



Fannie Mae Changes

April, 2010

As of March 1, 2009 Fannie Mae instituted general policy changes regarding condominiums. The following summarizes the changes and something to be aware of – especially in terms of the increased fidelity insurance requirements and the requirement that unit owners must carry an HO-6 policy to cover their individual unit.

- For new construction and newly converted condo developments, 70% of the units must be pre-sold (closed or under contract). This is being increased from 51%.
- No more than 15% of a condo project units can be more than 30 days delinquent on HOA dues. This is an existing guideline that is now being applied to new condo projects. The calculation was also changed from being 15% of HOA fee payments to 15% of total units.
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- **Fidelity insurance will be required for condos with 20 or more units, ensuring that homeowner association funds are protected. Presently, this requirement applies to new projects and is now being extended to include established condos. (Illinois mandates 6 or more unit requirement). Fannie Mae states that the fidelity insurance in place covers the maximum amount of funds that will be in the custody of the owners' association or management company at any one time.**
- **A requirement that borrowers must now obtain a condo-owners insurance policy unless the master policy provides interior unit coverage; coverage may not be less than 20% of the assessed value. A condo-owners policy, known as an HO-6 policy, covers personal property, personal liability, and the physical unit from the studs and in. Many policies also include special**

assessment coverage or the option to include a special assessment coverage rider.

- No more than 10% of a project can be owned by a single entity.
- No more than 20% of a project can consist of non-residential space.
- The homeowners association must have at least 10% of its budgeted income designated for replacement reserves and adequate funds budgeted for the insurance deductible.

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