



FANNIE MAE/FREDDIE MAC CONDO/CO-OP LENDING GUIDELINE UPDATES

Fannie Mae and Freddie Mac
Temporary Guidance
Lender Best Practices for Underwriters,
Operations, Sales and Compliance



OREST TOMASELLI

PRESIDENT PROJECT REVIEW

Orest Tomaselli is the president of the condominium and cooperative review division at CondoTek.

Orest's name is synonymous with condo and co-op lending compliance. As the former owner of National Condo Advisors for the last 13 years, Orest and his team have provided thousands of buildings with Fannie Mae, Freddie Mac, FHA, VA and portfolio project approval. With the acquisition of his firm, and his new role, CondoTek now brings the condominium and cooperative review process in-house so that its lender clients can have a complete end-to-end solution for compliance.



LISA GELOSO DIRECTOR OF BUSINESS DEVELOPMENT & PRODUCT OPERATIONS

Lisa is the director of business development & product operations here at CondoTek. Having spent her career in mortgage operations & credit risk with a focus on project underwriting Lisa brings a high level of subject matter expertise to CondoTek's product line. Lisa keeps a keen pulse on customer needs in delivering project warrants whether selling to GSE or private investors.

Lisa partners across all of CondoTek's departments for feedback and input to ensure we are consistently iterating on software improvements and any industry changes necessary, keeping CondoTek's delivery of products and services sleek and modernized.



ABOUT CONDOTEK

As a technology and information firm, CondoTek leverages unique expertise in Technology and Real Estate to streamline the lending process in the condominium space. With exceptional service and support, we create efficiency in the approval and underwriting of condominium and cooperative projects for lenders of any size. Through our CondoPak product we have completed over 60,000 document deliveries on over 25,000 condominium properties.

In October of 2021 Condotek acquired National Condo Advisors. The acquisition of the National Condo Advisors' team now provides our lender clients with the ability to not only obtain condominium documents for review but also have condominium and cooperative projects warranted and insured for lending. Find out more about our newest product, the Condo Project Warrant (CPW), on this important industry call.



FANNIE MAE CONDO/CO-OP 2021-14

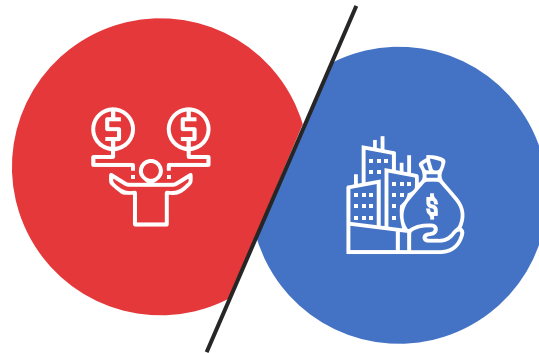
[FANNIE MAE TEMPORARY GUIDELINE LINK](#)

FREDDIE MAC CONDO/CO-OP 2021-38

[FREDDIE MAC TEMPORARY GUIDELINE LINK](#)

Lenders across the nation have begun to digest the newest lending guidelines issued by Fannie Mae and Freddie Mac. The new guidelines outline temporary risk tolerances for project underwriting and appraisal of condominium and cooperative loans on both new construction and established properties. The primary focus of these new guidelines is to ensure that there is adequate review of property infrastructure components in order to assess lending risk.

- UNAVAILABLE STATUS
- NEW CONSTRUCTION RESERVE STUDIES ELIMINATED
- ESTABLISHED RESERVE STUDIES ELIMINATED (PERSONLY)
- INFRASTRUCTURE FOCUS
- SPECIAL ASSESSMENT FOCUS



- UNAVAILABLE STATUS
- NEW CONSTRUCTION WORKING CAPITAL RESERVE ALLOWANCE
- ESTABLISHED CONDO RESERVE STUDIES STILL ACCEPTED
- INFRASTRUCTURE FOCUS
- SPECIAL ASSESSMENT FOCUS

Lenders are now required to ensure that condominium properties have appropriate capital funding for reserves, and more importantly, to create a vetting process to ensure that properties with deferred maintenance to structural and mechanical components can be properly reviewed before mortgage financing is offered to borrowers.

2022 CONDO AND CO-OP LENDING BASICS

FANNIE MAE LENDING

Fannie Mae is the largest insurer of mortgages in the United States. Lenders utilize Fannie Mae's lending guidelines as the basis for site approval and mortgage availability for almost all lending. Fannie Mae's 2022 loan limits have increased to \$647,200 and \$970,800 in high-cost areas. Loan products for condo and co-op units will be impacted greatly by these new guideline changes. **Guideline Changes Effective 1/1/2022**

PORTFOLIO/BALANCE SHEET/NON-QM

Many lenders offer portfolio/balance sheet/non-QM lending to condo and co-op borrowers. This mortgage financing is traditionally offered through individual investor guidelines that often mimic Fannie Mae/Freddie Mac's policies.

UNDERLYING MORTGAGE LENDING

Underlying mortgage lending to cooperative properties is being impacted greatly by the release of these new temporary lending guidelines. Many underlying mortgage providers and investors are requiring compliance with Fannie Mae's new lending policies.

FREDDIE MAC

Freddie Mac is a national insurer/purchaser of condo and co-op loans. Freddie Mac's new guideline release on December 15th, 2021 aligns with Fannie Mae's lending guidelines closely but allows for the utilization of reserve studies in lieu of a 10% reserve contribution.

Guideline Changes Effective 02/28/2022

FHA

FHA mortgage guidelines currently allow for the use of the reserve study to set reserve contributions. FHA lending requires full site approval through either their Single Unit Approval (SUA) or through a project-wide approval (HRAP). No recent changes have been made to FHA lending policies.

CIRA

Many CIRA (Common Interest Realty Association) lenders are requiring compliance with Fannie Mae's lending guidelines to provide mortgage financing. Focus on deferred maintenance, infrastructure and property condition.

LENDER REQUIREMENTS

Lenders are now tasked with making determinations about project eligibility by reviewing additional documentation. Additional commentary on condition is now required on the property appraisal. A detailed review of special assessments, property violations, reserves, capital balances and board initiatives is now required to be reviewed by the lender prior to loan approval. Most importantly, lenders are now required to check the newly created ‘Unavailable’ list in CPM to ensure that mortgage financing is available on every property wherein a loan was originated.



FANNIE MAE UNAVAILABLE STATUS

SEARCHING CONDO PROJECT MANAGER “CPM”

STATUS: EFFECTIVE IMMEDIATELY

- Fannie Mae has created an “unavailable” status for condominium and cooperative properties
- For a lender, Fannie Mae’s CPM “unavailable” status is the first place to start when determining condo/ co-op eligibility. This new status will appear in the CPM system when Fannie Mae has determined that a specific property is unwarrantable due to not meeting the temporary eligibility requirements, or standard eligibility requirements, outlined within the selling guide.
- Properties with an “unavailable” designation can only be removed from this list by applying for a global PERS approval on the site.
- Lenders are encouraged to check the “unavailable” list at origination and prior to closing.

OVER 995
CONDO
PROPERTIES
RENDERED
“UNAVAILABLE”
SINCE OCTOBER
GUIDELINE
RELEASE!

NEW CONSTRUCTION CONDO AND CO-OP

FANNIE MAE RESERVE STUDY ACCEPTANCE SUSPENSE



FANNIE MAE

- **Fannie Mae** is immediately suspending the process of allowing a “new construction” condo property to utilize a reserve study to determine appropriate reserve funding in lieu of utilizing the 10% reserve requirement.



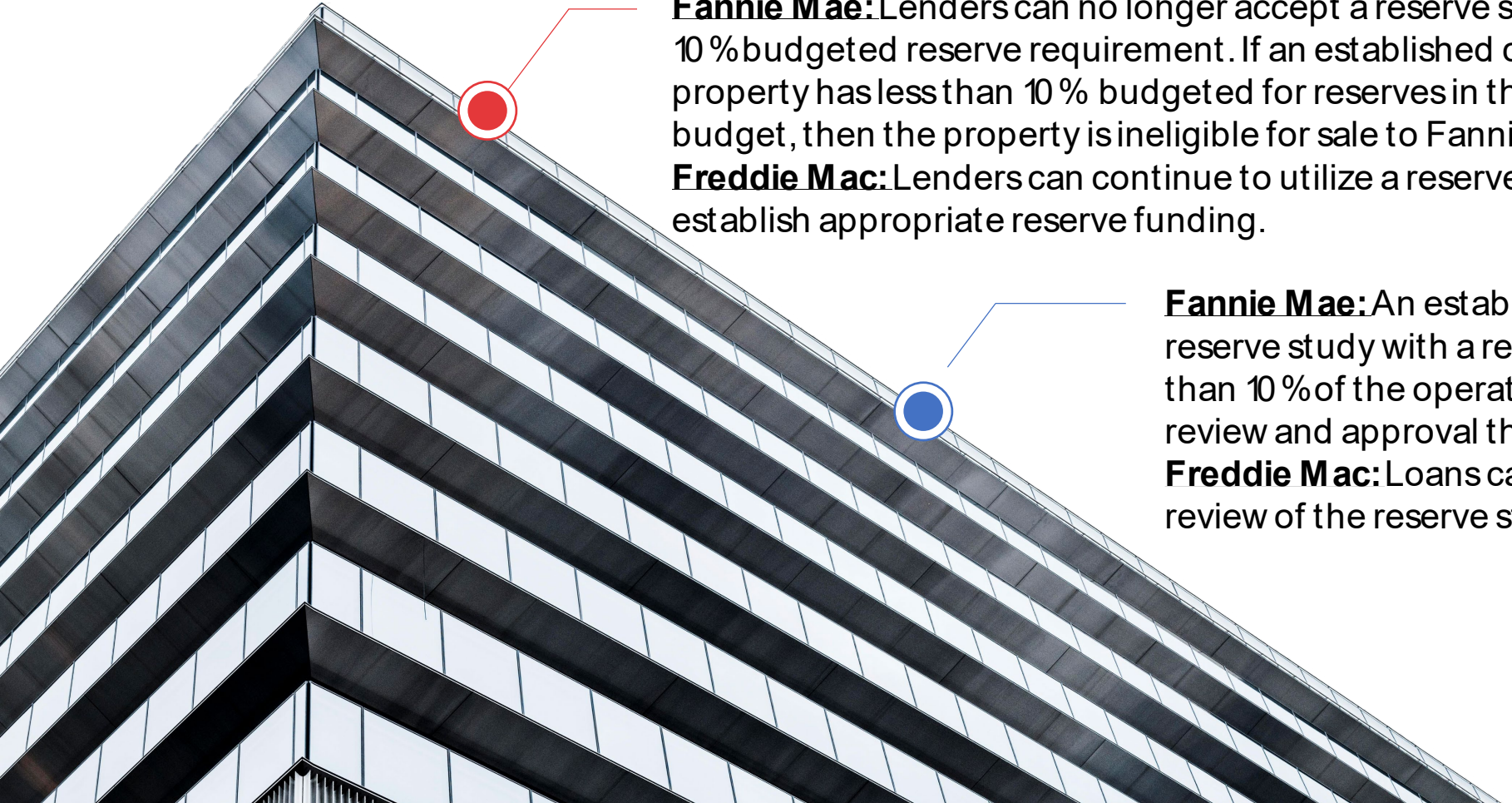
FREDDIE MAC

- **Freddie Mac** will continue to allow lending in “new construction” condo properties if they meet working capital contribution requirements.
 - * Established condo properties can continue to utilize a reserve study or the standard 10% reserve line-item.

**Many new condo and co-op properties are utilizing reserve studies to appropriately determine reserve contributions. Properties that do not comply with Fannie Mae reserve guidelines may qualify under Freddie Mac lending guidelines.*


ESTABLISHED CONDO AND CO-OP

FANNIE MAE RESERVE STUDY ACCEPTANCE SUSPENSE/ FREDDIE MAC ALLOWANCE



Fannie Mae: Lenders can no longer accept a reserve study in lieu of a 10% budgeted reserve requirement. If an established condo or co-op property has less than 10% budgeted for reserves in their operating budget, then the property is ineligible for sale to Fannie Mae.

Freddie Mac: Lenders can continue to utilize a reserve studies that establish appropriate reserve funding.



Fannie Mae: An established project that is utilizing a reserve study with a reserve contribution that is less than 10% of the operating budget can be submitted for review and approval through the PERS process.

Freddie Mac: Loans can be delivered upon lender review of the reserve study.

DEFERRED MAINTENANCE

Habitability, Violation Search, Engineering and Reserve Study Reports

Loans secured by units in condo and co-op projects with significant deferred maintenance or in projects that have received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions are not eligible for purchase. These projects will remain ineligible until the required repairs have been made and documented. Acceptable documentation may include a satisfactory engineering or inspection report, certificate of occupancy, or other substantially similar documentation that shows the repairs have been completed in a manner that resolves the building's safety, soundness, structural integrity, or habitability concerns.

- Significant deferred maintenance includes deficiencies that meet one or more of the following criteria: full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time;
- The project has deficiencies, defects, damage, or deferred maintenance that
 - Is severe enough to affect the safety soundness, structural integrity or habitability of the improvements;
 - The improvements need substantial repairs and rehabilitation, including many major components; or
 - impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.

SPECIAL ASSESSMENTS

Determining Eligibility, Balance Sheets, Adverse Impact

Any current or planned special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability. The lender must document the loan file with the following:

01.

Reason for the special assessment;

02.

Total amount assessed and repayment terms;

03.

Documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project; and

04.

Borrower qualification with any outstanding special assessment payment.

The lender is expected to obtain the financial documents necessary to confirm the association has the ability to fund any repairs. If the special assessment is related to safety, soundness, structural integrity, or habitability, all related repairs must be fully completed or the project is not eligible.

Additionally, If the lender or appraiser is unable to determine that there is no adverse impact, the project is ineligible.

CONDO AND CO-OP QUESTIONNAIRES

NEW QUESTIONS, ADDITIONAL DOCUMENT REQUESTS

New questions have been added to many condo questionnaires to determine additional review requirements and compliance. Many condo questionnaires now include detailed addendums requiring additional information. Examples are as follows:

- Is the HOA or Management company aware of any conditions, either outlined within the last 6 months of meeting minutes, inspection or certification reports, or made aware by any other means, of a project-wide deferred maintenance within the project that may negatively impact the safety, structural soundness, habitability, or functional use of the project as a whole, in part or for any individual units?
- Is there significant deferred maintenance that has been identified in the project? If so, please outline the nature of the work, completion information, and any capital requirements utilized for this work.
- Are there any current special assessments or any planned special assessments?
- **If Yes to the above please provide the following:**
 - A. Engineering or Reserve Study performed in the last 36 months (if any)
 - B. Certificate of occupancy (following repairs, if any)
 - C. Recent Balance Sheet for operating and reserve account(s)
 - D. Last 2 years financial statements

LIABILITY

INCREASED LIABILITY FOR BOARDS AND MANAGERS

- Fannie Mae's guideline release requires lenders to ask new questions about a condo or co-op property's infrastructure. Providing commentary on condition of a property by unqualified board members or property managers can result in increased liability.
- The current industry response to reduce board member and property manager liability is to obtain the appropriate and factual answers to these structural questions from qualified structural inspectors and professional engineers.
- Condo and co-op managers and board members are being urged to obtain Reserve Studies in order to provide structural condition assessment and financial information about the development with the assistance of qualified representatives.
- Limiting liability of managers and board members can only be accomplished by ensuring that factual answers to questions about the financial and structural condition of co-op and condo properties is provided by an industry professional.

MEETING MINUTES

IS IT A BEST PRACTICE?

Fannie Mae outlines in their ‘best practice’ section that a lender should obtain 6 months of meeting minutes from the condominium association to help to formulate an opinion on whether deferred maintenance exists within the development or if any problems currently exist with components and/or habitability of the property.



Meeting minutes are rarely available for release



Due to the covid epidemic many boards have not met over the last 18 months



Complete lender due diligence may mitigate the need for meeting minutes



Important questionnaire answers can shed light on possible issues



Recent engineering inspections and/or thorough appraisal review can reduce risk

PROJECT ELIGIBILITY WAIVER SUSPENSE

Limited Availability, Deferred Maintenance, Special Assessments

“ Effective immediately Project Eligibility Waivers (PEW’s) will not be issued for significant deferred maintenance, failure to obtain a certificate of occupancy, failure to complete or pass a regulatory inspection, or projects subject to large special assessments as described above. Additionally, all new requests related to PEW’s for project insurance policy deficiencies are suspended. “

- Fannie Mae LL

Lenders are now required to ensure compliance and make appropriate lending decisions based upon exhaustive project review.

COOPERATIVE LENDING

Adequate Reserves, Increased Scrutiny

Cooperative lending has long been a specialty for mortgage lenders. Experienced personnel are required to be employed to review and make eligibility determinations for lenders to be able to sell and service co-op loans.

New guidelines include increased scrutiny of cooperative developments and a focus on the below:

Deferred Maintenance

Special Assessments

Questionnaires

Habitability

Reserves

Capital Balances

Underlying Mortgages

RECOMMENDATIONS

ESTABLISHED CONDO PROPERTIES

Assess building compliance by obtaining a review of all appropriate documentation to ensure lending compliance. New guidelines require comprehensive review of the questionnaire, appraisal, budget, title and require review of violation searches to determine lending risk and highlight possible “red flags”.

▶ Condo Questionnaire

New questions have been added to many lender questionnaires to determine compliance with Fannie Mae and Freddie Mac’s guidance. Update Condo and Co-op Questionnaire Forms

▶ Condo Budget

Review budget for lending compliance. Condo operating budgets must now include a 10% reserve line item. Should a condo property be reserving less than 10% and has a reserve study that is less than 36 months old then that property can apply for Fannie Mae’s PERS approval with the current reserve budget in place.

▶ Special Assessment Explanation

Obtain a detailed explanation for special assessments that includes component repairs, impacts on habitability, length, amount and completion of work.

▶ Deferred Maintenance

Provide detailed explanation on any deferred maintenance in the property, cost of repair/ replacement, impact on habitability and proof of capital in place to rectify.

▶ Unavailable List

Lenders should check the unavailable list at origination and prior to closing

CONDOTEK SERVICES



CondoPak

Lender solution for project data collection. There are many components to condominium lending. The CondoPak app is your solution for an efficient, streamlined, and stress-free process.



Co-opPak

There are many components to co-op lending. The Co-op Pak app is your solution for an efficient, streamlined, and stress-free process.



Condo Project Warrant

The ultimate review solution combines CondoPak and CondoTek lender review at a standardized flat rate. With a simple order process and quick completion.



Portfolio, Fannie Mae, Freddie Mac and FHA Approval

CondoTek offers a complete solution for board members, managers and developers to review, align and approve condo and co-op properties for agency or portfolio lending.

Loan Level Compliance Reviews

CondoTek offers a full suite of lender compliance services. Our staff of former agency project standards employees and industry project analysts provide expert project and loan level reviews for condominiums.

RESOURCES

Fannie Mae, Freddie Mac, FAQ

Many resources for lenders currently exist in the industry. Condo and co-op document collection, outsourced project review as well as federal, state and local repositories for building data are all available for lenders. Below is a partial list of guideline announcements, updated guidelines and resources for lenders.

[Fannie Mae Lender Letter: Temporary Condo and Co-op Guidelines](#)

[Freddie Mac Bulletin: Temporary Condo and Co-op Guidelines](#)

[Fannie Mae FAQ Link](#)

[Fannie Mae Appraiser FAQ](#)

[CondoTek CondoPak](#)

[CondoTek Co-opPak](#)

[CondoTek Condo Project Warrant](#)

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