



What brokers need to know about the new Fannie Mae /Freddie Mac guidelines (and how our firm can help)

A whitepaper by Mike Wasserman

10-19-23

The new Fannie Mae/Freddie Mac guidelines for condo sales are stricter than ever. And project approvals are going to be tougher to come by.

It is the last thing any of us need right now. Scant available inventory. Higher interest rates. The proposed transfer tax increases. To say nothing of the current geo-political upheaval and another impending election cycle. And oh...winter.

Lender guidelines for condo/co-op project approvals have changed. Significantly. And if you are not prepared to meet them, expect more pain for your clients. More drama in their transactions. More stress on your business.

Here are four things to keep in mind and three things you must do to meet coming challenges.

Four things to keep in mind

1. Homeowners do not always act in their best interests.

Structurally sound, safe properties are the bedrock of everything we do (pun intended). But some property owners are their own worst enemies. After years of neglect, the cost of necessary repairs can sometimes grow far beyond what owners can afford.

In Chicago, this led to condo de-conversions at Kennelly Square, River City, 1400 Lake Shore, and elsewhere locally. In Surfside Florida, this led to a devastating collapse at Champlain Towers South.

Nobody wants to live in or buy unsafe housing. And now, lenders do not want to risk their money to finance purchases of risky properties.

But political realities get in the way. Few board members have professional building maintenance experience. It can be hard to guide a community through expensive choices. Owners hate high monthly and special assessments. Communities vote NOT to act. Even when they know repairs are necessary. It's human nature to avoid even the most glaring problems.

Owners may look the other way, but Fannie and Freddie will not. Those agencies must compensate mortgage holders if owners cannot or do not repay their loans. The agencies get left holding the proverbial bag. A pretty expensive bag at that.

Fannie and Freddie guaranty about 70% of all residential mortgages in America. They want to ensure their loan guarantees do not collapse. So, they have shifted the onus of confirming building (and loan) safety from associations and owners to loan originators. **The agencies now want loan originators take the hit for bad loans made into unsafe properties.**

2. The lender really has no choice. Project reviews are a thing.

Loan originators must assure the agencies that associations are safe, and they risk loan buybacks if they make bad judgments. **This is a real game changer.**

Lenders must confirm that all condos and co-ops with five or more attached units are safe, structurally sound, and habitable, without regard for whether the association requires full or limited project approval, and even where there are project-approval waivers. We expect that most loan originators will treat 2–4-unit buildings in a comparable manner.

3. It is all about Safety, Soundness, Structural Integrity, and Habitability (SSIH).

With the new guidelines, lenders must confirm that:

- Buildings are not on their “do-not-lend” lists.
- No critical repairs are necessary.
- Unfunded repair costs do not exceed \$10,000 per unit.
- There are no pending evacuation orders due to unsafe conditions.

Form 1076 Addendum (aka the lender questionnaire) specifically asks:

- Whether the association is aware of any such SSIH deficiency.
- Whether there are any open or anticipated building code violations.
- When the last building was last inspected by a licensed architect, engineer, or any other building inspector.
- Whether the last inspection made any SSIH findings.
- Whether a reserve study has been prepared in the last 3 years.
- Whether the association has a funding plan for deferred maintenance
- Whether there is a schedule for the deferred maintenance
- What current reserve account balances exist.
- Whether there are any planned or pending special assessments
- Whether there are any planned or pending loans to finance repairs.

In evaluating properties, lenders must:

- Review all structural and mechanical inspection reports completed within the most recent three years.
- Evaluate the reasons for all pending and planned special assessments.

4. Watch for these red flags/deal-killers

So now that we know what lenders must ask for and what types of answers they need, we can identify potential hot spots – things that may cause buildings not to be approved. To identify properties that will be hard to sell or hard to finance:

1. No Response/Incomplete Response from HOA
2. Code violations
3. Unfunded repairs that must be undertaken within the next 12 months will cost more than \$10,000 per unit.
4. Material deficiencies that may result in a critical element or system failure within one year if left uncorrected.
5. Advanced physical deterioration
6. Potentially damaging mold or unrepaired leaks and water

Three things brokers need to be doing now:

1. Take charge. Act first.

The single best thing you can do for yourself and for your clients is to ask whether any problems exist. Right away. Nobody else is making this a priority. Not the buyer. Not the seller. They will not even know this is a thing unless you tell them.

Lawyers who hold off on ordering condo documents until attorney review is settled are not going to help either.

Not even the lenders who are the arbiters of safety. Most will not even begin a condo review until after an application is filed, passes initial underwriting. And appraisal. And document verification. As of now, this is one of the last steps for most lender workflows.

Nobody wants to discover a problem days before closing. But if you do not ask first, that is what's going to happen.

The current systems are built backwards. And if you let things follow their natural order, you are going to wind up deep into the deal when these problems bubble up. When there is little time left to react. And that is why we are alerting you now.

2. Ask sellers targeted questions up front.

Are there any pending lawsuits, repair projects, or special assessments? Is there a reserve study? Then get the documentation. Lenders are not going to approve loans without the right answers and information.

If a building is not warrantable everyone in the deal will want to know sooner than later. Do not waste time chasing listings in unsalable properties. At a minimum, be sure you know what you are getting into before you take that listing. At least set seller expectations for challenges ahead.

3. Ask your trusted attorney and/or lender to help get condo documents and make initial evaluations.

Gathering the core condo documents as early possible is the new imperative. Doing so can improve your clients' likelihood of timely, successful, and pleasant closings.

Our firm already orders documents promptly to get documents to the buyer's side right away. We can help manage the information and messaging you share with lenders and prospective buyers. So that they can confirm project approval quickly and efficiently. We will even advance the costs.

Your lender has access to the agency databases. Ask them:

- To look up the association in the FNMA Condo Project Manager
- Whether the property is already FHLMC project certified
- If the project is on their own internal do-not-lend lists

Our good friends Steve Schneider at Loan Depot and Michelle Bobart at Guaranteed Rate have both confirmed that they can and will check for deal partners.

The bottom line—and how we can help

These days, contracts and closings are hard enough to come by as it is. Do not waste time on unsellable properties—or at least understand what you are getting into. Screen sellers so you take the right listings.

Your buyers and sellers need to know if there is going to be a problem right away. It is the best thing you can do for them and yourself.

If the property is unacceptable to the lender, your buyer will not get financing. Your seller will lose the deal. **If sellers are not prepared for this, they are going to blame you.** Forget the commission. You are going to lose the client. And the client's good will.

We have already started to see the new guidelines' impact on our clients and updated our workflows to get as far ahead of this as we can.

We can help you update your workflows too. Simply send sellers to our [Fast-Track Sales Plan](#) to find and address issues before they become deal killers.

It's important to us that your clients understand the value you bring to the table. So that your clients have the best possible closing experiences.

Feel free to [schedule a call](#) with me (Mike Wasserman) to learn more.

Check out these resources:

[Our First Take on the FNMA Temporary Guidelines for Condo Reviews \(2021\)](#)

[FNMA Announcement SEL-2023-06](#)

[The Form 1076 Addendum](#)

[Fast-Track Sales Plan](#)