

Major changes issued for condo mortgage requirements.

What that means for you

Mortgage giants Fannie Mae and Freddie Mac recently issued significant updates to their condominium lending guidelines that will expand financial reviews to more properties and add flexibility to the insurance requirements. While some of the changes will create new complexities, others will provide relief for condominium communities seeking to comply in order for their units to qualify for conventional mortgages. As the Miami Herald chronicled in an April 2025 article, the secretive condo blacklist from the government-sponsored entities more than doubled its number of South Florida condo communities during the prior two years. It further explained: "After the Surfside disaster, Fannie Mae began requiring condo associations to fill out extensive questionnaires detailing their finances and building conditions to submit to a bank or lender when a unit owner wants to sell to a buyer who is seeking financing.

The rationale was to reduce the risks involved in making loans on older condos like Champlain Towers that may have undisclosed or unaddressed maintenance, repair or financial issues. The agency said at the time that it would no longer back mortgages in condos facing 'critical repairs' or material deficiencies such as mold or water intrusion, or that have deferred maintenance resulting in 'advanced deterioration.'" The list included more than 5,100 associations/communities nationwide as of early 2025, and Florida led with more than 35% of the listed enclaves. For all the unit owners in those communities, they will find it nearly impossible to sell to buyers seeking conventional mortgage financing at the most competitive rates and terms.

That is because lenders adhere to the standards set by the federally chartered Fannie Mae and Freddie Mac, which combined back around 70% of the residential loans in the U.S.

Nonconforming mortgage options are significantly more expensive, but the standards have no impact on cash deals that do not require financing. The new changes will lead to more condominiums facing financial reviews to qualify for loans, but they also include insurance flexibility that may help communities regain eligibility for conventional financing. One of the most significant is the termination of the limited review process, which will be fully eliminated for loans with application dates on or after Aug. 3. Limited review has represented roughly 40% of all past project reviews, and eliminating it will lead to a shift to a more rigorous full review process that will require substantially more documentation and formal lender questionnaires for nearly all condominium sales. This change will increase the administrative burden on community associations, managers, and board members. It could slow transactions and place additional Fannie and Freddie are increasing the minimum reserve funding requirement from 10% to 15% of the annual budget effective Jan. 4, 2027. However, the 15% budget allocation is not required for associations that have completed a reserve study within the last three years and are adhering to its highest recommended level of funding. Updates to the property insurance requirements include the elimination of strict replacement cost documentation, and roofs will no longer be required to be covered for their full replacement cost. This will provide greater flexibility in how coverage sufficiency is determined, and it will offer relief for many communities that had difficulties meeting the prior requirements. Loan servicers were also impacted by the update. As of Jan. 1, 2027, they will be required to verify insurance coverage annually, monitor

for reductions in coverage, and issue annual reminders to borrowers to maintain their insurance. For condominium associations and their directors, one of the best places to start in response to these changes is with a review of their reserves. The dates of their studies/updates and their reserve funding level will be of the upmost importance. The insurance changes will also necessitate thorough analysis, so directors and managers should consult with their agents/brokers to identify any compliance gaps and ensure full compliance with all the requirements. Information on reserves and insurance from these reviews as well as other matters will need to be submitted for every purchase involving a traditional mortgage, so the lender questionnaires will continue for associations.

By Michael L. Hyman Special to the Miami Herald April 23, 2026 5:22 PM Gift Article