

What You Need to Know: **FANNIE MAE AND FREDDIE MAC ENHANCED SAFETY DOCUMENTATION FOR CONDOS**

Freddie Mac announced new, temporary project and community requirements for loans on condos it buys or finances from lenders. These changes will be implemented starting Monday, February 28 and may slow some transactions in condo projects. The requirements are intended to guarantee the safety of buildings and avoid unforeseen assessments in light of the Surfside building collapse.

Freddie Mac will require lenders to provide documentation to demonstrate that projects are not in critical need of repairs and do not require special assessments. These temporary requirements apply to all projects with five or more units. Documentation may include, but is not limited to:

- Homeowners' Association (HOA) or cooperative board meeting minutes
- Engineer's reports
- Reserve studies
- List of necessary repairs provided by the HOA, Cooperative Corporation or management company
- Other substantially similar documentation

Critical repairs do not include:

- Routine repairs and maintenance, as defined above
- Damage or deferred maintenance to one or a few units in the project, provided that there is no impact to the overall safety, soundness, structural integrity, or habitability of the improvements

Regarding special assessments, the seller must determine:

- The reason for the special assessment
- The total amount assessed
- For current special assessments, the total amount is an appropriate allocation or, for planned special assessments, there is adequate cash flow to fund the reason for the special assessment
- For current special assessments, the amount budgeted to be collected year-to-date has been collected

Freddie did not change their reserve requirements for projects. They currently require a 10% reserve or a fully funded reserve based on a recent reserve study.

Fannie Mae implemented similar changes that went into effect January 1, 2022 that will now require lenders to provide detailed architectural and safety verifications of a buildings safety and will not back properties with significant deferred maintenance. Fannie Mae will not allow waivers for a reserve study in lieu of the 10% minimum on new projects.

Combined, Fannie Mae and Freddie Mac finance nearly half of all mortgages. Lenders can originate the loans and have a short window within which to provide the documents and then sell the loan to Freddie Mac. Not all projects or borrowers are eligible for FHA financing and private financing may be more expensive.

For REALTORS® this means that your seller-clients or you may be asked for this information even though it is the lender's responsibility. Requesting the documentation from your HOA or management company early may help to speed up the transaction.