THE 2026 CONDO FINANCING GUIDE

What Every Realtor Needs to Know About the New Fannie Mae and Freddie Mac Condo Rules

Effective for applications beginning August 3, 2026

NEW RULES. BETTER PREPARATION. SMOOTHER CONDO TRANSACTIONS.

A practical guide for Realtors to help buyers ask better questions, identify project risks earlier, and avoid preventable financing delays.

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A NOTE FROM ALAN

Why I created this guide

Condo financing is changing, but the biggest challenge is not the rule itself. It is finding out too late that the building has a problem.

A buyer can have excellent credit, strong income, and plenty of assets, yet the loan can still be delayed or denied because the condominium project does not meet agency standards. That is why Realtors need to understand both sides of the approval: the buyer and the building.

This guide translates the updated Fannie Mae and Freddie Mac requirements into everyday language. It is designed to help you talk with clients while you are showing condos, ask the right questions before an offer is written, and bring the lender into the conversation early.

THE SIMPLE IDEA

A condo mortgage is not approved only because the buyer qualifies. The condominium project must qualify too.

My goal is not to turn Realtors into condo underwriters. It is to give you enough knowledge to recognize when a project deserves an early review. That small step can protect your buyer, your commission, and the closing date.

Preparation beats panic. A ten-minute conversation before contract can save weeks later.

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THE BIG PICTURE

What changes on August 3, 2026?

For loan applications dated on or after August 3, 2026, Fannie Mae retires Limited Review and Freddie Mac no longer permits Streamlined Review. Many established condo transactions that previously received a shortened review will now require a Full Project Review unless another valid waiver applies.

- **More HOA documentation.** The lender may need the budget, financial statements, insurance, questionnaire, reserve information, assessments, and structural documentation.
- **More attention to the building.** Underwriting will look beyond the buyer and evaluate the project's financial health, maintenance, safety, and insurability.
- **Earlier project review matters.** Waiting until the buyer is deep into underwriting creates unnecessary risk.
- **Application date controls.** The key date is generally when the lender receives the mortgage application, not the closing date.

IMPORTANT DISTINCTION

The August 3, 2026 change is mainly about the project review method. The increase from 10% to 15% annual reserve allocation begins January 4, 2027.

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WHY THE AGENCIES CARE

A condo is more than the unit

When a buyer purchases a condo, they are also buying into the financial and physical condition of the entire project. A beautiful kitchen cannot offset a failing roof, an uninsured building, or an association that has no money for repairs.

What the agencies want to see

- Routine maintenance is being completed
- Major repairs are identified and funded
- The HOA carries adequate insurance
- Owners are paying assessments
- The building has no unresolved life-safety issues
- Records are complete and transparent

What creates risk

- Repairs are repeatedly postponed
- The reserve account is too small
- Special assessments keep appearing
- Insurance has gaps or high-risk exclusions
- Too many owners are delinquent
- Structural reports remain unresolved

REALTOR LANGUAGE

You can explain it this way: “The lender needs to make sure the building is as financially healthy as the buyer.”

RESERVE BASICS

What are HOA reserves?

The reserve fund is the building's savings account. It is not intended for routine monthly bills. It is meant for large components that wear out over time.

- Roof replacement
- Elevators and mechanical systems
- Boilers and HVAC
- Parking structures
- Balconies and exterior walls
- Windows, siding, and building façade
- Major plumbing or electrical systems

EASY EXPLANATION FOR A BUYER

Monthly dues pay today's bills. Reserves save for tomorrow's repairs.

A project can have cash in the bank and still be underfunded. The real question is whether the amount being saved is enough for the work that is expected over the coming years.

THE TWO PATHS

Reserve percentage vs. reserve study

There are two basic ways a lender may evaluate whether the project is budgeting appropriately for future capital expenses.

Percentage method

- Through January 3, 2027: generally 10% of annual assessment income
- Beginning January 4, 2027: generally 15%
- Simple benchmark when no qualifying reserve study is used
- The amount is based on HOA assessment income, not the total budget

Reserve study method

- Uses an engineering and financial analysis
- Identifies major components and remaining useful life
- Estimates repair or replacement costs
- Recommends an annual funding plan
- The HOA budget must fund the study's highest recommended allocation

EXAMPLE

If annual budgeted HOA assessment income is $1,000,000, a 15% allocation equals $150,000 per year. A qualifying reserve study may support a different amount; the budget must fund its highest recommended reserve allocation.

CRITICAL AUGUST 3 RULE

When a reserve study supports an exception to the percentage requirement, the budget must fund the highest recommended reserve allocation. Baseline funding, where cash approaches but never falls below zero, is not permitted for applications dated on or after August 3, 2026.

A SIMPLE DEFINITION

What are unfunded reserves?

Unfunded reserves mean the condo knows major repairs are coming but has not saved enough money to pay for them.

CHILD-SIMPLE EXAMPLE

The building needs a $1,000,000 roof in five years. It has saved only $150,000 and has no realistic plan to make up the difference. The missing money is the unfunded portion.

When reserves are insufficient, the HOA usually has only a few choices:

- Delay the repair
- Borrow money
- Increase monthly common charges
- Issue a large special assessment
- Use a combination of all four

This matters to a lender because a large unexpected bill can strain owners, increase delinquencies, reduce property values, and delay necessary repairs.

INSURANCE

The building must be properly protected

Condo insurance review has become one of the most common sources of delays. The association must provide complete policies and evidence that the coverage meets agency requirements.

- **Master property insurance.** The policy must cover the project's insurable improvements at the required replacement-cost level under the agency rules.
- General liability. Fannie Mae requires at least $1 million per occurrence when required. Projects qualifying for its waiver of project review are exempt from this requirement.
- **Fidelity or crime coverage.** When required, it protects HOA funds from theft or dishonest acts by employees, board members, or management.
- **Flood insurance.** Required when the project is in a Special Flood Hazard Area and must meet agency and NFIP requirements.
- **Deductibles and exclusions.** A policy can have plenty of coverage on paper but still fail because of an unacceptable deductible or exclusion.

REALTOR TIP

Do not tell a buyer the building is "approved" simply because the HOA says it has insurance. The lender must review the actual policy and endorsements.

FINANCIAL HEALTH

Delinquencies and ownership concentration

Lenders review whether owners are paying their obligations and whether too much control is concentrated in one person or company.

- **HOA assessment delinquencies.** Generally, no more than 15% of the project's units may be 60 or more days delinquent on regular HOA assessments.
- **Special assessment delinquencies.** Generally, no more than 15% of units may be 60 or more days delinquent on each special assessment.
- **Owner occupancy.** The former 50% owner-occupancy test has been removed for many established projects. An investor-heavy established building is not automatically ineligible.
- Single entity ownership. For projects with 21 or more units, the general limit is 20% for Fannie Mae and 25% for Freddie Mac. Smaller project rules, exclusions, and review waivers differ by agency. Confirm the applicable standard with the lender.
- **Lender overlays.** A lender or investor may apply stricter standards than the agency minimums.

DO NOT CONFUSE THESE RULES

Owner occupancy asks how many units are primary residences. Single-entity ownership asks whether one person or company owns too many units. They are different tests.

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PHYSICAL CONDITION

Deferred maintenance and critical repairs

A lender is not looking for a perfect building. It is looking for evidence that material safety and structural issues are being handled responsibly.

- Structural instability or significant concrete deterioration
- Unsafe balconies, walkways, or parking structures
- Active water intrusion that affects safety or habitability
- Evacuation orders or government notices
- Repairs that materially affect safety, soundness, structural integrity, or habitability
- Inspections that identify required work without a funded completion plan

IMPORTANT

A fresh coat of paint does not cure deferred maintenance. Underwriting focuses on the underlying condition, the repair plan, the funding, and whether the work is complete.

Some projects can become eligible after repairs are completed and documented. Others may require additional engineering reports, inspections, or agency review.

SPECIAL ASSESSMENTS

A special assessment is not an automatic denial

A special assessment is an extra charge to unit owners, usually created to pay for a major repair, insurance increase, capital project, or budget shortfall.

The lender will usually ask:

- Why was the assessment issued?
- Is it connected to a safety or structural issue?
- What is the total amount and payment schedule?
- How much has been collected?
- Are owners paying it?
- Is the assessment sufficient to complete the work?
- Will additional assessments be needed?
- Does the borrower's share need to be included in qualification or paid at closing?

BETTER ASSESSMENT

A planned, well-documented assessment that fully funds a defined project is easier to evaluate than a vague assessment created because the HOA repeatedly underbudgeted.

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DOCUMENTATION

What the lender may request

Financial and project documents	Insurance and condition documents
Completed condo questionnaire	Master property insurance policy
Current operating budget	General liability policy
Most recent financial statements	Fidelity/crime coverage
Reserve study, if used	Flood policy, if applicable
Special assessment details	Engineering or structural reports
HOA meeting minutes, when requested	Inspection reports and repair plans
Litigation documentation	Government notices or evacuation orders
Unit ownership and delinquency data	Evidence of completed repairs

SPEED MATTERS

The lender cannot complete a project review with partial documents. A responsive management company or board can make the difference between a smooth approval and a missed closing date.

AVOIDABLE DELAYS

Why condo loans get stuck

1. The HOA or management company responds slowly
2. The condo questionnaire is incomplete
3. The budget does not clearly identify reserve contributions
4. Insurance policies or endorsements are missing
5. The reserve study and budget do not match
6. A special assessment is poorly documented
7. Structural reports raise new questions
8. Litigation documents are incomplete
9. Too many owners are delinquent
10. The project is marked unavailable or requires agency review

THE PRACTICAL FIX

Start the condo review as early as possible. Do not wait for the buyer's personal underwriting to be nearly complete before checking the project.

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REALTOR FIELD GUIDE

Questions to ask before the offer

☐ Does the HOA have a current reserve study?

☐ How much is contributed to reserves each year?

☐ Are there current or planned special assessments?

☐ Are major repairs underway or expected?

☐ Has the building received structural, façade, balcony, or garage inspections?

☐ Are there unresolved safety violations or evacuation orders?

☐ Is there pending litigation involving the building's condition or finances?

☐ Are the master insurance policies current and readily available?

☐ Can management provide the budget, financials, questionnaire, and minutes quickly?

☐ Has the lender reviewed this project recently?

CONVERSATION STARTER

"Before we fall in love with the unit, let's make sure the building will work for your financing."

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FAST ANSWERS

Myths, facts, and the numbers to remember

MYTH	FACT
Every condo needs exactly 15% in reserves.	No. The 15% standard begins January 4, 2027 when the percentage method is used. A qualifying reserve study may support a different amount.
A special assessment makes the project ineligible.	Not automatically. The reason, funding, delinquency level, repair status, and borrower impact all matter.
An investor-heavy building cannot be financed.	Not necessarily. The 50% owner-occupancy test was removed for many established projects.
The buyer's approval means the condo is approved.	No. The borrower and project are evaluated separately.
The new rule starts at closing.	The August 3 review change generally follows the application received date.

NUMBERS TO REMEMBER

August 3, 2026: Limited/Streamlined Review ends. 15%: maximum share of units generally allowed to be 60+ days delinquent. January 4, 2027: standard reserve allocation generally increases from 10% to 15%.

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FINAL TAKEAWAY

Your condo financing partner

The new rules are not a reason to stop showing condos. They are a reason to ask better questions and involve the lender earlier.

Strong condominium associations with adequate reserves, proper insurance, responsive management, and a clear maintenance plan should continue to finance successfully. The greatest problems usually arise when the project review begins late or the building cannot document its financial and physical condition.

HOW I CAN HELP

Send me the project name and address before your buyer writes an offer. I can help identify whether an early condo review is needed and what documents should be requested.

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FOR EDUCATIONAL USE

Agency guidance is detailed and subject to lender interpretation, project-specific facts, and investor overlays. This guide is a practical summary, not a project approval or legal opinion.

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SOURCE NOTES

Official agency references

- Fannie Mae Lender Letter LL-2026-03, Project Standards Updates, March 18, 2026.
- Fannie Mae Selling Guide, B4-2 condominium project eligibility and review requirements.
- Fannie Mae Selling Guide, B7-3 and B7-4 property, flood, liability, and fidelity/crime insurance requirements.
- Freddie Mac Guide Bulletin 2026-C, March 18, 2026.
- Freddie Mac Seller/Servicer Guide Chapter 5701 and Condominium Unit Mortgage FAQs.
- Agency requirements and lender overlays may change. Confirm the current project standards with the lender reviewing the transaction.

PUBLICATION DATE

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