DC Cooperative Housing Coalition

Revisions to Fannie Mae Standards
and the Impact on Cooperatives

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Presenters: Marla Diaz, Esq. and Jane Rogers, Esq.

WTP Whiteford|Taylor|Preston LLP

FHA v. Fannie Mae

- FHA Certification of Condominiums
  - Project-wide approval, valid for 3 years
  - Allows purchasers to apply for FHA-backed loans

FHA v. Fannie Mae

- Fannie Mae Approval
  - Lender-based review process
  - Applies to HOAs, Condos, and Co-ops
  - Conducted for every loan application for a unit
  - Allows purchasers to have Fannie Mae/Freddie Mac-backed conventional loans

Fannie Mae Standards

2026 Updates

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Introduction

- March 18, 2026 Fannie Mae issued Lender Letter (LL-2026-03) to all Fannie Mae single-family Sellers/ Servicers providing:
  - Updates to Project Standards and Project Claim requirements
  - Updates to Project Standards Policies and property insurance requirements
  - Designed to simplify certain processes to strengthen financial health of community associations

However, changes are consequential

A Shift Toward Project Reviews

- Notable change is the "retirement" of the limited review process, which will be fully eliminated for loans with application dates on or after August 3, 2026

- It shifts a significant portion of transactions toward a more rigorous full review process. This transition will require substantially more documentation and formal lender questionnaires for most sales

A Shift Toward Project Reviews

Moving forward, lenders will rely on either:

- Full review or
- Waiver of project review

A Shift Toward Project Reviews

- There is expanded eligibility for a waiver of project review to include projects with up to 10 units, providing greater flexibility for smaller communities

- However, overall these changes shift greater responsibility to lenders and associations to demonstrate that projects are financially sound based on Fannie Mae and Freddie Mac guidelines

Fannie Mae Insurance Verification

- Coops – verification of master property insurance required unless docs require coop members to insure individual apartments.
- If master property insurance policy does not cover interior of apartment or improvements, then borrower must maintain individual owner insurance.
- Coops should check with their insurance advisors for compliance

Reserve Requirements

- Enhanced reserve study requirements
  - When lenders use a reserve study in lieu of the standard replacement reserve budgeting requirement, they must verify that the project's budget includes the highest recommended reserve allocation amount in the reserve study.
  - This change is effective August 3, 2026, but lenders are being encouraged to implement this immediately.

Reserve Requirements

- Increased replacement reserve requirements
  - The reserve allocation for capital expenditures and deferred maintenance is increasing from a minimum of 10% to 15% of the annual budgeted income assessment.
  - Effective January 2027.

Insurance Coverage Requirements

- Replacement cost basis for claims
  - 100% replacement cost value
  - Actual cash value basis or policies that depreciate losses now **invalid**
- "Special" or "Broad" commercial coverage for perils required.
  - Includes: fire, lightning, explosion, windstorm, hail, smoke, aircraft/vehicles, riot, vandalism, sprinkler leakage, sinkhole, volcanic action, falling objects, weight of snow/ice/sleet, and water damage

Coverage Requirement Changes

- **Effective immediately**:
- Roofs no longer have to be insured on a replacement cost basis
- Cooperatives no longer have to have inflation guard coverage
- Expanded options for documentation of coverage amount

Deductible Requirements

Deductible Type	Deductible Maximum
Per occurrence	Max deductible 5% of master coverage amount
Per occurrence, multiple deductibles (based on type of casualty)	Total deductibles for single occurrence must be no greater than 5% of insurance coverage amount
Per occurrence, per unit (**effective July 1, 2026**)	$50,000 per unit AND borrower must have owner's insurance policy

Individual Borrower Insurance Requirements

- **Effective July 1, 2026**, borrowers MUST have individual unit owners property insurance when:
  - Any portion of the interior or improvements are not covered by the master property insurance policy OR
  - The master property insurance policy includes a per unit deductible

Annual Servicer Verification

- **Effective January 1, 2027:** Lender servicers must annually verify insurance coverage, including monitoring for any reduction in coverage.

Insurance Take Aways

1. Expect regular communications from lenders regarding insurance coverage
2. Be mindful of deductible maximums and coverage requirements
   - Consult with insurance brokers regarding potential impact on claims history prior to making claims
3. Educate owners regarding master insurance policy coverage, deductibles, and individual insurance obligations

Q&A

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