NEW CONDOMINIUM LENDING RULES

What Every Buyer, Seller & HOA Needs to Know

WHY THIS IS HAPPENING

Following increased concerns over deferred maintenance and underfunded HOA reserves, Fannie Mae and Freddie Mac—the government-sponsored enterprises that purchase most conventional conforming mortgages and establish lending guidelines for lenders—are strengthening condominium lending standards to more thoroughly evaluate a building's financial and physical health

WHAT'S CHANGING?

Beginning August 3, lenders can no longer rely on the streamlined Limited Review process for most attached condominium buildings with more than 10 units.

Instead, every eligible project will undergo a Full Project Review, including an evaluation of:

- HOA financial statements
- Reserve funding
- Insurance coverage
- Special assessments
- Deferred maintenance
- Structural or safety concerns
- Pending litigation

This shifts the focus from the individual buyer to the overall financial and physical health of the condominium association.

WHAT TO EXPECT

Buyers

- Plan for 45 to 60 day closings on most conventional condo purchases.
- Expect additional HOA documentation and lender review before final loan approval.
- Buildings with weak reserves or unresolved maintenance issues may not qualify for conventional financing.

Sellers

- Prepare HOA documents before listing whenever possible.
- Expect buyers and lenders to ask more detailed questions about the association.
- Well-funded, well-managed buildings will have a distinct advantage in today's market.

HOA Boards

- Reserve funding, insurance and maintenance records are now critical components of financing.
- Delays in providing documentation can delay or jeopardize a sale.

WATCH FOR

Projects with any of the following will receive increased lender scrutiny:

- Underfunded reserves*
- Large special assessments
- Deferred maintenance
- Structural or safety concerns
- Pending litigation
- Incomplete or delayed HOA documentation

**mandatory reserve contribution must be at least 10% of the building's annual income, deposited into a separate reserve account*

BOTTOM LINE

Preparation is now a competitive advantage. For attached condominium buildings with more than 10 units, expect:

- Full Project Review
- Increased lender scrutiny
- More HOA documentation
- 45 to 60 day closings

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