



Superior Funding Corporation

(617) 938-3900 | (800) 506-5706 | NMLS ID: 2972

Purchasing or refinancing a condominium unit? Please be aware of new condominium safety requirements!

Condominium safety requirements were established following the 12-story Champlain Towers South condo building in Surfside, Florida collapse in June 2021. The new standards were first announced as temporary in October 2021 and then as permanent in July 2023.

Who made the standards?

The standards were put forward by Fannie Mae and Freddie Mac, under direction of the Federal Housing Finance Authority (FHFA).

Who and what did the new standards impact?

The standards apply to all condominiums consisting of five or more attached units, regardless of condo review process being followed (full review or limited review). All lenders on Conventional Conforming loans (loans purchased by Fannie Mae and Freddie Mac) are impacted.

What is new and different?

In summary:

- 1) Lenders must determine if the condominium is in need of critical repairs. Condominiums in need of critical repairs are ineligible. If the lender cannot determine if the condominium is or is not in need of critical repairs, the condominium is ineligible. Fannie Mae provides a description of what is and what is not considered critical repairs (see next page).
- 2) Lenders must obtain and review all structural or mechanical inspection reports done in the last three years. If inspection reports indicate unaddressed critical repairs, the condominium is ineligible until the required repairs are completed and documented accordingly.
- 3) Condominiums with special assessments associated with critical repairs are ineligible until repairs are completed.
- 4) Condominiums with an evacuation order due to unsafe conditions are ineligible until unsafe conditions have been remedied.

How is the data about the condominium collected?

Below is the general outline of what needs to be obtained from the association. Additionally, Fannie Mae provides examples of documents that can be reviewed (see Documentation section below).

- All structural or mechanical inspection reports that have been completed within 3 years (beginning with loan application date of Sep 18, 2023, as part of permanent requirements)
- Condo Questionnaire with safety addendum (Fannie Mae form 1076 or equivalent)
- Association meeting minutes covering the last 6 months
- Most recent reserve study

What we recommend

After accepted offer, we **strongly recommend** that the buyer's attorney obtain the association meeting minutes covering the most recent six months, all inspection reports done within the last 3 years, and most recent reserve study as part of buyer representation, prior to purchase agreement signing. These documents can be obtained from the seller. Inability to obtain the documents, or indication of outstanding critical repairs in these documents should serve as a serious red flag.



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Projects in Need of Critical Repairs

Projects in need of critical repairs are those needing repairs or replacements that significantly impact the safety, soundness, structural integrity, or habitability of the project's building(s), or the financial viability or marketability of the project.

Critical repairs include conditions such as:

- material deficiencies, which if left uncorrected, have the potential to result in or contribute to critical element or system failure within one year;
- any mold, water intrusions or potentially damaging leaks to the project's building(s);
- advanced physical deterioration;
- any project that failed to pass state, county, or other jurisdictional mandatory inspections or certifications specific to structural safety, soundness, and habitability; or
- any unfunded repairs costing more than \$10,000 per unit that should be undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through a special assessment).

Examples of some items to consider include, but are not limited to, seawalls, elevators, waterproofing, stairwells, balconies, foundation, electrical systems, parking structures or other load-bearing structures.

If damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the project, then these requirements do not apply.

Routine repairs are not considered to be critical and include work that is:

- preventative in nature or part of normal capital replacements (for example, focused on keeping the project fully functioning and serviceable); and
- accomplished within the project's normal operating budget or through special assessments that are within guidelines.

A project with an evacuation order due to an unsafe condition, either for a partial or total evacuation of the project's building(s), is ineligible until the unsafe condition has been remediated and the building(s) is deemed safe for occupancy.

Special Assessments

Special assessments may be current or planned. Lenders must obtain and review the following information for each special assessment to determine if it addresses a critical repair:

- what is the purpose of the special assessment,
- when was the special assessment approved and is it planned (approved by the unit owners, but not yet initiated by the board) or already being executed,
- what was the original amount of the special assessment and the remaining amount to be collected, and
- when is the expected date the special assessment will be paid in full.

If the special assessment is associated with a critical repair and the issue is not remediated, the project is ineligible.

Inspection Reports

If a structural and/or mechanical inspection was completed within 3 years of the lender's project review date, the lender must obtain and review the inspection report. The report cannot indicate that any critical repairs are needed, no evacuation orders are in effect, and no regulatory actions are required.

If the inspection report indicates there are unaddressed critical repairs, the project is ineligible until the required repairs have been completed and documented accordingly. The lender must review an engineer's report or substantially similar document to determine if the repairs completed have resolved the safety, soundness, structural integrity, or habitability concerns of the project.



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Documentation

Lenders may need to review a combination of documents to determine if a project meets Fannie Mae's physical condition requirements. Lenders are responsible for determining which documents are needed to ensure compliance with the requirements of this Guide. Some examples of this documentation include, but are not limited to:

- HOA board meeting minutes,
- engineer report(s),
- structural and/or mechanical inspection reports,
- reserve studies,
- a list of necessary repairs provided by the HOA or the project's management company,
- a list of special assessments provided by the HOA or the project's management company, and
- other substantially similar documentation.

Reference Documents

Fannie Mae condominium questionnaire form 1076 safety addendum, Fannie Mae lender letter LL-2021-14 (announcing temporary requirements for condominiums), and Fannie Mae selling guide announcement SEL-2023-06 (announcing permanent condominium safety requirements) are attached below for reference.

Condominium Project Questionnaire Addendum

This Addendum is applicable to both condominium and cooperative projects. It must be completed by an authorized representative of the HOA/Cooperative Corporation.

Project Information	
Project Name:	
Project Address:	
Building Safety, Soundness, Structural Integrity, and Habitability	
1	When was the last building inspection by a licensed architect, licensed engineer, or any other building inspector?
2	Did the last inspection have any findings related to the safety, soundness, structural integrity, or habitability of the project's building(s)? <input type="checkbox"/> YES <input type="checkbox"/> NO
2a	If Yes , have recommended repairs/replacements been completed? <input type="checkbox"/> YES <input type="checkbox"/> NO
If the repairs/replacements have not been completed:	
2b	What repairs/replacements remain to be completed?
2c	When will the repairs/replacements be completed?
<i>Provide a copy of the inspection and HOA or cooperative board meeting minutes to document findings and action plan.</i>	
3	Is the HOA/Cooperative Corporation aware of any deficiencies related to the safety, soundness, structural integrity, or habitability of the project's building(s)? <input type="checkbox"/> YES <input type="checkbox"/> NO
3a	If Yes , what are the deficiencies?
3b	Of these deficiencies, what repairs/replacements remain to be completed?
3c	Of these deficiencies, when will the repairs/replacements be completed?

Building Safety, Soundness, Structural Integrity, and Habitability

4 Are there any outstanding violations of jurisdictional requirements (zoning ordinances, codes, etc.) related to the safety, soundness, structural integrity, or habitability of the project's building(s)? YES NO

If Yes, provide notice from the applicable jurisdictional entity.

5 Is it anticipated the project will, in the future, have such violation(s)? YES NO

If Yes, provide details of the applicable jurisdiction's requirement and the project's plan to remediate the violation.

6 Does the project have a funding plan for its deferred maintenance components/items to be repaired or replaced? YES NO

7 Does the project have a schedule for the deferred maintenance components/items to be repaired or replaced? YES NO

If Yes, provide the schedule.

8 Has the HOA/Cooperative Corporation had a reserve study completed on the project within the past 3 years? YES NO

9 What is the total of the current reserve account balance(s)? \$

10 Are there any current special assessments unit owners/cooperative shareholders are obligated to pay? **If Yes:** YES NO

10a What is the total amount of the special assessment(s)? \$

10b What are the terms of the special assessment(s)?

10c What is the purpose of the special assessment(s)?

Building Safety, Soundness, Structural Integrity, and Habitability

11	Are there any planned special assessments that unit owners/ cooperative shareholders will be obligated to pay? If Yes:	<input type="checkbox"/> YES <input type="checkbox"/> NO
11a	What will be the total amount of the special assessments?	\$
11b	What will be the terms of the special assessments?	
11c	What will be the purpose of the special assessments?	
12	Has the HOA obtained any loans to finance improvements or deferred maintenance?	<input type="checkbox"/> YES <input type="checkbox"/> NO
12a	Amount borrowed?	\$
12b	Terms of repayment?	

Additional Comments:**Contact Information**

Name of Preparer:	
Title of Preparer:	
Preparer's Phone:	
Preparer's Email:	
Preparer's Company Name:	
Preparer's Company Address:	
Date Completed:	

Lender Letter (LL-2021-14)

Oct.13, 2021

To: All Fannie Mae Single-Family Sellers Temporary Requirements for Condo and Co-op Projects

Our condo and co-op project standards policies are designed to support the ongoing viability of condo and co-op projects. In the wake of the tragic collapse of the Champlain South Tower in Surfside, Florida, residential buildings with aging infrastructure and significant deferred maintenance are a growing concern across the nation. This concern is expected to increase over the next decade as the majority of residential condo and co-op buildings were built more than twenty years ago. Lenders and other industry stakeholders have asked for clear guidance on how to manage emerging risk related to residential projects.

In response to the concerns about projects with significant deferred maintenance, we are issuing temporary requirements that impact the eligibility of condo and co-op projects containing attached units. These requirements apply to all loans secured by units in projects with five or more attached units, regardless of the type of project review or review waiver.

Effective: Unless otherwise noted below, these requirements are effective for whole loans purchased on or after Jan. 1, 2022 and for loans delivered into MBS pools with issue dates on or after Jan. 1, 2022 and will remain in effect until further notice.

Significant deferred maintenance and unsafe conditions

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 is required for more than seven days or an unknown period of time;
- the project has deficiencies, defects, substantial 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; or
 - 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.

Additionally, projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or recertifications are not eligible.

These policies do not apply to routine maintenance or repairs that a homeowners' association (HOA) undertakes to maintain or preserve the integrity and condition of its property. Also, if damage or deferred maintenance is isolated to one or a few units and



does not affect the overall safety, soundness, structural integrity, or habitability of the improvements then these project eligibility requirements do not apply. Examples of this scenario include water damage to a unit due to a leaky pipe that is isolated or damage from a small fire impacting the interior of a specific unit. However, if the subject property unit is affected, our standard requirements for property condition apply.

Special assessments

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:

- the reason for the special assessment;
- the total amount assessed and repayment terms;
- documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project; and
- borrower qualification with any outstanding special assessment payment.

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

Condo Project Manager “Unavailable” status

We are changing the status of projects in Condo Project Manager™ (CPM™) to “Unavailable” when we become aware of projects that do not meet these temporary eligibility requirements or that do not meet our standard *Selling Guide* requirements for project eligibility. Effective immediately, loans secured by units in any project with a CPM status of “Unavailable” are ineligible for purchase, regardless of the project review process used in underwriting the loan. Lenders can check the status of a particular project by accessing [CPM](#). If a lender has documentation to resolve eligibility issues for projects noted as unavailable in CPM, they are encouraged to submit that documentation for consideration using the CPM mailbox: CPM_manage@fanniemae.com

Reserve requirements

We are also suspending the *Selling Guide* flexibility that allows a lender to obtain a reserve study in lieu of the condo project meeting our 10% budget reserve requirement. Reserve studies are an important tool to help HOAs plan for future needs. It is best practice for HOAs to obtain a reserve study, keep it updated, and follow its recommendations for reserves and maintenance schedules. However, projects that budget less than 10% of the HOA’s assessment income may be at increased risk for significant deferred maintenance and special assessments. Lenders may submit exception requests to us through the Project Eligibility Review Service (PERS) process for established projects that do not meet our minimal reserve requirements but that have a reserve study demonstrating sufficient reserves. We will not consider such requests for new projects at this time.

Project eligibility waivers

Effective immediately Project Eligibility Waivers (PEWs) will not be issued for significant deferred maintenance, failure to obtain a certificate of occupancy, failure to complete or pass a regulatory inspection, or projects subject to large special assessments as described above. Additionally, all new requests related to PEWs for project insurance policy deficiencies are suspended.

Best practices and reminders

As a best practice, the lender should review the past six months of a project’s HOA meeting minutes and obtain information about any maintenance or construction that may have significant safety, soundness, structural integrity, or habitability impacts on the unit or the project. References to items such as improvements, renovations, inadequate reserve funding, budget deficits, and



negative cash-flows should be researched to determine if these items are related to deferred maintenance or other conditions that impact the safety, soundness, structural integrity, or habitability

We recommend that lenders review any available inspection, engineering, or other certification reports completed within the past five years to identify deferred maintenance that may need to be addressed. As a reminder, projects engaged in construction defect or other material litigation are ineligible.

We are reminding lenders that their appraisers must document any special assessments or deferred maintenance that may impact the safety, soundness, structural integrity, or habitability of the unit or the overall project and its amenities. We have issued separate guidance about this to appraisers; lenders are encouraged to review the information on our [website](#).

Regardless of review type, projects must comply with all policies described in the *Selling Guide*, B4-2.1-03, Ineligible Projects, including when completing a Limited Review or an appraisal waiver is used. Using an appraisal waiver does not exempt the lender from completing the required project review. Additionally, relying solely on the appraisal to complete a project review is not recommended. The appraisal often does not have sufficient information for a lender to determine whether the project meets our eligibility requirements.

Finally, homeowners impacted by disasters, such as the recent condo collapse or other similar circumstances, may be eligible to use disaster-related servicing flexibilities as outlined in the *Selling Guide*, [B2-3-05, Properties Affected by a Disaster](#) and *Servicing Guide*, [D1-3-01, Evaluating the Impact of a Disaster Event and Assisting a Borrower](#). For additional guidance, review the Disaster Relief [FAQs](#).

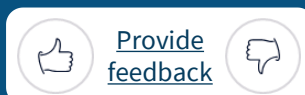
Additional Resources

Refer to the following resources for more information about our project policies, the PERS process, and CPM:

- [Protecting Condos as a Sustainable Housing Option](#)
- [Condo, Co-Op, and PUD Eligibility](#)
- [PERS Getting Started Guide and PERS Overview](#)
- [Condo Project Manager](#)
- [Appraising and Underwriting Condo and Co-op Projects](#)

Lenders may also contact their Fannie Mae Account Team if they have questions about this Lender Letter. Have guide questions? Get answers to all your policy questions, straight from the source. [Ask Poli](#).

Let your voice be heard! We want your feedback on our policy communications to help us improve the clarity of new and updated policy and understand any implications to borrowers. Click below to take a short survey regarding this Lender Letter.





Selling Guide Announcement (SEL-2023-06)

July 05, 2023

The *Selling Guide* has been updated to include changes to the following:

- [Review requirements for condo and co-op project eligibility](#): updates project standards policies for properties in need of critical repairs and special assessments
- [Eligibility requirements for limited cash-out refinance transactions](#): requires at least one borrower to be a current owner of the subject property
- [Sale of loans aged six months or less](#): incorporates eligibility requirements for the sale of loans aged six months or less

View the list of [impacted topics](#).

Review requirements for condo and co-op project eligibility

In Lender Letter [LL-2021-14](#) we announced temporary requirements related to significant deferred maintenance and special assessments. Projects in need of critical repairs or that have significant deferred maintenance can result in unsafe living conditions, evacuations, and uninhabitable homes. Special assessments for these types of issues can result in a substantial financial hardship for homeowners, which can put them at risk for loan default and foreclosure.

At the direction of the FHFA, Fannie Mae and Freddie Mac have worked together to update project review requirements to assist lenders in identifying projects that may have issues that result in unsafe conditions, and to promote sustainable homeownership. Fannie Mae is updating its project standards policies to address projects in need of critical repairs, and projects that have material deficiencies (such as significant deferred maintenance) or special assessments. These requirements apply to all loans secured by units in condo projects (condo loans) and all cooperative share loans secured by share ownership in a co-op project (co-op share loans) with five or more attached units, regardless of the project review type. The requirements also apply to loans eligible for delivery under the waiver of project review policy.

These project review requirements:

- define critical repairs, material deficiencies, and significant deferred maintenance, including defining routine repairs that are not considered critical;
- prohibit sale of condo loans and co-op share loans in projects in need of critical repairs;
- prohibit sale of condo loans and co-op share loans in projects with current evacuation orders due to unsafe conditions;
- require a review of all structural or mechanical inspection reports that have been completed within 3 years of the project review date;
- provide new requirements for condo or co-op projects with special assessments;
- prohibit sale of condo loans and co-op share loans in projects with unfunded repairs totaling more than \$10,000 per unit; and
- prohibit sale of condo loans and co-op share loans in projects that have an "Unavailable" status in Condo Project Manager™ (CPM™).

When these policy changes go into effect, the guidance and requirements in Lender Letter LL-2021-14 will be retired. However, we will not resume the practice of evaluating project eligibility waivers (PEWs) for insurance policy deficiencies.



Effective: Lenders may incorporate these policy changes into the review process immediately. Lenders must implement these new policies for all new loan applications dated on or after Sept. 18, 2023. Note, if a lender has an unexpired project review completed prior to Sept. 18, 2023, they must still validate these new requirements have been met for loan applications dated on or after that date. This applies to all review types.

CPM will be updated the weekend of Sept. 15, 2023, with new data elements related to critical repairs, material deficiencies, significant deferred maintenance, inspection reports, evacuation orders, and special assessments. For all unexpired CPM project eligibility certifications, the lender must update the certification with the new data requirements for loan applications dated on or after Sept. 18, 2023. The new data requirements apply to all initial project review submissions to CPM on and after Sept. 18, 2023, regardless of the loan application date. Loans with application dates prior to Sept. 18, 2023 for which the lender has an unexpired project review in CPM completed prior to that date, may be underwritten in accordance with the policies outlined in Lender Letter LL-2021-14 and the unexpired CPM certification.

Sale of loans aged six months or less

In March 2020, we announced in Lender Letter [LL-2020-03](#) a temporary requirement that loans be no more than six months old to be eligible for sale on a flow basis. In February 2023, we announced in Lender Letter [LL-2021-03](#) that this temporary requirement would be made permanent and be incorporated into the *Selling Guide* at a future date. This update is to incorporate the eligibility requirement for the sale of loans aged six months or less into the Guide as follows:

- a new loan eligibility requirement is being added that requires loans sold on a flow basis to be no more than six months old to be eligible for sale, measured from the first payment date to the Purchase Ready date (whole loans) or MBS pool issue date; and
- an exception is permitted for HomeStyle® Renovation loans when the loan is not delivered until renovation is complete; these loans may be up to 15 months old, measured from the note date to the Purchase Ready date (whole loans) or MBS pool issue date.

We are maintaining the current definition and requirements for seasoned loans (loans more than one year old). Seasoned loans are restricted to negotiated transactions only.

Eligibility requirements for limited cash-out refinance transactions

We revised the eligibility requirements for limited cash-out refinances to stipulate that at least one borrower on the new loan must be a current owner of the subject property (on title) at the time of the initial loan application. Exceptions to this policy are permitted in the following scenarios:

- the borrower acquired the property through an inheritance or was legally awarded the property via a legal settlement or divorce decree, or
- the property was previously owned by an *inter vivos* revocable trust and the borrower is the primary beneficiary of the trust.

Effective: Lenders are encouraged to comply with this policy change immediately but must do so for new loan applications beginning Sept. 1, 2023. DU messaging will be updated in a future release to remind lenders of this requirement.

Lenders may contact their Fannie Mae Account Team if they have questions about this Announcement.
Have guide questions? Get answers to all your policy questions, straight from the source. [Ask Poli](#).



Impacted Topics

Section of the Announcement	Updated <i>Selling Guide</i> Topics (Dated July 5, 2023)
Review requirements for condo and co-op project eligibility	<ul style="list-style-type: none">▪ B4-2.1-02, Waiver of Project Review▪ B4-2.1-03, Ineligible Projects▪ B4-2.2-01, Limited Review Process▪ B4-2.2-02, Full Review Process▪ B4-2.3-02, Condo Project Eligibility
Sale of loans aged six months or less	<ul style="list-style-type: none">▪ B2-1.5-02, Loan Eligibility▪ B6-1-01, General Government Mortgage Loan Requirements▪ C1-1-01, Execution Options▪ C2-1.1-03, Mandatory Commitment Terms, Amounts, Periods and Other Requirements
Eligibility requirements for limited cash-out refinance transactions	<ul style="list-style-type: none">▪ B2-1.3-02, Limited Cash-Out Refinance Transactions