



Fannie Mae

# The Future of Condo Lending

Fannie Mae remains focused on long-term homeownership sustainability, continuously refining our property and underwriting requirements to help set homebuyers up for success. While homes in condo and co-op projects are a great choice for many consumers – especially first-time homebuyers, who make up a higher concentration of condo and co-op buyers – we are mindful of the unique considerations of those ownership types and the challenges of aging infrastructure.

As the market evolves and new issues emerge, we evaluate our policies and develop innovative solutions to support the condo and co-op market. In 2021, we introduced new temporary requirements designed to help protect borrowers from physically unsafe or financially unstable projects. Since then, concerns about aging infrastructure have continued, including reports of projects with structural challenges that, in some instances, led to evacuations and condemnations.

Because of that risk, we're now making many of those temporary provisions permanent as part of our recently updated policies to address projects in need of critical repairs, projects that have material deficiencies (such as significant deferred maintenance), and special assessments for projects consisting of five or more attached units. These updates were made following an analysis of aging condo and co-op infrastructure, industry engagement, and in alignment with Freddie Mac.

Fannie Mae's revised policies support the ongoing viability of condo and co-op projects by requiring disclosure of needed critical repairs and significant deferred maintenance that may impact the safety, soundness, structural integrity, or habitability of a condo or co-op unit, or the overall project and its amenities. Loans secured by units in condo and co-op projects requiring critical repairs or that have unresolved significant deferred maintenance will not be eligible for sale to Fannie Mae until the required repairs are made. We have also adopted a policy that requires lenders to evaluate special assessments, including the reason for the assessment and the ability of unit owners to make timely payments for the assessment.

Our updated condo and co-op requirements are designed not only to protect lenders and Fannie Mae from a risk management perspective, but also to protect borrowers from physically unsafe or financially unstable projects, which could translate to significant spikes in homeownership costs. Together, these policies promote safe and sustainable homeownership.

## **Fannie Mae's Condo Eligibility Process**

Fannie Mae has long required review of several important condo project characteristics to determine whether a project meets our eligibility requirements. To help streamline this aspect of the loan origination and underwriting process and to save homebuyers money, Fannie Mae tracks project eligibility in Condo Project Manager™ (CPM™), a free, web-based tool that enables lenders to determine if the project

already has a Fannie Mae eligibility status or to quickly and easily certify a condo project through their own review.

Historically, we expected lenders to determine and certify condo project eligibility based on our guidelines by collecting information from the condo association and other sources. To simplify the process for lenders and borrowers, we are in the process of collecting information so that in certain situations Fannie Mae can make the eligibility decision on condo projects. When lenders find that a condo project is shown in CPM as meeting Fannie Mae's eligibility guidelines, they do not have to acquire new documentation or information directly from homeowner's associations or management companies, which reduces the amount of time lenders need for underwriting. It may also reduce costs for borrowers because lenders may not incur additional fees – typically passed on to the borrower – to obtain the condo documents for underwriting purposes.

Already, CPM data provides insight into thousands of condo projects across America and allows us to proactively provide project eligibility determinations for our lender partners in a safe and sound manner. From March 2022 through mid-June 2023, Fannie Mae purchased more than 50,000 loans on which we have issued a project approval, saving consumers more than \$13 million in condo underwriting costs (estimate based on Fannie Mae's analysis of average document costs of \$267 per loan). This is a big step toward realizing our vision to provide eligibility decisions on as many condo and co-op projects in the country as possible.

Occasionally, Fannie Mae may assign an "unavailable" status in CPM to a condo or co-op project if we obtain information indicating that a project does not meet our criteria. Loans secured by units in projects with an "unavailable" status are not eligible for sale to Fannie Mae. As of June 2023, just 1.2% of the projects in CPM were assigned an "unavailable" status. Needing critical repairs or having significant deferred maintenance are just some characteristics that would make a project ineligible under Fannie Mae guidelines. Most projects that are currently listed as unavailable have other eligibility issues, such as active or pending significant litigation, hotel- or resort-type characteristics with transient occupancy, too much commercial space, or inadequate insurance.

A project's unavailable status can change when sufficient documentation is provided to confirm the eligibility issues have been resolved. Homeowners or potential borrowers concerned about a Fannie Mae project eligibility status are encouraged to work with their mortgage lender to discuss a project's compliance with Fannie Mae's eligibility guidelines, and to identify and correct potential eligibility issues. Mortgage lenders can also identify other lending programs that may provide financing for loans in projects with certain characteristics that do not meet Fannie Mae eligibility requirements, such as selling the loan to another secondary market participant or keeping it in their own portfolio.

Condo and co-op properties are an essential part of the nation's housing supply, which can provide an affordable homeownership option and lifestyle choice for many buyers. Fannie Mae is committed to serving this market segment as a leader in condo and co-op financing, but not at the expense of a borrower's safety or long-term financial stability. As we focus on the future of condo lending, we will continue to balance prudent risk management for our company while supporting our lender partners, lowering borrowing costs for homebuyers, and encouraging the creation and preservation of affordable and sustainable housing in condo and co-op projects across the country.