

Updated Fannie Mae and Freddie Mac Guidelines for Co-operative and Condominium Housing

By Samuel E. Botta, CPA, Partner and Paul B. Kruger, CPA, Senior Manager

In response to the structural collapse of the Champlain Towers South condominium in Surfside, Florida in June 2021, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) have provided more stringent lending guidelines entailing scrutinization of the structural integrity of co-ops and condominiums and their cash reserve balances to correct any structural defects.

Although there are some lenders who do not require Fannie Mae and Freddie Mac underwriting, most lenders follow their guidelines and regulations. It is important to know that Fannie Mae and Freddie Mac are the largest secondary mortgage lenders for co-op and condominium financing and will no longer purchase loans secured by properties with deferred maintenance, unsafe conditions and low cash reserves necessary to fund structural repairs.

Which loans are affected?

- Fannie Mae's rule changes apply to co-op and condominium loans purchased on or after January 1, 2022.
- Freddie Mac's rule changes are effective for mortgages with settlement dates on or after February 28, 2022.

What are the new noteworthy regulations from Fannie Mae and Freddie Mac?

- Co-ops and condominiums are required to provide lenders with documentation received from regulatory and inspection agencies to make repairs due to unsafe conditions.
- Whenever a closing on a unit sale is in process, many lenders are now requesting questionnaires be completed by co-ops and condominiums with the intent of uncovering whether there are any known significant deferred maintenance issues.
- Increased scrutiny of special assessments billed to unit-owners and cash reserves available to fund the repairs of any structural defects identified. Freddie Mac or Fannie Mae will not repurchase a loan if a special assessment has been billed to unit-owners to fund the repair and such repair has not been completed.

How will these new regulations affect co-ops and condominiums?

With more scrutinization of a building's physical structure and cash reserves, current owners and buyers of units will have more limited access to financing. Further, failure of co-ops and condominiums to complete lender questionnaires required by these new regulations may result in mortgages falling through for unit buyers. Owners may find it more difficult to refinance their current mortgages. Although these regulations are considered to be temporary, it is very likely they will become permanent.

Contact Us

Please reach out to your PKF O'Connor Davies engagement team with any questions or concerns you may have regarding the implementation of this new guidance or contact:

Samuel E. Botta, CPA
Partner
sbotta@pkfod.com

Paul B. Kruger, CPA
Senior Manager
pkruger@pkfod.com

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