

Condominium Underwriting & Closing Requirements

This guide provides mortgage professionals with an overview of the condo approval process, loan-specific requirements, and what to look for when closing condo transactions.

Condominium Underwriting & Closing Requirements

A Comprehensive Guide by The Housing Assistant



Introduction

Buying a condominium involves a unique underwriting and closing process due to shared ownership of common areas, HOA obligations, and potential financial risks. This guide provides mortgage professionals with an overview of the condo approval process, loan-specific requirements, and what to look for when closing condo transactions.

1. Understanding Condo Approval

Before a condo unit can be financed, the overall project must be reviewed and approved to ensure it meets agency or investor guidelines. Key areas under review include the financial health of the HOA, insurance coverage, owner-occupancy ratios, and litigation status.

2. Loan Type Requirements for Condos

FHA Loans:

- Project must be on HUD's FHA-approved condo list
- Must meet FHA-specific owner occupancy and insurance rules

VA Loans:

- Condo must appear on the VA's approved list
- LAPP/SAR review project approval

Conventional Loans:

- Full or Limited Review based on LTV and occupancy
- HOA questionnaire, budget, insurance, reserves are reviewed

USDA Loans:

- Follows Fannie Mae guidelines
- Must meet rural and eligibility standards

3. What Lenders Review

- HOA Questionnaire
- Budget & Reserve Study
- Master Insurance Policy
- Articles of Incorporation
- Bylaws & Litigation Records
- Appraisal confirming 'condo' status

4. Common Underwriting Red Flags

- 15%+ units delinquent on dues
- Structural litigation
- Inadequate insurance
- Less than 10% of HOA budget in reserves
- High investor occupancy (>50%)

5. Closing Requirements

- Verify condo designation in appraisal
- Title includes correct unit/legal description
- Review master policy and flood insurance endorsements
- Ensure closing package includes condo rider (if required)
- Confirm updated condo approval status

6. Condo Loan Type Summary Table

Loan Type	Condo Approval Needed	Review Type	Notes
FHA	Yes	FHA Approved List	Max 50% investor concentration
VA	Yes	VA Approved List	Requires NOV issued via SAR
Conventional	Maybe	Full/Limited	Depends on occupancy and LTV
USDA	Yes	Fannie Guidelines	Eligible rural zone required

7. Condominium Insurance Requirements

Master (HOA) Insurance Policy – Required for All Loan Types

This covers the building structure and common areas. It typically includes:

- Hazard Insurance
- General Liability
- Fidelity Bond (for 20+ unit projects per FNMA/FHLMC)
- Flood Insurance (if applicable via NFIP or equivalent)

- Walls-In vs. Bare Walls coverage, which determines the need for HO-6

HO-6 (Walls-In) Insurance – Required When Master Policy Is Insufficient

This is the borrower’s condo policy covering:

- Interior finishes (walls, cabinetry, flooring, etc.)
- Personal property & liability
- Loss assessment
- Coverage must be at least 20% of the appraised value if required

8. Loan Type-Specific Insurance Requirements

Loan Type	Master Policy	Fidelity Bond	HO-6 Required	Flood Insurance
FHA	Required (HUD rules)	Yes	Yes (if interior not covered)	Yes (NFIP only)
VA	Required (SAR review)	Evaluated	Yes (if needed)	Yes (NFIP or private equivalent)
Conventional	Required (Agency guidelines)	Yes (20+ units)	Yes (if needed)	Yes (NFIP or private)
USDA	Fannie Guidelines	Yes if 20+ units	Yes (same as Conventional)	Required (FEMA maps)