



## STRATEGIC INSPECTIONS

# PROPERTY MANAGER BEST PRACTICES

Reserve Studies

Residential Unit Mortgage Financing

New Agency Condo and Co-op Requirements Fannie Mae, Freddie Mac, Portfolio Lending Board Member Education

---

An in-depth property manager training on new Fannie Mae, Freddie Mac, and Portfolio lending guidelines and their impact on condominium and cooperative buildings. This training is focused on the key requirements for lending introduced by Fannie Mae and Freddie Mac as a result of the tragic collapse of the Champlain Towers South Condominium in Surfside Florida and the resulting compliance requirements to the financial, mechanical, structural, and reserve components of condominium and cooperative properties.

# NEWLY RELEASED CONDOMINIUM LENDING GUIDELINES

Mortgage financing requirements for borrowers financing units in condominium properties have radically changed. Condominium properties now require an in-depth lender analysis of operating documents, financials, reserves, mechanical, and structural components to ensure compliance and enable lenders to provide loans.

Lending guideline changes were enacted in early 2022 by both Fannie Mae and Freddie Mac, and as a result, most portfolio and jumbo lenders followed suit.

These new lending guidelines were released as a direct result of the tragic collapse of the Champlain Tower condominium in Surfside, Florida.

The goal of these new guidelines is to ensure that condominium boards and managers are identifying deferred maintenance items, embarking on a dedicated plan for repair, and that the appropriate capital reserves are in place in order to avoid special assessments that can create financial hardship for owners.





# CONDOMINIUM UNIT LENDING

**It is widely accepted that unabated access to residential mortgage financing in condominium properties is one of the best ways to protect unit value.**

**There are 3 main channels for residential condominium unit mortgage financing in the United States**

**01.** Fannie Mae

**02.** Freddie Mac

**03.** Bank Portfolio and Jumbo Lending



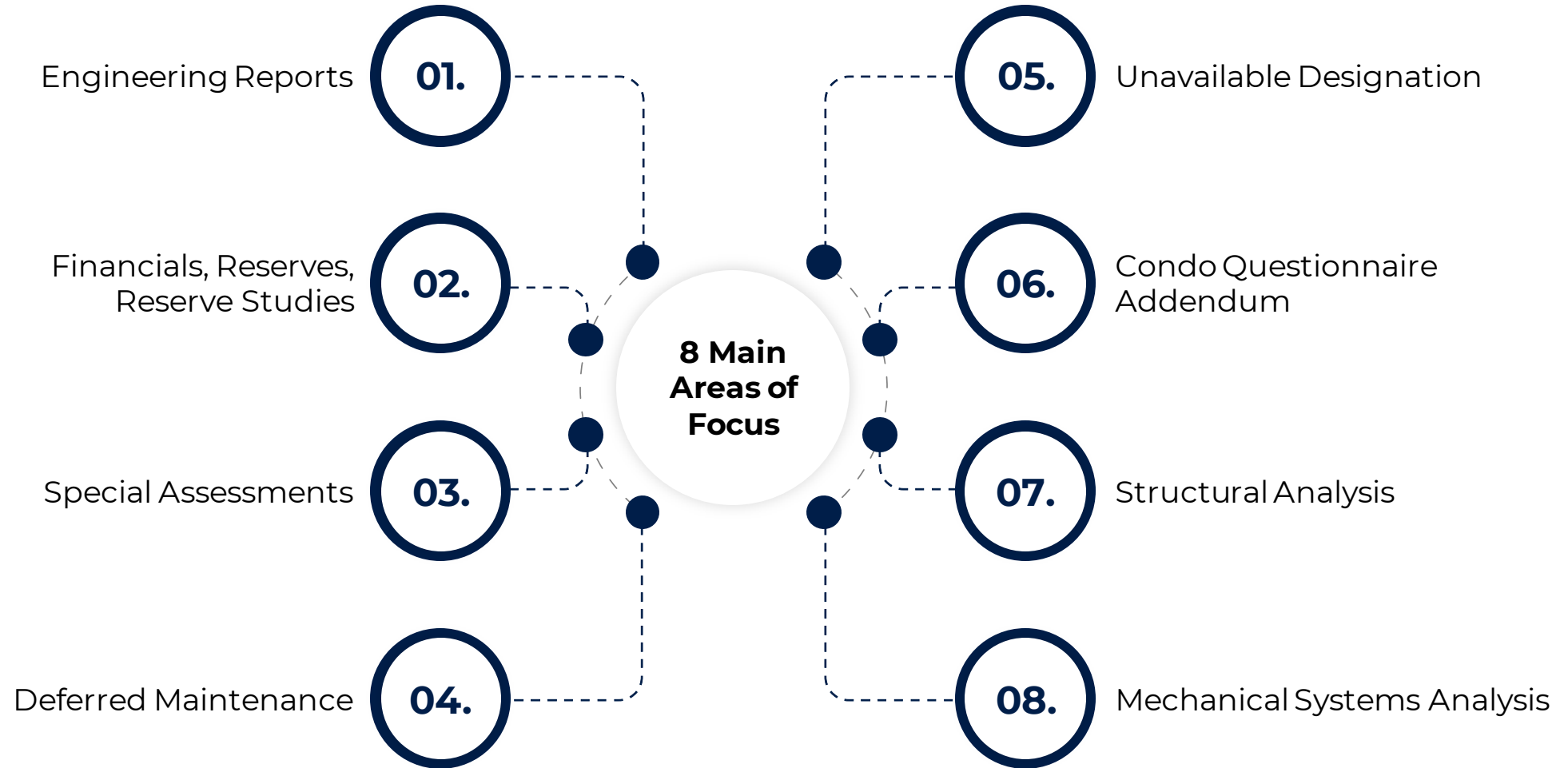
**80%**

More than 80% of the condominium loans provided in the United States are provided through these 3 avenues



# FANNIE MAE LENDING GUIDELINES

Released January 2022



Fannie Mae Lender Letter: Temporary Condo and Co-op Guidelines: <https://singlefamily.fanniemae.com/media/29411/display>



# UNAVAILABLE DESIGNATION

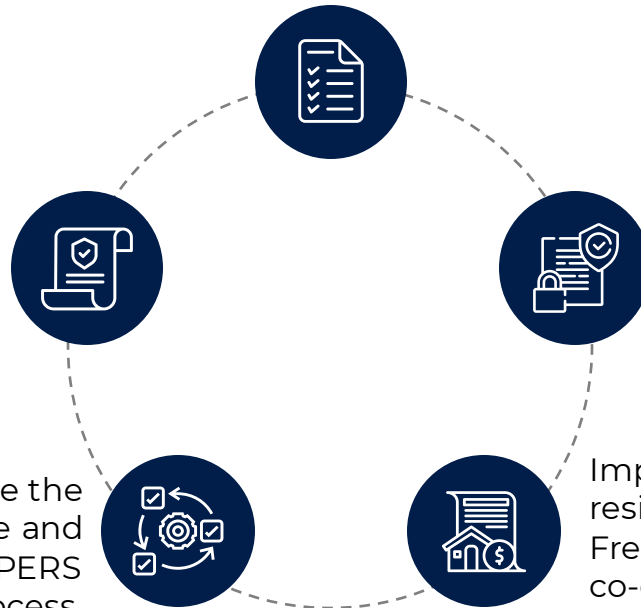
Fannie Mae has created a private list, only made available to Fannie Mae seller servicer lenders, that designates a property to be unavailable for lending through Fannie Mae.

A condo or co-op building is typically included on the list if the building is not compliant with any of Fannie Mae's lending policies.

Removal from the list can only occur once the property is brought into compliance and submitted to Fannie Mae through the PERS Project Approval application process.

The unavailable designation impacts unit owners for any type of loan product, as it is now utilized by all agencies and lenders as a benchmark for compliance.

Impacts are wide ranging and include denial for residential unit mortgage financing for Fannie Mae, Freddie Mac, Jumbo and Portfolio loans, denial for co-op underlying mortgage financing, increased insurance costs, and reduced unit values.



# CONDO AND CO-OP QUESTIONNAIRE ADDENDUM

## Form 1076

An addendum to the required condo/co-op lending questionnaire is now required to be completed by boards and/or property managers when borrowers apply for mortgage financing.



<https://singlefamily.fanniemae.com/media/15656/display>

The image shows two overlapping copies of the 'Form 1076 Condominium Project Questionnaire' from Fannie Mae. The top copy is the main form, and the bottom copy is an addendum. The main form includes sections for 'Instructions', 'Lender Information', and 'I. Basic Project Information'. The addendum is dated December 2021.

**Form 1076**  
Condominium Project Questionnaire

Fannie Mae

ADDITIONAL ADDENDUM DECEMBER 2021

### Instructions

Lender: Complete the first table below and enter the date on which the form should be returned to you.

Homeowners' Association (HOA) or Management Company: This form has been sent to you on behalf of an individual seeking mortgage financing to purchase or refinance a unit in this project. The mortgage lender needs this information to determine the eligibility of the project for mortgage financing purposes. Complete and return this form by \_\_\_\_\_ DATE to the lender listed below. Questions about this form should be directed to the lender contact.

Lender Name:	Lender Phone Number:
Contact Name:	Lender Fax Number:
Lender Address:	Lender Email Address:

### I. Basic Project Information

- Project Legal Name:
- Project Physical Address:
- HOA Management Address:
- HOA Name (if different from Project Legal Name):
- HOA Tax ID #:
- HOA Management Company Tax ID #:
- Name of Master or Umbrella Association (if applicable):

8 Does the project contain any of the following? Check all that apply:

- a Hotel/motel/resort activities, mandatory or voluntary rental-pooling arrangements, or other restrictions on the unit owner's ability to occupy the unit
- b Deed or resale restrictions
- c Manufactured homes
- d Mandatory fee-based memberships for use of project amenities or services
- e Non-incident income from business operations
- f Supportive or continuing care for seniors or for residents with disabilities

Provide additional detail here, if applicable (optional):

Fannie Mae Form 1076/Freddie Mac Form 476 Page 1 March 2016 (addendum added December 2021)





# STRUCTURAL CONDITION ANALYSIS

**Condo and co-op properties with structural condition issues require intensive analysis by lenders and/or lending agencies to determine if:**

The structural issue is severe enough to affect the safety, soundness, or habitability of the improvements

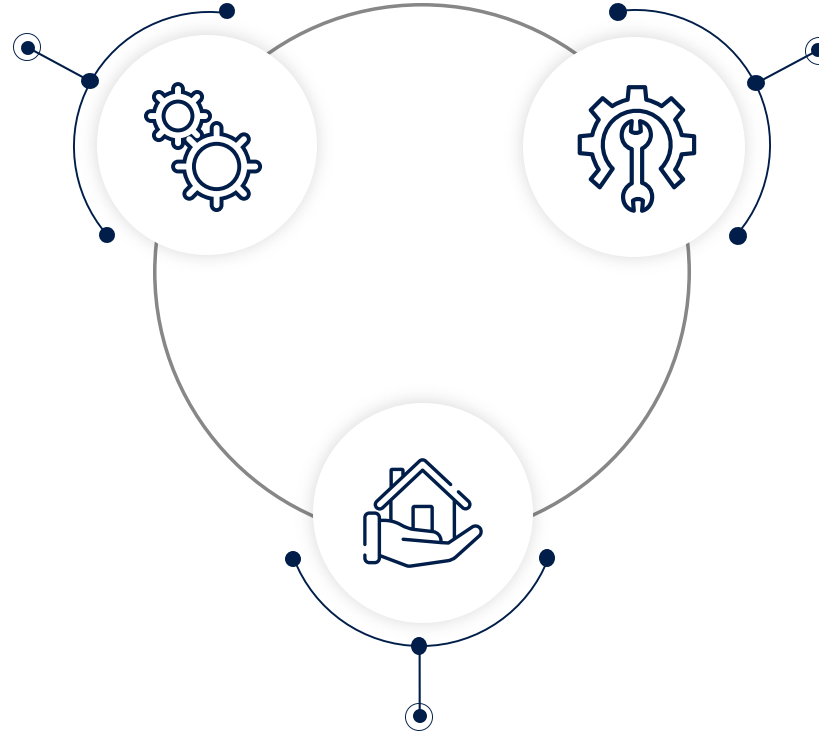
And/or the building has issues with structural integrity

And/or the structural issue impedes the safe and sound functioning of one or more of the building's major mechanical elements, including, but not limited to, the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing



# MECHANICAL SYSTEM CONDITION ANALYSIS

Condo and co-op properties are required to have fully- functioning plumbing, electrical, heating, and cooling systems.



Properties that have deferred maintenance and/or inoperable mechanical systems are ineligible for mortgage financing.

Properties with mechanical systems that prohibit habitability and/or complete access or enjoyment of the property are ineligible for mortgage financing. These properties will likely be added to the unavailable list.





# DEFERRED MAINTENANCE

## Definition and Guideline

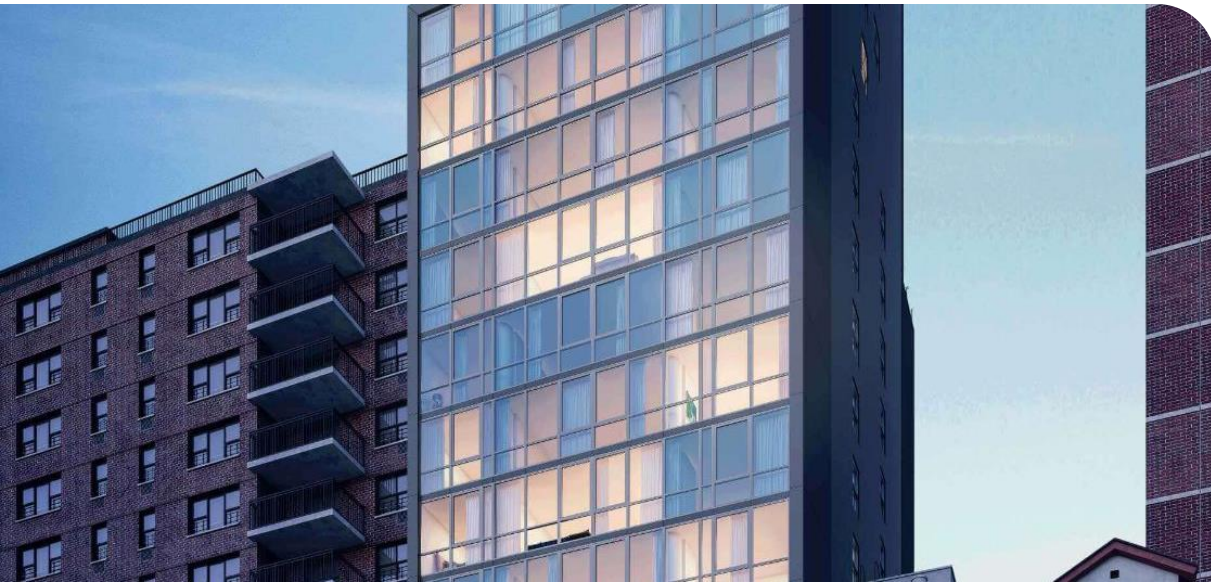
### Definition

DEFERRED MAINTENANCE is the practice of postponing maintenance activities such as repairs on both real property (i.e. infrastructure) and personal property (i.e. machinery) in order to save costs, meet budget funding levels, or realign available budget monies. The failure to perform needed repairs could lead to asset deterioration and ultimately asset impairment. Generally, a policy of continued deferred maintenance may result in higher costs, asset failure, and in some cases, health and safety implications.

### Fannie Mae Issued and Lender Adopted Guideline

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 for more than seven days or for an unknown period of time.



# DEFERRED MAINTENANCE

## Habitability and Ineligibility

**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

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

## Guideline:

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

**04.**

Borrower qualification with any outstanding special assessment payment



The lender is expected to obtain the financial documents necessary to confirm that 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.**



# FINANCIALS, RESERVES, RESERVE STUDIES

## FANNIE MAE

01.

- › 2022 guidelines require a 10% reserve line item in an operating budget for Fannie Mae lending to be available.
- › Reserve Studies are not allowed to be utilized to reduce the 10% reserve requirement, regardless of amount of amassed capital reserves, unless project is submitted to Fannie Mae for global approval with a reserve study
- › New Construction condo properties are barred from utilizing a reserve study to reduce the 10% reserve requirement.
- › Reserve Studies are, however, required in many instances to prove that the 10% reserve line-item is substantial enough based on the structural and mechanical components and condition.

## FREDDIE MAC

02.

- › 2022 Guidelines allow for the utilization of Reserve Studies to provide accurate reserve budget contributions in lieu of a 10% reserve line-item.
- › Projects with a 10% reserve line-item in their operating budget may not need to have a Reserve Study if structural and mechanical components are maintained properly.
- › New construction condo properties are permitted to utilize Reserve Studies to determine appropriate yearly reserve funding if a purchaser-funded reserve and/or working capital contribution is being made at closing.
- › Reserve Studies are required in many instances to prove that the 10% reserve line item is substantial enough based on the structural and mechanical components and condition.

## PORTFOLIO AND JUMBO LENDING

03.

- › Most national Jumbo and Portfolio lenders allow Reserve Studies to determine appropriate reserve contributions in lieu of funding a 10% reserve line item in an operating budget.
- › Reserve Studies and/or engineering reports may be necessary to highlight future structural and mechanical useful life and repair costs.
- › New construction condo properties are allowed to utilize Reserve Studies to determine yearly reserve funding. Often Reserve Studies are utilized on new construction properties in order to ensure that borrowers can obtain mortgages for units prior to meeting 50% pre-sale requirements through agency guidelines.





# ENGINEERING REPORTS



May be required to determine structural condition and/or resolve questions on violations



Useful for determining necessary structural repairs



Reports are often hyper-specific. Engineering reports are rarely “building-wide”



# FREDDIE MAC LENDING GUIDELINES

**01.** Released in February 2022 and similarly aligned with Fannie Mae.

**02.** Properties are required to have additional funding for insurance deductibles.

**Freddie Mac Bulletin Temporary Condo and Co-op Guidelines:**

<https://guide.freddiemac.com/app/guide/bulletin/2021-38>





# PORTFOLIO & JUMBO CONDO LENDING GUIDELINES

Loan Limits and Property Analysis

Conforming Loan Limit

**\$726,200**

High-Cost Area Loan Limit

**\$1,089,300**

Many portfolio and jumbo lenders have aligned with Fannie Mae's policies for mechanical, structural, and financial lending requirements. Condo and co-op buildings that have borrowers seeking loan amounts in excess of Fannie Mae's conforming and/or high-cost area loan limits are required to be compliant with many of Fannie Mae's new lending guidelines.



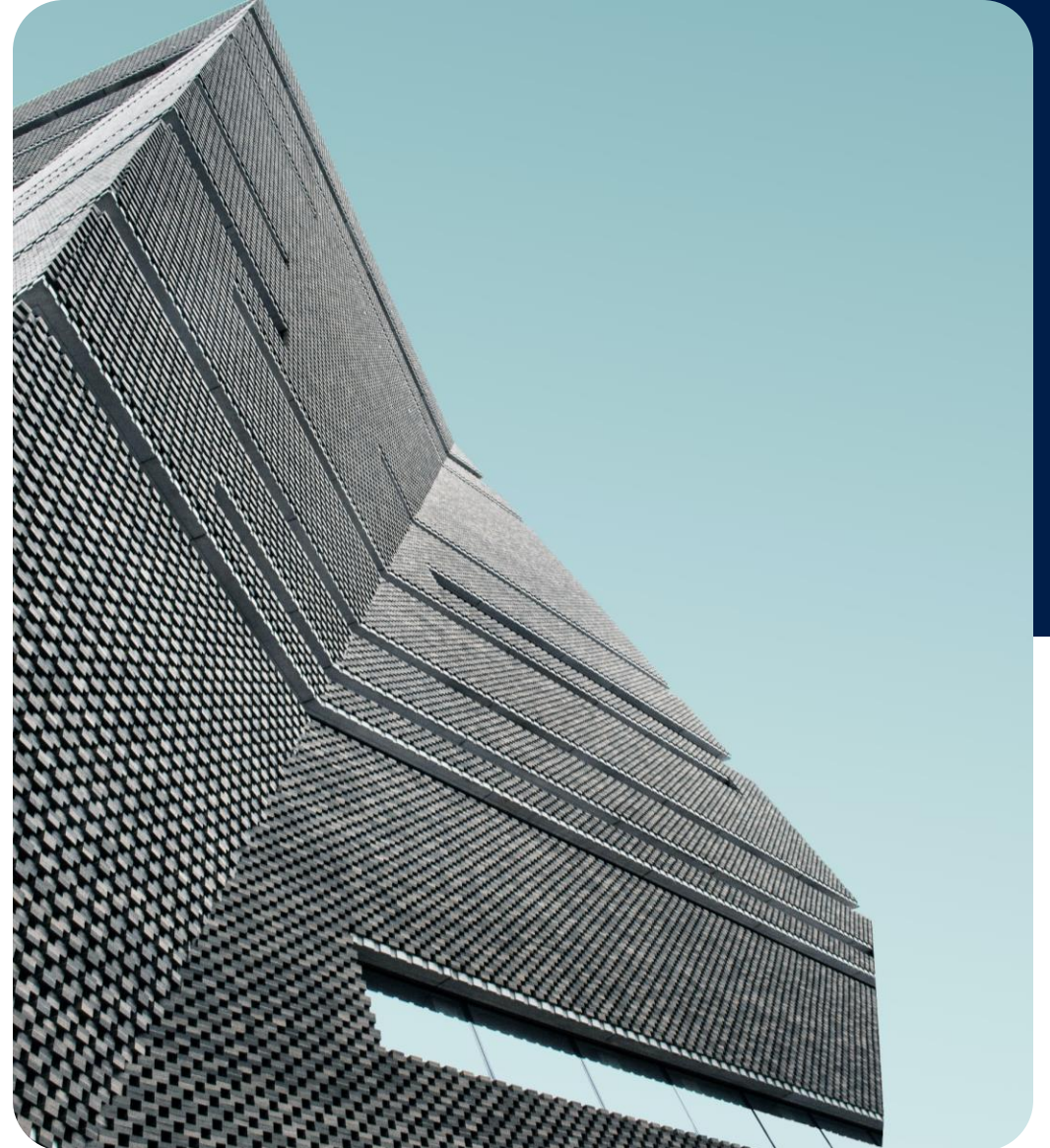


# COOPERATIVE BUILDING RESIDENTIAL UNIT LENDING

Cooperative lending through Fannie Mae or Freddie Mac is subject to the same requirements as condo properties with just a few nuances. The structural, mechanical, and financial components of a co-op property are now the focus of intense review and Reserve Studies are being requested for any properties with questionable financials.

Portfolio and Jumbo residential unit mortgage financing has been impacted greatly. While there is “exception” lending available in non-warrantable co-op buildings, these loans are often offered at higher interest rates with less favorable terms.

Compliance with structural, mechanical, reserve and financial guidelines required.





# COOPERATIVE UNDERLYING MORTGAGE LENDING

Access to lines of credit and an ability to obtain and/or refinance an underlying mortgage is critical to the financial health of a co-op property

Lenders require compliance with Fannie Mae lending guidelines regardless of luxury status or conforming loan size/unit value



# CRITICAL BEST PRACTICES FOR PROPERTY MANAGERS

Completion of  
Questionnaire Form 1076  
for all condo and co-op  
properties managed

01.

Obtain and/or update  
Reserve Study every 3 years  
to limit owner liability and  
ensure compliance

03.

Resolve and/or detail  
property violations and  
steps made to cure default

05.

02.

Maintain detailed information  
for repair projects, and  
resulting special assessments,  
detailing assessment amount,  
reason, length, and impact

04.

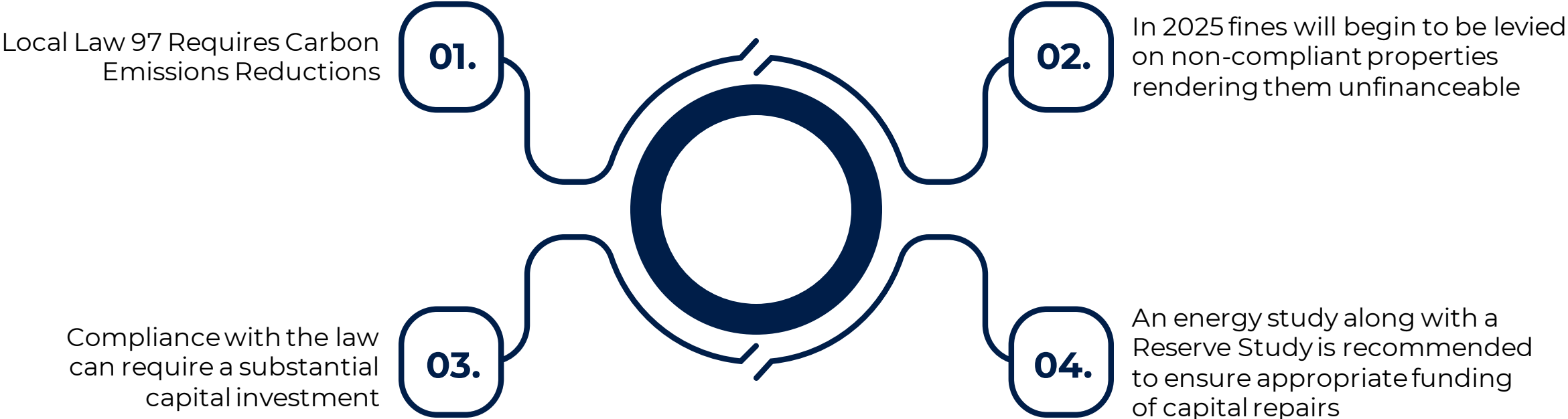
Determine action plan to  
repair and/or replace any  
deferred maintenance  
component

06.

Obtain per-site lending  
approvals to ensure  
mortgage availability



# LOCAL LAW 97 IMPACTS ON LENDING IN NEW YORK



Strategic Inspections Local Law 97 Reserve Study report ensures that carbon emission upgrades along with capital component repair items are clearly outlined and included in reserve projections. Call us to find out how we're helping boards make prudent decisions.





# FLORIDA RESERVE REQUIREMENTS

In the summer of 2022, the Florida legislature enacted some of the most stringent structural and reserve requirements in the country.

Established properties are required to undergo a reserve study and engineering inspection in order to comply with the law.

New condo properties are best aligned with the law by obtaining a reserve study Pre-Construction to determine accurate reserve budgeting and compliance.

Find out more about our Florida Reserve Study products and lending compliance by contacting the customer service team at Strategic Inspections





# CONTACT

Strategic Inspections



[order@strategicinspections.com](mailto:order@strategicinspections.com)



(888) 459-9555



150 Main Street, Suite 2 Port  
Washington, NY 11050



[www.strategicinspections.com](http://www.strategicinspections.com)

Providing Nationwide Reserve Studies for Condominium and Cooperative Buildings

Tech Enabled Reports

Electronic Delivery

On-Site Engineer Inspections

Local Law Expertise



# RESOURCES

## Articles and Links

- › Fannie Mae Lending Guidelines
- › Freddie Mac Guidelines
- › Fannie Mae FAQ

Fannie Mae Lender Letter Temporary Condo and Co-op Guidelines:

<https://singlefamily.fanniemae.com/media/29411/display>

Freddie Mac Bulletin Temporary Condo and Co-op Guidelines:

<https://guide.freddiemac.com/app/guide/bulletin/2021-38>

Fannie Mae FAQ Link

<https://singlefamily.fanniemae.com/media/22326/display>

## Strategic Inspections

### Reserve Study Reports

#### **Order:**

<https://www.strategicinspections.com/request-a-proposal/order@strategicinspections.com>

## Customer Service

#### **Mercedes Good:**

[Mercedes@strategicinspections.com](mailto:Mercedes@strategicinspections.com)

#### **Product Information**

[Orest@strategicinspections.com](mailto:Orest@strategicinspections.com)

#### **Strategic Blog**

<https://www.strategicinspections.com/blog/>

