



## **MFM Bulletin: 004-2022**

**Date:** January 17, 2022

**Subject:** Freddie Mac and Fannie Mae Condo Project Review Changes

Freddie Mac has issued bulletin 2021-38 with significant changes to their Condo Project review requirements. In the aftermath of the collapse of the Champlain Towers Condo project in Miami, the risks of residential buildings with serious structural issues and those needing critical repairs has been brought to the forefront of concern with both Freddie Mac and Fannie Mae.

Therefore, both Freddie and Fannie will now require that lenders perform additional due diligence review to ALL condo projects to determine if the project is in need of critical repairs. This requirement is temporary until further notification from Freddie Mac and Fannie Mae and is effective immediately.

**The following documentation will be required for all condominium projects, except for projects with 2-4 units and detached (site) Condo units. Effective, immediately, the limited condo project review is no longer available. A full condo project review (with additional documentation listed below) is required.**

Property inspection waivers will be allowed, but all other documentation is required. Fannie Mae has amended the Full Condominium Project Questionnaire adding an addendum with questions relating to Building Safety, Soundness, Structural Integrity and Habitability. The new form (attached) is required for use immediately.

Full Project Documentation Required for all condo projects:

- Fannie Mae FULL Condominium Project Questionnaire **and addendum**
- Current Homeowners Association Budget and Balance Sheet
- Copy of the last **three** Homeowners Association Board meeting minutes
- Current HOA insurance policies including: Liability policy (\$1m coverage required), Hazard policy covering entire project, including amenities, Project Flood policy (if required)
- Condo legal documents (if required)

If required repairs are mentioned (over and above routine repairs and maintenance) then the following additional documentation is required:

- List of necessary repairs provided by the HOA (if mentioned in the HOA minutes, budget or other documentation provided)
- Engineer's reports (if structural concerns are mentioned)

**Projects in need of critical repairs or where material deficiencies are evident or projects that display significant deferred maintenance are not eligible for sale to either Freddie Mac or Fannie Mae. See attached bulletin for definition of the above terms.**



**Projects with Special Assessments:**

Any project where there is a Special Assessment assessed to the units will be reviewed carefully to determine if project is eligible. Projects with current or proposed special assessments will require the following documentation

- Letter from the HOA board providing details for the reason for the special assessment and the total amount of the assessment.
- Current YTD Income statement specifying the amount budgeted for special assessment and the amount collected so far (must be dated within 90 days of project review)

Please contact the MFM Underwriting department ([underwriting@memberfirstmortgage.com](mailto:underwriting@memberfirstmortgage.com)) if you have any questions or concerns.

Thank you

TO: Freddie Mac Sellers

December 15, 2021 | 2021-38

## SUBJECT: TEMPORARY CONDOMINIUM AND COOPERATIVE PROJECT REQUIREMENTS AND TOPIC 5600 REORGANIZATION

This Guide Bulletin announces:

- **Temporary Condominium and Cooperative Project requirements**
  - [Temporary project review requirements](#) regarding projects in need of Critical Repairs and projects with special assessments – **February 28, 2022**
- **Guide Topic 5600 reorganization**
  - The reorganization of Topic 5600 concerning [property eligibility and appraisal requirements](#) – **March 31, 2022**

### TEMPORARY CONDOMINIUM AND COOPERATIVE PROJECT REQUIREMENTS

Our project review requirements for Condominium and Cooperative Projects are designed to address project related risks that include but are not limited to:

- The marketability and condition of the project
- The marketability of the units within the project, and
- The financial stability and viability of the project

In the aftermath of the collapse of the Champlain Towers South in Surfside, Florida, the risks of residential buildings with aging infrastructure and in need of Critical Repairs have been brought to the forefront of discussion throughout the nation.

In response to feedback we received from Sellers and other industry stakeholders regarding these risks, we are issuing temporary project review requirements regarding projects in need of Critical Repairs and projects with special assessments. The Guide will not be updated to reflect these changes.

Although our Condominium Project reserves requirements remain unchanged, we are providing a reminder of some of the key elements of those requirements in this Bulletin.

The temporary requirements apply to all Mortgages secured by units in projects with five or more attached units, regardless of the project review type or if the Mortgage is eligible to be delivered as Exempt From Review, as illustrated in the table below. These new requirements are in addition to, and do not supersede, any of the current applicable Guide requirements.

	Seller must determine compliance with the requirements regarding	
	Projects in need of Critical Repairs	Special Assessments
<b>Freddie Mac project review types</b>		
<b>Streamlined reviews</b> Guide Section 5701.4	X	X
<b>Established Condominium Projects</b> Section 5701.5	X	X
<b>New Condominium Projects</b> Section 5701.6	X	X
<b>Reciprocal project reviews</b> Section 5701.9	X	X
<b>Cooperative Project reviews<sup>1</sup></b> Section 5705.4	X	X
<b>If delivered in accordance with the requirements in Section 5701.7 or 5705.7, Exempt From Review:</b>		
<b>2- to 4- Unit Condominium Projects</b>		
<b>Detached Condominium Units</b>		
<b>Freddie Mac owned “no cash-out” refinance Condominium Unit Mortgages/Cooperative Share Loans</b>	X	X
<b>Freddie Mac Refi Possible<sup>SM</sup> Mortgages</b>	X	X

<sup>1</sup>Temporary requirements are not applicable to 2- to 4- unit Cooperative Projects and detached Cooperative Units.

## Effective date

All of the temporary Condominium and Cooperative Project requirement changes announced in this Bulletin will be effective for **Mortgages with Settlement Dates on or after February 28, 2022** and will remain in place until further notice.

Reminders: If the Condominium or Cooperative Project does not meet Freddie Mac’s project eligibility requirements on the Note Date, the Seller may deliver the Condominium Unit Mortgage or Cooperative Share Loan at the time the project complies with all of these requirements as long as all other applicable project review and eligibility requirements have been met, including but not limited to, the Seller must deliver a Condominium Unit Mortgage or Cooperative Share Loan no later than 120 days after the Note Date. If the Condominium Unit Mortgage or Cooperative Share Loan is not delivered within 120 days after the Note Date, the Seller must update the review and determination of the Condominium or Cooperative Project eligibility. See Sections 5701.2(a)(3), 5701.2(b)(4), 5705.2(a)(3) and 5705.2(b)(6).

## Key terms defined

To provide more guidance and specificity as to our temporary requirements, we are providing definitions for certain terms that are widely used in the Multifamily market. Sellers should be familiar with the following:

Term	Definition
Critical Repairs	<p>Repairs and replacements that significantly impact the safety, soundness, structural integrity or habitability of the project's building(s) and/or that impact unit values, financial viability or marketability of the project. These repairs and replacements include:</p> <ul style="list-style-type: none"> <li>• All life safety hazards</li> <li>• Violations of any federal, State or local law, ordinance or code relating to zoning, subdivision and use, building, housing accessibility, health matters or fire safety</li> <li>• Material Deficiencies</li> <li>• Significant Deferred Maintenance</li> </ul>
Material Deficiencies	<p>Unresolved problems that cannot reasonably be addressed by normal operation or routine maintenance and which include:</p> <ul style="list-style-type: none"> <li>• Deficiencies which, if left uncorrected, have the potential to result in or contribute to critical element or system failure within one year</li> <li>• Deficiencies that will likely result in a significant escalation of remedial cost related to any material building components that are approaching, have reached or exceeded their typical expected useful life or whose remaining useful life should not be relied upon in view of actual or effective age, abuse, excessive wear and tear, poor maintenance and exposure to the elements</li> <li>• Any mold, water intrusions or potentially damaging leaks to the project's building(s)</li> </ul>
Significant Deferred Maintenance	<p>The postponement of normal maintenance, which cannot reasonably be resolved by normal operations or routine maintenance and which may result in any of the following:</p> <ul style="list-style-type: none"> <li>• Advanced physical deterioration</li> <li>• Lack of full operation or efficiency</li> <li>• Increased operating costs</li> <li>• Decline in property value</li> </ul>
Routine Repairs and Maintenance	<p>Repairs and maintenance that are expected to be completed by the project in the normal course of business and are nominal in cost. These repairs are not considered to be critical and include work that is:</p> <ul style="list-style-type: none"> <li>• Often preventative in nature</li> <li>• Accomplished within the project's normal operating budget</li> <li>• Typically completed by on-site staff</li> <li>• Focused on keeping the project fully functioning and serviceable</li> </ul>

Term	Definition
	<ul style="list-style-type: none"> <li>Minor deficiencies with a cost of \$3,000 or less per repair item that do not warrant immediate attention but that require repairs or replacements that should be undertaken within the next 12 months</li> <li>Scheduled repairs and maintenance that are fully funded, may have a cost greater than \$3,000 and will be undertaken within the next 12 months</li> </ul>

### Projects in need of Critical Repairs

Mortgages secured by units in Condominium or Cooperative Projects in need of Critical Repairs, as defined above, are not eligible for sale to Freddie Mac. Acceptable sources of documentation to determine if a project is in need of Critical Repairs may include but are 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, and
- Other substantially similar documentation

Any documentation used to determine the eligibility of projects in need of Critical Repairs must be retained and provided to Freddie Mac upon request.

Violations of State or local law, ordinance or code, as referenced in the Critical Repairs definition, include failure by the HOA or Cooperative Corporation to schedule an inspection required by the applicable jurisdiction and any directive from a regulatory authority or inspection agency to make Critical Repairs.

Projects in need of Critical Repairs remain ineligible until the required repairs and/or inspection report have been completed and documented. Sellers must review an engineer’s report or substantially similar document to determine that the repairs resolved the building’s safety, soundness, structural integrity, or habitability concerns.

These temporary requirements do not apply to:

- Routine Repairs and Maintenance, as defined above, and
- 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

When determining if a repair is a Routine Repair or Maintenance, Sellers are reminded our Condominium Project budget requirements include determining that appropriate assessments are established to manage the project and there are appropriate allocations for line items pertinent to the type and status of the Condominium Project. Sellers should evaluate the line items on the budget, especially those for repairs and maintenance, and the amounts associated with those line items as part of the Seller’s project review process.

### Special assessments

Any current special assessment, even if paid in full for the subject unit, must be reviewed to determine eligibility. This includes any special assessment that the board approved and, if required, owners approved but the board has not initiated collection yet (e.g., a planned special assessment). 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, and
- For current special assessments, the amount budgeted to be collected year-to-date has been collected

To determine that the amount budgeted to be collected year-to-date (YTD) has been collected:

- The Seller must review an income statement or a substantially similar document which has YTD budgeted and actual amounts for the special assessment
- The document should be dated within 90 days of the project review date, and
- Any shortfall between the budgeted and actual YTD amounts for the special assessment must not be more than 5%  
Calculation:  $1 - (\text{actual YTD amount collected} \div \text{budgeted YTD amount}) \leq .05$

Any documentation used to determine the eligibility of the special assessment, such as the income statement referenced above, must be retained and provided to Freddie Mac upon request.

As a reminder, special assessments with more than 10 monthly payments remaining must be included in the calculation of the monthly housing expense-to-income ratio and must be documented in the Mortgage file. See Section 5401.1(a) for additional details.

### Condominium Project questionnaire addendum

In response to industry feedback, Freddie Mac and Fannie Mae are developing Form 476A, an addendum to [Form 476, Condominium Project Questionnaire – Full Form](#). Form 476A may assist Sellers in determining whether a project meets the temporary Condominium and Cooperative Project requirements announced in this Bulletin.

Sellers will not be required to use Form 476A. The new form, however, will include detailed questions intended to solicit a minimum level of information that Sellers must obtain to determine whether a project complies with the temporary requirements. Sellers may need to obtain additional information and/or documentation for some projects to determine if a project meets the temporary requirements. Form 476A may also be used for Cooperative Projects.

Additionally, we are retiring [Form 477, Condominium Project Questionnaire – Short Form](#). Although [Form 477](#) will no longer be available on our [Condominium Unit Mortgages web page](#), [Form 476](#) and, when completed, Form 476A will continue to be available.

### Reserve requirement reminders

Freddie Mac is not changing reserve requirements for any of our project review types with this Bulletin. Sellers may continue to rely on a working capital fund for New Condominium Projects or a reserve study, for both Established and New Condominium Projects, when the project's budget provides less than 10% replacement reserves. See Sections 5701.5(c), 5701.5(e), 5701.6(c), 5701.6(k) and 5701.6(l).

As a reminder, if a Seller relies on a reserve study, then the Seller must ensure the reserve study meets the requirements in Section 5701.5(e) or 5701.6(k), which include but are not limited to:

- A reserve study's financial analysis must validate that the project has appropriately allocated the recommended reserve funds to provide the Condominium Project with sufficient financial protection comparable to Freddie Mac's standard budget requirements for replacement reserves,
- The reserve study's annual reserve funding plan, which details total costs identified for replacement components, must meet or exceed the study's recommendation and conclusion,
- The most current reserve study (or update) must be dated within 36 months of the Seller's determination that a Condominium Project is eligible, and
- The reserve study must be prepared by an independent expert skilled in performing such studies (such as a reserve study professional, a construction engineer, a certified public accountant who specializes in reserve studies, or any professional with demonstrated experience and knowledge in completing reserve studies)

When Sellers evaluate the reserve study's financial analysis, Sellers should compare, for the current fiscal year, the estimated beginning of the year (BOY) reserve fund balance in the reserve study to the actual BOY reserve fund balance. The reserve study's recommended reserve allocation for the current fiscal year correlates to the project starting the year with that estimated reserve fund balance. If the project started the year with significantly less than what was estimated, then the project has likely failed to appropriately allocate the recommended reserve funds to provide the Condominium Project with sufficient financial protection.

Sellers are reminded that they may submit a Project Waiver Request (PWR) through Condo Project Advisor® for a Mortgage secured by a Condominium Unit in an Established Condominium Project that does not meet our requirements for reserves for capital expenditures and deferred maintenance in Section 5701.5(c).

## Additional reminders

As a reminder, Sellers are not relieved of project related representation and warranties for Condominium Unit Mortgages that receive an automated collateral evaluation (ACE) waiver. Sellers must ensure the requirements of the applicable Condominium Project review type or the requirements of Exempt From Review have been met.

Sellers should not rely exclusively on the appraisal to complete a project review. The appraisal may not have sufficient information for a Seller to determine if the project meets our project eligibility requirements.

Additionally, Sellers must determine that Condominium Projects reviewed under any project review type or delivered as Exempt From Review meet the applicable requirements in Section 5701.2.

Finally, homeowners and Shareholders impacted by disasters, such as the recent Condominium Project collapse or other similar circumstances, may be eligible to use disaster-related Servicing flexibilities as described in Guide Chapter 8404.

## TOPIC 5600 REORGANIZATION

### Effective March 31, 2022

In an effort to provide greater ease of use with respect to our property eligibility and appraisal requirements, we are revising Topic 5600. These revisions will reduce and/or eliminate certain redundancies, update titles and headings for more efficient keyword search and create new chapters that organize categories of related content and requirements. No requirements are changing as part of the update.

This reorganization includes revising the existing Chapter 5601 and creating new Guide chapters as follows:

- Chapter 5601, *Property Eligibility*
- Chapter 5602, *Collateral Representations and Warranties, Loan Collateral Advisor and Automated Collateral Evaluation (ACE)*
- Chapter 5603, *Seller Requirements for Appraiser Independence Requirements, Appraiser Engagement and Qualifications, Information Disclosure and Unacceptable Appraisal Practices*
- Chapter 5604, *Appraisal Report Forms, Inspection Types and Exhibits, Age of Appraisal Reports, Appraisal Updates, Appraisal Re-use and Reconciliation of Multiple Opinions of Market Value*
- Chapter 5605, *Appraisal Requirements*
- Chapter 5606, *Appraisal Data and Delivery: Uniform Appraisal Dataset (UAD), Uniform Collateral Data Portal (UCDP) and Electronic Submission of Appraisal Reports*

The new organization of the material provides a process flow for a better Seller experience. We are also updating all related cross-references throughout the Guide.

Review this [video clip](#) to learn more about the reorganization of Topic 5600, and refer to this [mapping document](#) for a detailed outline of relocated Topic 5600 content.

Guide impacts: Chapter 5601, 5602 through 5606 (**new**), Sections 1301.11, 2406.4, 3401.11, 3402.5, 4201.5, 4201.11, 4201.15, 4201.18 through 4201.20, 4203.1, 4302.5, 4407.1 through 4407.3, 4501.6, 4501.9, 4602.7, 4602.9, 4606.4, 4606.6, 4607.1, 4607.6, 4607.9, 5102.1, 5306.1, 5701.8, 5703.2, 5703.6, 5703.9, 5705.2, 5705.8, 6302.8, 6302.10, 8104.6, 8203.2, 8203.3, 8401.1, 9202.16, 9206.8, 9207.4, 9209.5 and 9301.33

## GUIDE UPDATES SPREADSHEET

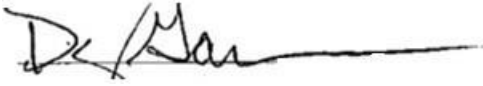
For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, access the Bulletin 2021-38 (Selling) Guide Updates Spreadsheet via the Download drop-down available at <https://guide.freddiemac.com/app/guide/bulletin/2021-38>.



## CONCLUSION

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call the Customer Support Contact Center at 800-FREDDIE.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Gardner", with a long horizontal line extending to the right.

Danny Gardner  
Senior Vice President, Client and Community Engagement