

# Navigating pre-sale requirements for new construction/conversion condo project approvals

WELLS  
FARGO

HOME  
MORTGAGE

*There's good news out there if you know where to look*

Without a doubt, when it comes to condominium financing, confusion abounds for builders/developers, sales professionals, and borrowers alike. But, there is good news on the horizon for condo developers and their ultimate customer - the homebuyer. The Department of Housing and Urban Development (HUD) and Fannie Mae (FNMA) have made numerous changes to enhance their project approval requirements. As a result, there are several approval processes and strategies available to help finance condominiums and make current projects more viable in the marketplace.

## Fannie Mae approval levels

FNMA provides lenders two project approval levels to approve a project for financing:

### **Condo Project Manager (CPM)**

This web-based approval process requires straightforward answers to standardized questions. A project needs to meet the base requirement of 51 percent of the units being sold to owner occupants, among other requirements, in order to pass the CPM approval process.

### **Project Eligibility Review Service (PERS)**

The PERS process requires the submission of a complete package of all project documentation to FHMA for a manual review. At their discretion, FNMA may approve the project with specific conditions, or it may make recommendations on what needs to be changed so the project is acceptable for financing. In most cases, project approvals are still subject to a minimum of 51 percent of the units being sold to owner occupants.

## Vertical sub-phasing for developers

By exception, FNMA has allowed developers to vertically sub-phase - or market their buildings in phases. This can allow developers to more readily reach FNMA's specified presale requirement within a group of floors, instead of having to include all of the units in the entire project in the denominator of the presale calculation. Subsequently, closings can begin earlier.

## Lowered FHA pre-sale requirements

FHA lowered the pre-sale requirement to 30 percent of the units in a project or approved phase, as long as:

- The unit price is within the statutory limit for FHA in the marketplace.
- The builder or developer has gone through the necessary steps to get FHA project approval.

In some cases, the FHA presale requirement can be applied to a legal vertical phase in high-rise projects, providing the legal phase consists of at least five congruent floors.

FHA loans have the benefit of a low down payment but there are other loan products with the same option. Be certain to have the borrowers ask their home mortgage consultant to help them compare the overall costs of all products, including the monthly and long-term costs and conditions of the required mortgage insurance. In many instances, they may find FHA to be a more expensive financing option and should only be considered after thoroughly evaluating all other product options that meet their credit qualifying and financial needs.

The agencies are looking for ways to approve projects and make financing available for condominiums. Discussing what options may be available or what changes or phasing possibilities exist with a professional in the lending industry can make all the difference in the viability and success of a condo project.

**For more information about condo financing and how agency rules may affect buyers, contact:**

## Louis Candell

Home Mortgage Consultant

Phone: 800-987-6786

[louis.candell@wellsfargo.com](mailto:louis.candell@wellsfargo.com)

NMLSR ID 442652



This information is for real estate and building professionals only and is not intended for consumer distribution.

Information is accurate as of date of printing and is subject to change without notice. Wells Fargo Home Mortgage is a division of Wells Fargo Bank, N.A.

©2011 Wells Fargo Bank, N.A. All rights reserved. NMLSR ID 399801.

106079 - 07/14

REV 2/14