

MPF Announcement:

2021-78

Date:

November 4, 2021

Alert:

Clarification
New Policy
Policy Update
Reminder
Training Information

Audience:

Compliance/Legal
Program Management
Origination
Quality Control
Servicing
Underwriting

Product:

MPF Direct
MPF Government MBS
MPF Traditional
MPF Xtra[®]

Effective Date:

Immediately (unless otherwise noted within)

MPF Traditional- Temporary Condo Project Requirements

Due to concerns about projects with significant deferred maintenance, the MPF Program is issuing temporary requirements that impact the eligibility of condo projects with five or more attached units, regardless of the type of project review or review waiver.

Reference

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Significant deferred maintenance and unsafe conditions

Mortgage Loans secured by units in condo projects with significant deferred maintenance or in projects that have received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions are not eligible for purchase. These projects will remain ineligible until the required repairs have been made and documented. Acceptable documentation may include a satisfactory engineering or inspection report, certificate of occupancy, or other substantially similar documentation that shows the repairs have been completed in a manner that resolves the building's safety, soundness, structural integrity, or habitability concerns.

Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:

- full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time;
- the project has deficiencies, defects, substantial damage, or deferred maintenance that
 - is severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements;

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- the improvements need substantial repairs and rehabilitation, including many major components; or
- impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.

Additionally, projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or recertifications are not eligible.

These policies do not apply to routine maintenance or repairs that a homeowners' association (HOA) undertakes to maintain or preserve the integrity and condition of its property. Also, if damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the improvements then these project eligibility requirements do not apply. Examples of this scenario include water damage to a unit due to a leaky pipe that is isolated or damage from a small fire impacting the interior of a specific unit. However, if the subject property unit is affected, our standard requirements for property condition apply.

Special Assessments

Any current or planned special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability. PFIs must document the mortgage loan file with the following:

- the reason for the special assessment;
- the total amount assessed and repayment terms;
- documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project; and
- Borrower qualification with any outstanding special assessment payment.

PFIs are expected to obtain the financial documents necessary to confirm the association has the ability to fund any repairs. If the special assessment is related to safety, soundness, structural integrity, or habitability, all related repairs must be fully completed or the project is not eligible. Additionally, if PFIs or appraiser is unable to determine that there is no adverse impact, the project is ineligible.

Condo Project Manager

PFIs using Condo Project Manager™ (CPM™) must meet the requirements in section 8.6.4 "Fannie Mae's Condo Project Manager (CPM)" of the MPF Traditional Selling Guide. In addition, effective immediately, mortgage loans secured by units in any project with a CPM status of "Unavailable" are ineligible for purchase, regardless of the project review process used in underwriting the mortgage loan.

Reserve requirements

As a reminder, the HOA's budget must have sufficient funds to support the project, and at least ten percent (10%) of the HOA's total budget must be allocated toward a reserve fund for maintenance, repairs, and replacement of the common elements. (Projects with two- to four-units are exempt from this requirement).

Best Practices & Reminders

As a best practice, PFIs should review the past six months of a project's HOA meeting minutes and obtain information about any maintenance or construction that may have significant safety, soundness, structural integrity, or habitability impacts on the unit or the project. References to items such as improvements, renovations, inadequate reserve funding, budget deficits, and negative cash-flows should be researched to determine if these items are related to deferred maintenance or other conditions that impact the safety, soundness, structural integrity, or habitability.

PFIs should review any available inspection, engineering, or other certification reports completed within the past five years to identify deferred maintenance that may need to be addressed.

As a reminder, projects engaged in construction defect or other material litigation are ineligible.

Appraisers must document any special assessments or deferred maintenance that may impact the safety, soundness, structural integrity, or habitability of the unit or the overall project and its amenities.

Regardless of review type, projects must comply with all policies described in the MPF Traditional Selling Guide, 8.3 Condominium Project Classification Standards, including when completing a Limited Review or an appraisal waiver is used. Using an appraisal waiver does not exempt the PFI from completing the required project review. Additionally, relying solely on the appraisal to complete a project review is not recommended. The appraisal often does not have sufficient information for a PFI to determine whether the project meets the eligibility requirements. For additional information, see MPF Traditional Selling Guide, 8.6 Project Eligibility.

Homeowners impacted by disasters, such as the recent condo collapse or other similar circumstances, may be eligible to use disaster-related assistance as outlined in the MPF Traditional Selling Guide Chapter 7.15. Properties Located in Major Declared Disaster Areas, and MPF Traditional Servicing Guide Chapter 8.7 Major Disaster Assistance.