

## Understanding the Challenges for Conventional Condo Financing

Condominiums in Atlanta are facing difficulties in obtaining financing due to stricter guidelines from Fannie Mae® and Freddie Mac®. These guidelines were updated after the Surfside condo collapse in Florida. The guidelines emphasize the need for better safety and maintenance standards in condominium projects. Here's a breakdown of the key issues:

- 1. INSURANCE DEDUCTIBLES:** Fannie Mae® and Freddie Mac® require that per unit insurance deductibles do not exceed 5% of the total building coverage divided by the number of units. Many condo associations have increased deductibles to manage rising insurance costs, but these higher deductibles now disqualify the condos from receiving financing.

**EXAMPLE:** Suppose a condo building is insured for \$10 million and has 100 units. The maximum allowable deductible per unit would be:

$$\text{Maximum deductible per unit} = \frac{5\% \times \$10,000,000}{100} = \$5,000$$

If the deductible per unit exceeds \$5,000, the project will not meet Fannie Mae® and Freddie Mac® guidelines.

**SOLUTION:** Condo associations need to review their insurance policies and adjust the deductibles to comply with the 5% rule. This may involve negotiating deductible amounts with insurance providers to find a balance that meets the guideline while providing adequate coverage.

- 2. STRUCTURAL AND SAFETY REQUIREMENTS:** Projects with significantly deferred maintenance or needing critical repairs are ineligible for financing. This includes issues like mold, water intrusion, or structural deficiencies. If repairs costing more than \$10,000 per unit are unfunded and needed within the next 12-months, the project is also deemed ineligible.

**SOLUTION:** By increasing reserve funds, condo associations can demonstrate financial stability. Adequate reserves can help cover high deductibles without exceeding guideline limits, making the project more attractive to lenders and compliant with Fannie Mae® and Freddie Mac® standards

- 3. FINANCIAL VIABILITY:** Condos with more than 15% of units 60-days or more past due on HOA assessments, or those heavily reliant on non-incident business income, are ineligible. This is to ensure the financial stability of the condo project.

**SOLUTION:** The Condominium HOA must enforce its collections policies and procedures. If necessary, the HOA should consult with legal counsel on the best way to collect past due amounts.