Servicing Loan File Compliance Review
- V.A.3.f.ii Servicing Reviews
- V.A.4 Data Integrity
- V.B Quality Control of Other Participants
- V.C.2.a Title I Lender Monitoring Reviews
- V.C.2.c Servicer Tier Ranking System II
- V.C.3 Loan Level Monitoring

V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE

A. Quality Control of Lenders and Mortgagees

2. Institutional Quality Control Program Requirements

- V.D Monitoring of Other Participants
- V.E.3 Program Office Actions and Sanctions
- V.E.5.e Specific Program Participants

d. Required Documentation

The Mortgagee must document the existence of its QC Program and evidence of its implementation, including written procedures, QC reports, and corrective action plans.

i. Time Frame for Retention

The Mortgagee must retain all QC review results, including all selection criteria, review documentation, Findings, and actions taken to mitigate Findings, for a period of two years from the initial QC review, or from the last action taken to mitigate Findings, whichever is later.

ii. Production of Documents

The Mortgagee must make all documentation relating to its QC Program available to FHA at any time upon request.

2. Institutional Quality Control Program Requirements

a. Who May Perform Quality Control

The Mortgagee may use employees or contractors to perform QC functions in accordance with the following requirements.

i. Employees [Text was deleted in this section.]

The Mortgagee must ensure that employees who perform QC Program functions are, at all times, independent of all Loan Administration processes and do not directly participate in any of the Loan Administration processes represented in the QC Plan.

ii. Contractors

The Mortgagee may contract with outside vendors to perform QC functions if:

- the Mortgagee assumes full responsibility for the contractor's conduct of QC reviews in compliance with FHA requirements;
- the Mortgagee and the contractor have a valid contractual agreement in place that specifies the roles and responsibilities of each party; and
- the Mortgagee acknowledges that the existence of such contract for the provision of QC services does not satisfy the Mortgagee's obligation to have a written QC Plan that fully complies with FHA requirements.

V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE

A. Quality Control of Lenders and Mortgagees

3. Loan Level Quality Control Program Requirements

was not required to order a new appraisal for a property financed with an FHA-insured Mortgage.

Field reviews do not have to be performed for pre-closing reviews.

(3) Required Documentation

The Mortgagee must retain all QC review results, including all selection criteria, review documentation, Findings, and actions taken to mitigate Findings.

d. Quality Control Reviews of Specialized Mortgage Programs

i. Standard

QC reviews of specialized mortgage programs (e.g., 203(k), Home Equity Conversion Mortgages (HECM), Energy Efficient Mortgages (EEM), Condominiums, Condominium Project Approvals, etc.) must monitor compliance with FHA requirements specific to those programs.

ii. Required Documentation

The Mortgagee must retain all QC review results, including all selection criteria, review documentation, Findings, and actions taken to mitigate Findings.

e. Servicing Loan File Compliance Review

i. Minimum Requirements

Mortgagees must review all aspects of their servicing operations, including a review of subserviced Mortgages and activities as they relate to FHA-insured Mortgages, to guarantee that all FHA servicing and loss mitigation requirements are being met. At a minimum, Mortgagees must include the following elements in their QC review to ensure they meet the requirements outlined in the [Servicing and Loss Mitigation](#) and [Claims and Disposition](#) sections of this *SF Handbook*:

- servicing records
- document retention and legibility
- non-discrimination policies
- Borrower requests, complaints, and escalated cases
- fees
- transfer of servicing notification and records
- documentation of purchased or acquired Mortgages
- mortgage record changes
- escrow account functions
- force-placed insurance
- prepayments
- MIP

V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE

B. Quality Control of Other Participants

2. Nonprofits and Governmental Entities

the [Doing Business with FHA – Nonprofits](#) section of this *SF Handbook*. The QC Plan must include the nonprofit's reports, any reports of fraud, corrective action plans, and review procedures.

The nonprofit must maintain and update its QC Plan as needed to ensure it remains fully compliant with all applicable FHA requirements.

iii. Required Documentation

The nonprofit must retain all QC review results, including all selection criteria, review documentation, Findings, and corrective actions taken to mitigate or resolve Findings. This documentation must be maintained for a minimum of three years. The nonprofit must make all documentation relating to its QC Plan available to FHA at any time upon request.

b. Quality Control Plan Findings and Corrective Action

i. Records of Quality Control Findings

The nonprofit must maintain records of QC Findings and actions taken, periodic reports, and review procedures. Reports must identify areas of deficiency, including the agency's policies and procedures, errors and omissions, and unacceptable patterns or trends. All violations of law or regulation, any known false statement, or fraud or program abuse must be reported to FHA, the Office of Inspector General (OIG), and the appropriate federal, state or local law enforcement agency.

ii. Corrective Action

The nonprofit must maintain a copy of the corrective actions taken when Findings are discovered. Findings that result in changes to managerial staff or expose any deviance to previously approved processes must be brought to the attention of FHA upon discovery.

c. Fraud, Misrepresentation, and Other Findings

i. Standard

The nonprofit must take prompt, effective, and corrective measures to investigate and document suspected instances of fraud, misrepresentation, and other related Findings.

ii. Internal Reporting to Senior Management

The nonprofit's QC Plan must contain a process for its QC staff to promptly report and document Findings delivered to senior management. Nonprofit staff must report Findings to senior management no more than 15 business days from the date of discovery.

V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE

C. Mortgagee Monitoring

2. Institutional Mortgagee Monitoring

(B) Time Frame

Mortgagees receiving a grade of “F”/Tier 4 may appeal their final score no later than 30 Days after the issue date of the final fiscal year grade.

(C) Process

The Mortgagee must submit the appeal to HUD’s Deputy Assistant Secretary for Single Family Housing or their designee and request an informal HUD conference.

x. Increased Incentives

HUD will use TRS II to determine those Mortgagees earning “A”/Tier 1 scores and may therefore qualify for increased loss mitigation financial incentives for the following calendar year.

d. DELRAP Mortgagee Monitoring Reviews

i. Types of DELRAP Mortgagee Monitoring Reviews

(A) Periodic Review

A Periodic Review refers to the monitoring of the work performed by the DELRAP Mortgagee and its DELRAP staff reviewer to ensure compliance with FHA requirements.

(B) Post-Action Review

A Post-Action Review refers to evaluations of submitted Unconditional DELRAP Authority packages.

ii. Production of Files and Records

A DELRAP Mortgagee must provide all information and files requested by FHA to assist in a Periodic Review or Post-Action Review.

iii. Scope

Condominium Project approvals, denials or recertifications may be selected for review.

iv. Findings

At the conclusion of a Periodic Review or Post-Action Review, FHA will discuss the results with the DELRAP Mortgagee. FHA will provide the DELRAP Mortgagee with notification of the completion of the review and, if applicable, specify the remedies and response that is required from the DELRAP Mortgagee.

V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE

E. Enforcement

3. Program Office Actions and Sanctions

(a) Time Frame

Test Case Phase review status continues until the Mortgagee corrects its underwriting deficiencies or until the Mortgagee's DE approval is withdrawn.

(b) Cause

A return to Test Case Phase review status may result from, but is not limited to, the following circumstances:

- final Title II loan review results that demonstrate a Mortgagee's failure to follow FHA requirements;
- a pattern of fraud identified by FHA, of which the Mortgagee was aware, or should have been aware; or
- the results of on-site or other reviews of the Mortgagee.

(6) Additional Elements

FHA may impose additional elements of probation reasonably related to the Mortgagee's underlying violations that allow FHA to monitor the Mortgagee and assist FHA with bringing the Mortgagee into compliance with FHA regulations.

(B) Notice

FHA will send a written notice of probation to the Mortgagee. The probation notice will list the violations that precipitated the probation and explain the elements being applied to the Mortgagee's probation.

(C) Effective Date

Probation is effective immediately upon the receipt of the notice of probation by the Mortgagee.

ii. Withdrawal of Title II Direct Endorsement Authority

FHA may withdraw the DE authority of any Mortgagee that demonstrates a pattern or practice of failing to comply with FHA underwriting guidelines or program requirements. This action is separate and apart from the termination action described in the [Credit Watch Termination](#) section.

(A) Scope

FHA may terminate a Mortgagee's approval to participate in the DE Program in a particular jurisdiction or on a nationwide basis.

V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE

E. Enforcement

3. Program Office Actions and Sanctions

(B) Notice and Appeal

FHA will provide the Mortgagee with written notice of the proposed withdrawal that identifies the grounds for the action and advises the Mortgagee of its right to an informal conference.

(1) Informal Conference

FHA will expeditiously arrange for a conference where the Mortgagee may present information and argument in opposition to the proposed withdrawal. The Mortgagee may be represented by counsel.

(2) Determination

After consideration of the material presented, FHA will issue a decision in writing stating whether the proposed termination is rescinded, modified, or affirmed.

(3) Appeal and Final Agency Action

The Mortgagee may appeal the decision to the Deputy Assistant Secretary (DAS) for Single Family Housing or his or her designee. A decision by the DAS for Single Family Housing or his or her designee constitutes final agency action.

iii. Credit Watch Termination of Title II Mortgagees

HUD may terminate a Mortgagee's authority to originate or underwrite FHA-insured Single Family Mortgages in any geographic area where the Mortgagee has an excessive rate of early defaults and claims in accordance with the Credit Watch Termination regulations at [24 CFR § 202.3\(c\)\(2\)](#). Credit Watch Termination is separate and apart from any action that may be taken by the MRB.

(A) Frequency and Scope

FHA reviews the default and claim rate of FHA-insured Single Family Mortgages on a quarterly basis. FHA compares the rate of each participating Mortgagee with the rates of other Mortgagees in the same geographic area. The review is limited to Mortgages with an amortization date within the preceding 24 months.

(B) Cause

FHA may terminate the origination or underwriting authority of any Mortgagee whose default and claim rate exceeds both the national default and claim rate and 200 percent of the default and claim rate within the geographic area served by a HUD field office.