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Dream Big Condo Job Aid - *Revised 2-2-16*

Guideline Differentiators

Areas where our non-warrantable condo product differs from FNMA's Full Lender Review Guidelines

<table>
<tr><th>FNMA</th><th>NPF Non-Warrantable Condos</th></tr>
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<td>
The lender's review of the budget must conclude that:

the budget is adequate (that is, it includes allocations for line items pertinent to the type of condo)
the budget provides for the funding of replacement reserves for capital expenditures and deferred maintenance that is at least 10% of the budget;
An acceptable reserve study that demonstrates that the projects funded reserves meet or exceed the recommendations may be accepted in lieu of 10% reserve allocation

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

the budget is adequate (that is, it includes allocations for line items pertinent to the type of condo);
The budget reflects < 10% and ≥ 5% for reserves, the HOA provides a complete independent reserve study or a reserve study completed by the HOA, HOA's Management Firm, or HOA CPA dated within the past 2 years, AND the allocation meets the guidelines as outlined in the matrix table below.
The budget reflects < 10%, the HOA has not completed a reserve study but the reserve bank account reflects a balance at 100% of the annual budget AND the project cannot be > 10 years old

<table>
<tr><th>% Budget Allocated to Reserves</th><th>Project Age</th><th>Amount Reserve Acct. Funded (Based on reserve study)</th><th>Requirements</th></tr>
<tr><td rowspan="2">5% - 7.49%</td><td><=10 Yrs.</td><td>50%</td><td rowspan="4">Reserve study* Reserve study is not required to be completed by engineering firm.
•Most recent HOA Reserve Acct. bank statement.
•No more than 25% of unit owners can be over 30 days dlq.
* If no reserve study account must be funded at 100% of annual budget and project cannot be > 10 yrs. old.</td></tr>
<tr><td>>10 Yrs.</td><td>75%</td></tr>
<tr><td rowspan="2">7.5% - 9.99%</td><td><=10 Yrs.</td><td>25%</td></tr>
<tr><td>>10 Yrs.</td><td>50%^</td></tr>
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FNMA	NPF Non-Warrantable Condos
A project is ineligible if the HOA is receiving more than 10% of its budgeted income from non-incidental business arrangements related to the active ownership and/or operation of amenities or services available to unit owners and the general public. This includes, but is not limited to, businesses such as a restaurant or other food- and beverage-related services, health clubs, and spa services. Non-incidental income from the following sources is permitted provided the income does not exceed 15% of the project's budgeted income: • income from the use of recreational amenities or services owned by the HOA for the exclusive use by unit owners in the project or leased to another project according to a shared amenities agreement (as noted below), or • income from the leasing of units in the project acquired by the HOA through foreclosure.	Projects with non-incidental business operations owned or operated by the homeowners' association such as, but not limited to, a restaurant, a spa, and a health club are eligible. No more than **25%** of income may be from non-incidental business operations. If the total assessment income shown on the budget does not meet or exceed the annual expenses, the HOA must provide a letter of explanation detailing the nature of the income, lease/contract details, continuance, etc. Special assessments are not to be included in the total assessment income.
No more than **25%** of the total square footage of the project can be used for commercial purposes.	No more than **40%** of the total square footage of the project can be used for commercial purposes. *(Note: We had one that was a 60 / 40% split that we discussed with FNMA for an exception. They said no because it was a new construction project but they also said that 40% commercial space would not be precedent setting)*
No more than **15%** of the total units in a project may be 60 days or more past due on their homeowners' association (HOA) dues. For example, a 100 unit project may not have more than 15 units that are 30 days or more delinquent.	No more than **20%** of unit owners can be over 60 days delinquent on their HOA dues; a breakdown of the delinquent assessment fees must be provided (0-30 days, 31-60, 61-90, and over 90). ***(if < 10% budgeted reserves, no more than 25% of unit owners may be over 30 days delinquent***
New Project: At least **50%** of the total units in the project or subject legal phase must have been conveyed or be under a bona fide contract for purchase to owner-occupant principal residence or second home purchasers. NOTE: FL not eligible, PERS required.	New project: At least **35%** of the total units in the project or subject legal phase must have been sold or be under a bona fide contract for purchase to owner-occupant principal residence or second home purchasers. NOTE: FL not eligible, PERS required.
Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project: • projects with 2 to 4 units – 1 unit • projects with 5 to 20 units – 2 units • projects with 21 or more units – 10% • Units owned by the developer/sponsor that are currently subject to any lease arrangement, which may or may not contain a provision allowing for the future purchase of the unit (including but not limited to lease-purchase or lease-to-own agreements) **must be included** in the calculation. • Units are not included in the calculation if they are owned by the developer/sponsor and are vacant and being actively marketed for sale.	Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project: • projects with 2 to 10 units – 1 unit • projects with 11 to 30 units – 3 units • projects with 31 or more units – 10% • Units owned by the developer/sponsor that are currently subject to any lease arrangement, which may or may not contain a provision allowing for the future purchase of the unit (including but not limited to lease-purchase or lease-to-own agreements) **must be included** in the calculation. • Units in a new project owned by the developer/sponsor that are vacant and are being actively marketed for sale are not included in the calculation.

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The project is **100% complete**, including all units and common elements;	The project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo**; at least 50% of the total number of units and 50% of common areas must be complete.** A copy of the completion bond letter or other documentation that has been filed with the local municipality by the developer, assuming a completion of improvements Commentary: Established Projects and New Projects – Condo Project Review team to review the incomplete areas and condition for the appraiser to comment on marketability issues.
Litigation Projects in which the HOA or co-op corporation is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project are ineligible for sale to Fannie Mae. If the lender determines that pending litigation involves minor matters with no impact on the safety, structural soundness, habitability, or functional use of the project, the project is eligible provided the litigation is limited to one of the following categories: • non-monetary litigation involving neighbor disputes or rights of quiet enjoyment; • litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the HOA's or co-op corporation's insurance; or • the HOA or co-op is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA assessments.	Litigation (Maximum LTV/CLTV 80%) – - Suit against builder/developer or contractor for recoupment of fees HOA paid for repairs permissible - Litigation involving structural items or items that impact marketability or safety or were a result of fire damage are not permitted - Litigation cannot be for bodily injury or harm that involves death, dismemberment, a minor child or incapacitation. o $2M minimum liability coverage required (includes umbrella coverage) o Insurance carrier must indicate litigation is covered claim under policy and insurance carrier is defending association

*Any guidance not specifically addressed in this document will defer to FNMA Full Lender Review guidelines. Non-warrantable condos are subject to a full review by the NPF Condo Department; additional conditions may apply based on the review. New Penn Financial will give consideration to condo projects in select metropolitan areas where guidelines on units being conveyed to the unit purchaser have not been in met in instances where NPF is the preferred lender for the project. Approved metropolitan areas include: New York City, San Francisco, and Washington, DC.