



FHA Condo Single-Unit Approval Process

Purpose

- This memorandum reviews the following topic:
 - FHA Condo Single-Unit Approval
 - Order of Operations
 - Standard Operating Procedures

Overview

HUD Mortgage Letter 2019-13 provides instructions for obtaining an FHA case number for a unit in a Condominium Project that is not FHA-approved and will be processed as a Single-Unit Approval. This new policy/process went into effect for FHA back on October 15, 2019. It is a five-step process to receive FHA Condo Single-Unit Approval.

Order of Operations

- Review FHA Condo project minimum requirements on Page 3 to ascertain if the Single Unit Approval requirements are met. If so,
- Submit completed HUD 9991 form to FHA Connection (did you make sure it's marked as a Condo?) and request FHA Case Number;
 - **Skipping this step will cause delays in the loan process**
- Upon receipt of FHA Case Number, submit "Required Documentation" (see page 2 of announcement) to underwriting.
 - The required document must be submitted all together, or the review will be rejected.
- "Additional Documentation" (see page 5) will be required to complete the final condo approval.
- If the project does not meet the minimum requirements, escalate to your Team Lead or to the channel manager for review.
- Follow the standard Adverse Action process, if needed.

Important Reminders

- The FHA approval process is a manual process of verifications done by FHA without a “rush” option;
- The appraisal cannot be ordered until after the Case number is received;
- PCB/Windsor cannot guarantee financing until the case number and final condo approval has been granted;
- HUD reserves the right to suspend the issuance of a new FHA case number if the number of FHA-insured mortgages exceeds the established maximum insurance concentration;
- HUD form 9991 must be completed in its entirety – this is a HUD requirement for Single-Unit approvals

Required Documentation

- FHA Case Number assignment; (see Order of Operations above)
- HUD form 9991, Completed by HOA or management Company (to be completed in its entirety – HUD requirement) – (File will be returned if incomplete)
- Recorded CC&Rs/Declaration, Amendments and Bylaws;
- Current Condo Association Budget;
- Current balance sheet, dated within 90 days;
- Master of FOA Insurance/General liability insurance of at least \$1 MIL;
- Fidelity insurance is required for more than 20 units;
- Commercial Financial Documents, if applicable;
- Litigation Disclosure, if applicable

Borrower Eligibility Requirements

AUS/TOTAL

Must receive an AUS/TOTAL approval if LTV ≤ 90%.

Manual Underwriting

Only allowed if LTV ≤ 90%.

Project Eligibility Requirements

Commercial/Non-Residential Space

- Project Overall 35%
- Individual Live/Work Unit 49%
- Commercial/Non-Residential financial independence must be documented by providing:
 - 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

General Characteristics

- 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 any of the following:
 - 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.
- If not located in an approved project or unapproved phase of a project with an approved legal phase.

FHA Insurance Concentration

- ≥ 10 units 10%
- <10 units 2 units

Financial Stability – HOA

Financial Distress Event

- No financial distress event within the last 3 years
- Defined as 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

Reserve Account

- Must be separate from operating account)
- 10% of the aggregate monthly unit assessments (unless a lower amount is deemed sufficient based on reserve study)

Units in Arrears

- 15% (does not include late fees administrative expenses)

Individual Owner or Related Party Concentration
<ul style="list-style-type: none"> • ≥ 20 units 10% • < 20 units 1 unit
Insurance -Master Policy
Fidelity
<ul style="list-style-type: none"> • Coverage must be the greater of: <ul style="list-style-type: none"> ○ Three months of aggregate assessments on all units plus reserve funds; ○ Or the minimum amount required by state law.
Flood
<ul style="list-style-type: none"> • Replacement cost of the covered improvements of the NFIP maximum per unit multiplied by the number of units, whichever is less.
Hazard
<ul style="list-style-type: none"> • 100% of the insurable replacement cost of the project, including the individual units
Liability
<ul style="list-style-type: none"> • \$1 million for any single occurrence
Walls-In (HO-6)
<ul style="list-style-type: none"> • Required if the master or blanket policy does not include interior unit coverage
Litigation
<ul style="list-style-type: none"> • Not currently subject to or concluded within the last 12 months (pertaining to safety, structural soundness, habitability, or functional use)
Owner Occupancy
<ul style="list-style-type: none"> • 50%
Transfer of Control to HOA
<ul style="list-style-type: none"> • Control must be transferred to unit owners with CC&Rs recorded

Eligibility Requirements

- Borrower eligibility for a Single-Unit Approval is dependent upon receiving AUS Approve/Accept from TOTAL Mortgage Scorecard;
- Condo project must be established and must have 5 more units;
- Max Single Unit Approvals in a project is limited to 10% or 2 units for projects consisting of 10 units or less;
- Max single entity, or related party, is 10% for projects consisting of 20 or more units; a single entity, or related party, cannot own more than 1 unit for projects with less than 20 units;
- Condo project must have at least 50% primary occupancy;
- Condo Association budget will require a minimum of 10% reserve allocation;
- HOA must have separate operating and reserve accounts;
- Current balance sheet, dated within 90 days;
- Fidelity will be required for projects consisting of more than 20 units in an amount equal to no less than 3 months HOA dues plus the balance of the reserve account and the minimum account required by state law. The property manager must be either covered as additional insured on the HOA's policy or provide evidence of their own coverage;
- No more than 15% of the units can be 60 days delinquent on their Condo Association fee payments (does not include late fees or administrative expenses)
- Co-insurance is only allowed with an Agreed Amount or Agreement Value endorsement;
- Verify that the Condo Project or Condo Association is not subject to any litigation risk not covered by insurance or that exceeds the amount of insurance coverage relating to the potential losses for that matter.

Additional Documentation

- Late receipt of these may hinder the upfront approval process and are still required for final condo approval.
- Loan Level items that can follow once available to be reviewed by underwriter:
 - Appraisal
 - Flood Cert
 - Preliminary Title Report
 - HO6, if applicable

Ineligible Conditions

- PCB and Windsor do not do:
 - Project approvals;
 - New projects;
 - New construction;
 - “Right of First Refusals”
- Leaseholds are ineligible;
- Litigation regarding safety, structural soundness, habitability or functional use is not eligible
- Cannot be a Manufactured Home;
- Is not located in an Approved Condo Project or an Unapproved Phase of a Condo Project with an approved Legal Phase;
- The following are ineligible project characteristics:
 - Cooperative ownership;
 - Condominium hotel or condotel;
 - Mandatory rental pool agreements;
 - Timeshare or segmented ownership projects;
 - Multi-dwelling condominiums (more than one dwelling per Condominium Unit);
 - Houseboat project;
 - Continuing care facility;
 - Coastal Barrier Resources System
 - Project with any adverse determination by FHA for significant issues
 - Projects with physical characteristics indicating the project has a hotel identity, hotel-like characteristics, or offers hotel-like services.
 - is primarily transient in nature
 - Projects with names including “hotel,” “resort,” “motel,” “in,” or “lodge,” has an affiliation with, and/or is managed by an entity, usually a chain hospitality entity.
 - Projects located at the same address as a hotel or resort, or has a hotel or resort, or has a hotel or hospitality identity.
 - Projects publicly advertised as a condominium hotel or resort (for example, the project advertises on travel or hotel websites, or has a website on the Internet and presents itself as a condominium hotel) or websites are available to determine room availability and reservations can be made online.
 - The HOA or project’s legal documents restrict owners’ ability to occupy the unit during any part of the year.
 - The HOA or project’s legal documents require owners to make their unit available for rental pooling (daily or otherwise).
 - The HOA or the project’s legal documents require unit owners to share profits from the rental of units with the HOA, management company, resort, or hotel rental company.
- The projects shares facilities, common elements, or amenities with a hotel, resort, and/or lodge that is owned and managed by the developer or another third-party entity.

Eligibility Requirements

When requesting a case number, follow the standard process with the addition of the following:

- Must confirm, print and place in Condo bucket in Encompass, a PDF that shows the Condo Project is not on the list of FHA Approved Condo Projects prior to requesting the case number;
- Complete the following fields in the Case Number Assignment screen:
 - Select the associated Condo ID, if one exists (FHA's identified for the condo project), in the PUD/Condo ID field; and
 - Select "Single-Unit Approval" from the drop-down menu
 - within the "Site Condo" field
- The Single-Unit Approval Case Number Assignment request will default into "Holds Tracking" and the user will be prompted to send the required information to the FHA Resource Center
 - The user will email the required information from the collection form, HUD-9991 to the FHA Resource Center at answers@hud.gov;
 - The user will submit at a minimum the information requested under Sections 1.a, 2.a, 2.b and 3.1.a, Total Number of Units in the Condominium Project
 - The legal name entered must match the legal name on the recorded declarations
 - The email subject line must read "SUA Holds Tracking"
 - A separate email must be submitted for each Single- Unit request
 - The Homeownership Center will process the information to determine if a case number can be issued. Once the appropriate verifications have been completed, the Homeownership Center will provide a response when the "Holds Tracking" is removed.
- The case binder must contain all documentation relied upon to justify its decision to approve the mortgage.
- Download all docs to the condo folder/bucket in the loan file in Encompass.
- Once each of these steps has been completed - Send all docs to the condodesk@plainscommerce.com to ensure timely review. Allow 48 hours for said review. Plan your file and it's closing accordingly. Rush requests are not permitted without management approval.
- Regular repeated requests will not be approved.

Effective Date

As stated within.

Questions?

- Retail – Please contact Heidi Bailey
- Broker/Full Service – Please contact Mike Miller with questions
- TPO – Please contact TJ Miller with questions