

New Freddie Mac Underwriting Guidelines for Condominium and Cooperative Projects

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If you develop or manage condominium or cooperative projects, you need to be aware of new Freddie Mac underwriting requirements.

Freddie Mac has promulgated new temporary underwriting requirements for mortgages secured by units in condominium and cooperative projects in need of “Critical Repairs”¹ and those with current or planned special assessments. The guidelines come in the wake of the collapse of the Champlain Towers South in Surfside, Florida, and apply to all condominium and cooperative projects with five or more attached units. These new requirements will have an immediate impact on the ability to sell and finance condominium units and will significantly increase the scope of information that project associations and managers will be asked to share with lenders. The changes will take effect for mortgages with funding dates on or after **February 28, 2022**. Though noted as temporary, no end date has been provided for the new requirements.

Under the new guidelines, which Freddie Mac released via Bulletin 2021-38 on December 15, 2021, mortgages secured by units in condominium or cooperative projects in need of Critical Repairs are not eligible for sale to Freddie Mac. Projects in need of Critical Repairs remain ineligible until the required repairs and/or an engineer’s inspection report have been completed and documented. The new guidelines also require lenders to review any current or planned special assessments imposed on units in a condominium or cooperative project (even if paid in full for the subject unit) to determine: (i) the reason for the special assessment, (ii) the total amount assessed, (iii) for current special assessments, the total amount is an appropriate allocation for the assessment, or for planned special assessments, that there is adequate cash flow to fund the reason for the assessment, and (iv) for current special assessments, the amount budgeted to be collected year-to-date has been collected.

Further, in connection with the eligibility review, the homeowner’s association or management company for the condominium project will need to complete various lending questionnaires² inquiring into building conditions and special assessments, which will involve, among other things, (i) interpreting governing documents, (ii) disclosing all litigation affecting the project, (iii) evaluating unit

uses, multi-unit owners, and project insurance, and (iv) gathering information related to repairs, budgeting, and special assessments.

As a practical matter, condominium associations and developers should be immediately prepared to respond to document and information requests from lenders related to the physical condition of the project and any current or planned special assessments (such as HOA meeting minutes, engineer's reports, reserve studies, and financials dated within 90 days of the project review date) and mindful of the impact these regulations will have on future project maintenance plans and unit marketability.

¹ "Critical Repairs" is broadly defined, but expressly includes (i) life safety hazards; (ii) violations of zoning, use, accessibility, health, or safety laws; (iii) unresolved material deficiencies that cannot be resolved by routine maintenance (e.g., mold, water intrusions or leaks, excessive wear and tear); and/or (iv) the postponement of normal maintenance that could result in advanced physical deterioration, lack of full operation/efficiency, increased operating costs, or a decline in property value.

² See the newly-promulgated [Freddie Mac Form 476A \(Condominium Project Questionnaire Addendum\)](#) for the types of questions condominium associations should be prepared to answer.

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