STRATEGIC INSPECTIONS

Condo and Co-op Property Reserve Studies Critical to Ensuring Mortgage Availability in New York

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For years, unit owners and prospective buyers in New York City have had little trouble securing mortgage financing for condo and co-op properties. Lenders have traditionally approved conforming and jumbo mortgages based primarily on a borrower's creditworthiness and an appraisal confirming the unit's value. However, recent changes to Fannie Mae and Freddie Mac lending guidelines have rendered entire condominium and cooperative properties "unavailable for lending." This designation—or any deviation from the current lending requirements—is making mortgage financing increasingly scarce in some of the country's most valuable real estate markets.

The shift in lending standards stems from the tragic Surfside, Florida condominium collapse, which prompted sweeping regulatory changes across the U.S. Now, stricter requirements for insurance policies, association financial reserves, and the structural and mechanical integrity of buildings have made thousands of condo and co-op properties ineligible for mortgage financing.

Lenders—whether selling loans to Fannie Mae and Freddie Mac or retaining them in their portfolios—have aligned with these new regulations, routinely rejecting mortgage applications for borrowers in buildings that fail to comply.

For condo and co-op boards, as well as property managers, the situation is frustrating. Buyers and existing owners facing mortgage denials must turn to non-warrantable mortgage lenders, where interest rates are significantly higher, and loan terms are often far less favorable.

The Solution: Compliance

The key to maintaining mortgage accessibility is ensuring a property complies with updated lending requirements. However, achieving compliance is easier said than done.

Many condo and co-op owners in New York City are already struggling with rising maintenance costs due to inflation and soaring insurance premiums. Bringing a building into compliance often means increasing insurance coverage to meet new standards, completing necessary repairs, and commissioning a Reserve Study by a professional engineer. These studies assess the condition of structural and mechanical components, ensure they pose no risk to residents, and confirm that reserve funds are adequate to prevent financial strain or special assessments for unit owners.

The Bottom Line

The good news? There's a clear path to keeping mortgage financing available for condo and co-op properties. The challenge? Boards and property managers must take proactive steps to achieve and maintain compliance.

Orest Tomaselli is the CEO of Strategic Inspections, a national provider of Reserve Studies, and the President of Project Review at Condotek, a technology firm that delivers lending compliance data, documents, and analysis for lenders and condo/co-op associations nationwide.

To obtain a proposal for a reserve study anywhere in the US click this link.