Fannie Mae

APPRAISER AND LENDER RESPONSIBILITIES

Appraising and underwriting condo and co-op projects

Overview

Adequate financial reserves are critical to funding the significant maintenance that supports the ongoing viability of condo and co-op projects. To maintain homeownership sustainability, Fannie Mae has long required scrutiny of project reserves on loans delivered to us, as well as disclosure of any special assessments and review of several other important project characteristics.

In response to concerns about aging infrastructure and projects with significant deferred maintenance, we've issued additional requirements that impact the eligibility of condo and co-op projects. They are designed to protect borrowers from physically unsafe or financially unstable projects, and to prudently manage risk for Fannie Mae, our lenders, and investors.

Specifically, these requirements address the following, and more:

- Significant deferred maintenance and unsafe conditions
- Special assessments
- Reserve requirements

Our project standards are designed to support the ongoing viability of condo and co-op projects to foster homeownership sustainability.

Guidance for appraisers and lenders

Lenders and appraisers have interconnected duties when it comes to condo and co-op projects. For loans sold to us that are secured by units in condo and co-op projects, lenders are responsible for determining that the projects meet all applicable Fannie Mae eligibility requirements. Appraisers must document any special assessments or significant deferred maintenance that may impact the unit's safety and soundness or marketability, or the financial stability or physical safety of the overall project and its amenities.

The guidance in this document is a compilation of requirements from the *Selling Guide* and Lender Letter (LL-2021-14), plus recommended best practices to help lenders meet our guidelines.

Temporary requirements

The temporary requirements addressed in LL-2021-14, Temporary Requirements for Condo and Co-op Projects are effective beginning Jan. 1, 2022 until further notice and 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.

Appraiser guidance

Appraisers are required to enter any special assessment applicable to the subject property in the Special Assessment field located in the Subject section of the appraisal report. This must be expressed as an annual or annualized amount.

- If there is **more than one special assessment**, appraisers should enter the annualized sum of all special assessments.
- If there are **no special assessments** applicable to the subject property, enter the numeral zero (0).

We expect appraisers to:

- Report the annual assessment in the Special Assessments field.
- State the following in the body of the report:
  - The outstanding balance.
  - The payment plan, including duration.
  - What the assessment is being used for.

Additional information about special assessments for the subject unit or the project as a whole may be provided elsewhere in the appraisal report. Even if the special assessment does not apply to the subject unit or the unit owner has already paid the special assessment for their unit, appraisers should evaluate whether pending or active special assessments are related to significant deferred maintenance in the project or have an overall impact on the value and marketability of the subject unit.

Lenders, borrowers, and project management companies have this information and should provide it to appraisers. Real estate agents may also be a good source for this type of information.

Significant deferred maintenance may be described as a part of the condition of the individual unit or may be a part of the overall project information (condition section) in the report. Every effort should be made to obtain information about special assessments and significant deferred maintenance — the appraisal is not complete without it.

Lender guidance

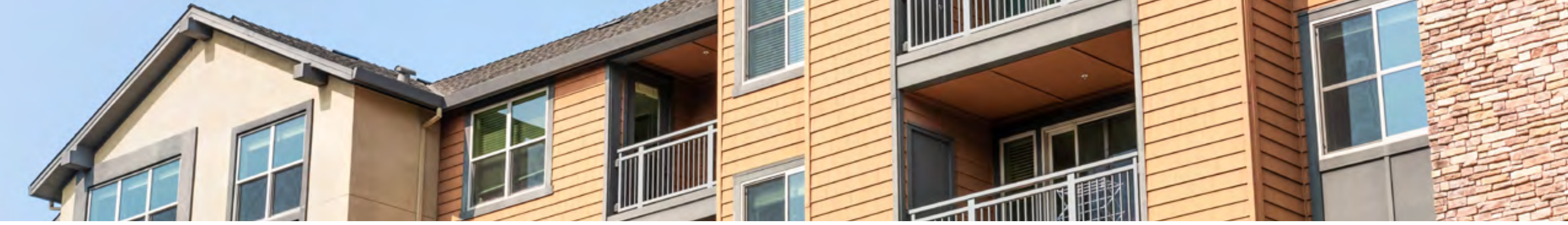
Lenders are responsible for determining that condo/co-op projects meet our eligibility guidelines.

- Lenders should ensure that their appraisers document any special assessments or deferred maintenance that may impact the safety and soundness of the unit or the overall project and its amenities.
- Projects must comply with all policies described in *Selling Guide*, B4-2.1-03, Ineligible Projects, even when completing a Limited Review or when an appraisal waiver is used.
- Loans secured by units in any project with a Condo Project Manager™ status of "Unavailable" are ineligible for purchase, regardless of the project review process used to determine project eligibility.
- 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 in LL-2021-14.

Best practices

To help lenders meet Fannie Mae's requirements, we strongly recommended that lenders follow these best practices.

- Review the past six months of a project's homeowners' association (HOA) meeting minutes and obtain information about any maintenance or construction that may have material safety or soundness impacts on the unit or the project. Any references to the following items identified during the lender's project review should be researched to determine if significant deferred maintenance exists:
  - Deferred maintenance;
  - Special assessments;
  - Improvements or renovations; and
  - Inadequate reserve funding, budget deficits, or negative cash-flows.
- Review any available inspection, engineering, or other certification reports completed within the past five years to identify significant deferred maintenance that may need to be addressed.



Frequently Asked Questions

Project review

Q1. Are there any options if a project has not obtained the required recertification by the local jurisdiction?

No. The recertification process must be complete with evidence the project has passed all the required inspections. Typically, the local jurisdiction will issue a letter indicating the project has passed the recertification process.

Q2. Where can lenders obtain information about special assessments or significant deferred maintenance?

There are various sources that may provide the information including the past six months of the homeowners' association's (HOA's) meeting minutes, financial statements, engineer's reports, other inspection reports, and reserve studies. Parties with an interest in the transaction such as the real estate agent, seller, buyer, or unit owner may provide the documentation.

Q3. What if lenders do not have access to Condo Project Manager to determine if a project is unavailable?

The lender is responsible for verifying the project status in CPM. If the lender does not have access to CPM, they need to contact their aggregator(s) to determine if the project has an unavailable status. Any approved seller/servicer can obtain access to CPM.

Q4. If a lender is reviewing a small project under the Limited Review process that does not have a budget and financial records or a reserve study, how can the lender determine there is no significant deferred maintenance or special assessments?

Fannie Mae is not prescriptive on what documentation lenders obtain to make the determination. Lenders may use sources such as the appraiser, real estate agent, or other inspection reports. The local permitting office may document open permits for repairs on the project level. If the lender is unable to obtain the information to make the determination, loans on units in the project are not eligible for delivery to Fannie Mae.

Q5. What options are there if the association or property manager is not willing to provide information to confirm there is no significant deferred maintenance or information on special assessments?

The lender may be able to obtain the information from parties that have an interest in the transaction: buyer, seller, real estate agent, or unit owner for a refinance. If the lender is unable to obtain the information to make the determination, loans on units in the project are not eligible for delivery to Fannie Mae.

Q6. What documentation is required to confirm the acceptability of special assessments?

The lender must place in the loan or project file documentation to support that there is no negative impact to the financial stability, viability, condition, and marketability of the project. Our expectation is that the lender obtains financial documents such as budget, balance sheets, income statements, and aging reports to make the determination.

Q7. If a project has levied a special assessment, does the budget also have to include a 10% reserve requirement?

If the lender is completing a Full Review, the budget must allocate for 10% reserves. Special assessments cannot be used in lieu of the 10% budget reserve allocation.

Q8. The Lender Letter states that loans secured by units in any project with a CPM status of "Unavailable" are ineligible for purchase, regardless of the project review type. Does this apply to all ineligible project characteristics when the loan qualifies under the Waiver of Project Review?

Under the Waiver of Project Review, loans secured by units in projects having an "unavailable" status in CPM are not eligible for delivery to Fannie Mae.

Q9. To assess whether the project has significant deferred maintenance, can the lender rely on the appraisal alone, or is Fannie Mae expecting the lender to obtain a condo questionnaire on every project? Are there other actions Fannie Mae expects the lender to take?

Fannie Mae does not recommend that a lender rely on a single source of information to determine the extent of significant deferred maintenance. We never recommend that a lender rely solely on the appraisal to complete its project review as the appraisal typically will not have enough information to meet all project standards requirements. The Lender Letter and these FAQs provide additional guidance and best practices for lenders to research projects that may have significant deferred maintenance and special assessments.

Q10. To assess special assessments, does Fannie Mae expect the lender to obtain the questionnaire on every project? What documentation would Fannie Mae expect the lender to obtain?

The Lender Letter does not prescribe specific documents the lender must obtain to determine whether there are special assessments. Fannie Mae offers suggestions and best practices with the temporary guidance. Fannie Mae will continue to monitor the situation and listen to industry feedback over the next several months to determine policy requirements going forward.

Q11. If the special assessment is related to repairs, but those do not relate to safety/soundness/habitability (which must be fully completed), what documentation does Fannie Mae expect to evidence that the HOA has the ability to fund the repairs?

The lender must obtain financial documents such as current balance sheets, bank statements, reserve study, and/or other documentation that evidences the association can fund the repairs. Fannie Mae will continue to monitor the situation and listen to industry feedback over the next several months to determine policy requirements going forward.

Q12. If the loan is eligible for a Limited Review but the lender obtains the HOA questionnaire, and that questionnaire reveals something that would make the project ineligible if a Full Review was required, does the lender have to consider the issue and deem the project ineligible?

The Lender Letter requires the lender to review for significant deferred maintenance and special assessments regardless of review type. Outside of the requirements in the Lender Letter, if the project otherwise qualifies for a Limited Review, then meeting the requirements of the Full Review is not required as outlined in B4-2.2-01.

Find answers to more questions in the Project Standards Requirements FAQs.

Appraisal review

Q1. What is the expectation if the lender and/or association contact does not provide the appraiser any information pertaining to special assessments and/or significant deferred maintenance?

If the appraiser is not given enough information to adequately determine the opinion of value, they cannot complete the report.

Q2. Do appraisers need to look at special assessments for the entire project?

Lenders and appraisers need to understand if the special assessments pertain to defects or deferred maintenance and affect safety, soundness, structural integrity, or habitability of the project as a whole.

Q3. How can appraisers gather information about special assessments or significant deferred maintenance that may impact the safety and soundness of the unit or the overall project and its amenities?

Lenders should provide appraisers any information they have obtained regarding special assessments or deferred maintenance. Additional sources for information may include homeowners, borrowers, real estate agents, and visual observations.

Resources

- Lender Letter (LL-2021-14) – Temporary Requirements for Condo and Co-op Projects
- Protecting Condos as a Sustainable Housing Option
- Appraiser Update (September 2021) "HOA, condo, and co-op special assessments and deferred maintenance"
- *Selling Guide*, B4-1.1-05, Disclosure of Information to Appraisers
- *Selling Guide*, B4-2.1-01, General Information on Project Standards
- *Selling Guide*, B4-2.1-03, Ineligible Projects
- Project Standards Requirements Frequently Asked Questions