CALIFORNIA ASSOCIATION OF REALTORS®

QUICK GUIDE

New Fannie Mae/Freddie Mac Condo Mortgage Rules

As of August 3, 2026, Fannie Mae and Freddie Mac have instituted new rules that are aimed at ensuring the safety of condominium projects. These rules, however, may complicate the mortgage underwriting process and impact sales transactions. Here is what REALTORS® need to know about the changes.

Why the New Requirements?

Over the past several years, there has been an increased scrutiny on the safety of condo buildings and projects. The tragic collapse of a condo building in Florida brought nationwide attention to the issue, and California has put the spotlight on safety with recently enacted balcony inspection requirements. The Federal Housing Finance Agency has stated that they want to make obtaining insurance easier, and to protect homeowners from future financial hardship caused when emergency repairs cannot be addressed by underfunded reserves.

What has Changed?

- <u>No more Limited Review Process</u>. This process, which was previously used for up to 40% of loans nationwide, is no longer an option. Condo projects now must undergo the Full Review process, which requires lenders to assess the project's financial position, including its budgeted reserves and owner dues delinquencies.

- <u>Enhanced Reserve Study Requirements</u>. Lenders must confirm that the project's budget includes the highest recommended reserve allocation amount in the reserve study to adequately cover the costs identified.

- <u>Increased Replacement Reserve Requirements</u>. Starting January 4, 2027, lenders will need to confirm that a condo association's annual budget allocates at least 15% of its annual assessment income to reserves for future maintenance and repairs, rather than the current requirement of 10%.

How Will this Impact Transactions?

Agents and their clients should be prepared for loan approval on a condo transaction to potentially take longer than it has in the past. HOAs and lenders both might not be accustomed to this level of paperwork review. The stricter review process could lead to higher denial rates, as well. Both seller's and buyer's agents should consider these impacts when discussing HOA document and loan contingency time periods. Sellers may want to reach out to their HOAs with any compliance concerns, whereas buyers should consult with their lender or mortgage broker about specific underwriting or approval timeline questions.

For complete details on the new requirements, see Fannie Mae's Lender Letter (LL-2026-03) https://singlefamily.fanniemae.com/media/44986/display.